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Heritage Insurance Holdings, Inc. (HRTG)

Q2 2017 Earnings Call

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John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Mark Douglas Hughes

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Heritage Insurance Holdings Second Quarter 2017 Financial Results Conference Call. My name is Case, and I will be the operator today. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Please note that this event is being recorded. I would now like to turn the conference over to Joe Peiso. Please go ahead.

Joseph R. Peiso

Vice President Compliance, Heritage Insurance Holdings, Inc.

Good morning. The second quarter's earnings release can be found in the Investors section of heritagepci.com. The earnings call will be archived and available for replay. Today's call may contain forward-looking statements. These statements which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions, and uncertainties. For a description of the risks that could cause our results to differ materially from those described in the forward-looking statements, please refer to our Annual Report on Form 10-K and other filings made with the SEC.

With us on the call today are Bruce Lucas, Chairman and CEO and Steve Martindale, Chief Financial Officer. Also on the call is Steve Rohde, Financial Consultant to the company. I will now turn the call over to Bruce.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

Thank you, Joe. I would like to welcome all of you to our second quarter 2017 earnings call. Before we begin the call I'd like to thank all of our employees for their dedication to our company. I will first address the second quarter and then discuss our pending acquisition of Narragansett Bay Insurance.

The second quarter continued to reflect significant improvements in several key metrics. For example claims and loss ratios continue to trend favorably and our year-over-year non-catastrophe loss ratio improved 1.4 points

during the second quarter. The Tri-County continues to lead Florida in assignment of benefits or AOB and other abusive claims practices. However, we have implemented underwriting initiatives in the past year that we believe are yielding positive results.

We completed our 2017 and 2018 reinsurance treaty which resulted in more favorable terms and conditions as well as a reduction of approximately \$20 million in premiums compared to the 2016, 2017 treaty. In addition, voluntary policies written in the second quarter set another new record for the company as we continue to grow new business in Florida and production in the Carolina's and Georgia increases. The company continued its multistate expansion and wrote its first new business policy in Alabama.

Notable highlights for the second quarter are as follow; non-catastrophe loss ratio improved 1.4 points to 28.4% in the second quarter of 2017 compared to the second quarter of 2016. Net income of \$6.6 million for the quarter, book value increased by 2% to \$12.97 when compared to June 30, 2016. Shareholders' equity was \$365.3 million at June 30, 2017. Capital returned to stockholders through a dividend of \$0.06 a share coupled with a stock repurchase of 322,811 shares for a total of \$4.1 million during the second quarter. New business production increased 48% compared to the second quarter of 2016 which sets another new record for the company. The company continues its multi-state expansion and wrote its first new business policy in Alabama.

As I've discussed before we continue to look for ways to strategically expand our geographic footprint. To that end I am excited to announce that Heritage has signed a definitive agreement to purchase Narragansett Bay Insurance or NBIC subject to customary closing conditions and regulatory approval. NBIC is a seasoned company with a strong track record and a talented management team. NBIC has over \$300 million of personal lines gross written premium in New York, New Jersey, Connecticut, Rhode Island, and Massachusetts as of June 30, 2017, and is the market leader for coastal insurance in the Northeast.

We believe the NBIC acquisition will be a transformational event for the company with far reaching impacts on the company and will produce a significant accretion to earnings with little to no dilution to shareholders. The pending transaction has several key features. We expect the combined entity will increase our gross written premium by 50% to more than \$900 million annually.

Heritage will immediately become a super regional carrier. We expect the combined organization will generate approximately 55% of revenue from Florida and 45% of revenue from other states. The consolidated organization will be the most diversified of the Florida super regional carriers and the spread of risk throughout the Southeast, Northeast, and Hawaii results in significant catastrophe and income hedges that are truly unique among our peers.

Upon closing we expect our Tri-County personal lines policies will represent only 7% of all TIV. We believe our superior diversification will further differentiate the company and we also believe this is an excellent hedge against AOB volatility and will give us another strategic advantage over our peers. We anticipate NBICs upside potential to be significant. As following the closing of the acquisition we will have new products, partnerships, and bundled products that we expect to further enhance our growth and earnings potential.

We also believe the transaction will ultimately result in significant reinsurance and expense synergies with a run rate of approximately \$25 million a year. We expect it will take us at least two years to fully achieve this run rate due to multi-year reinsurance contracts at NBIC. Nevertheless we expect the savings in year one to be substantial.

Also following the acquisition we expect 2018 net income on a consolidated basis to increase by approximately 50% to over \$70 million. These estimates take into consideration all debt service related to the transaction. We anticipate the transaction will be financed with a combination of cash on hand, debt which may include a convertible bond, and approximately \$40 million in Heritage common stock. If the company does finance the acquisition in part with a convertible bond it will include an appropriate repurchase of our common stock to minimize the impact of the convertible bond on our share price and to negate a large portion of the dilution caused by issuing \$40 million of Heritage equity to the sellers.

Finally, I'm extremely proud of the vision and the execution by our management team since our inception. What we have accomplished in only five years took our main competitors approximately 20 years to try to replicate. The NBIC transaction is strategically important for [ph] a variety (7:31) of reasons already mentioned but it is also worth noting that allowing NBIC to be acquired by one of our peers would have put Heritage at a significant disadvantage. When we shifted to strategic M&A in 2014 we identified two strategic acquisitions that we believe would take decades to replicate. These acquisitions were Zephyr and NBIC. We believe there were no other attractive acquisitions outside of Florida that would create the diversification and synergies of these two organizations.

We acquired Zephyr in 2015 but have been interested in NBIC since 2014. While we believe Zephyr has been a home run for the company, we expect NBIC to be a Grand Slam. We expect the anticipated upside potential and diversification benefits to completely change the dynamics of our company and will establish Heritage as the most diversified and hedged coastal insurer in the United States. We look forward to working with NBIC's exceptional management team, employees, and agents for many years to come. I will now turn this call over to Steve Martindale to provide more detail on our financials.

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

Thank you Bruce, good morning. Gross premiums written for the quarter were \$159.3 million compared to \$177.3 million a year ago. Approximately 13% of gross premiums were written outside of Florida with 9% coming from Hawaii and 4% from the Carolinas and Georgia. For the quarter we wrote approximately 23% of our new business premiums in the Carolinas and Georgia and approximately 2% in Hawaii. Our total in-force policy count at June 30, 2017, was approximately 316,400. Our personal lines policy count was approximately 311,300 and our commercial residential count was 3,433. Personal lines policy count by state were approximately 226,000 in Florida, 72,300 in Hawaii, and 13,000 in the Carolinas and Georgia.

All commercial residential policies were written in Florida. Gross premiums earned for the second quarter were \$152.4 million compared to \$163.6 million a year ago. The change is due primarily to actions we've taken to manage catastrophe and attritional risk exposure which included writing no personal lines business in the Tri-County area and assuming no policies from citizens in more than a year. Our ceded premium ratio as measured against gross premiums earned was 40.6% for the second quarter of 2017 compared to 33.5% for the second quarter of 2016.

The ceded premium ratio for the second quarter of 2016 was 3.3 percentage points lower due to the benefits of assuming policies from Citizens during the fourth quarter of 2015 and the first quarter of 2016. The second quarter of 2017 ceded premium ratio was approximately two percentage points higher due to the decline in our gross premiums earned noted previously. In addition reinstatement premiums associated with our per risk reinsurance program added 0.6 points to the second quarter 2017 ratio.

On June 1 we renewed our catastrophe reinsurance program. This year's program provides for up to \$2.62 billion of multi event protection, \$1.75 billion of first event protection in Florida, and \$731 million first event coverage in Hawaii. In addition we reduced first event retention to \$20 million this year from \$40 million a year ago. To reduce potential volatility in our earnings and to provide enhanced protection to our balance sheet, the estimated cost of the 2017 catastrophe reinsurance program was \$223 million, a savings of approximately \$20 million compared to the cost of the 2016 program.

The savings were a result of proactive catastrophe risk exposure management over the past 12 months coupled with improved pricing. The cost of the reinsurance is amortized over the 12 months beginning June 1. In addition the estimated cost of per risk and facultative reinsurance coverage is \$7 million. Our loss ratio as measured against gross premiums earned was 30.2% for the second quarter of 2017 compared to 29.8% for the second quarter of 2016. Development on 2016 hurricane claims accounted for approximately 1.8 points of the second quarter 2017 loss ratio.

Our operating expenses as a percentage of gross premiums earned were 24.8% for the second quarter of 2017 compared to 22.4% for the second quarter of 2016. We recorded no benefit to the expense ratio in the second quarter of 2017 related to the assumption of policies from Citizens where there are no acquisition expenses associated with the premium compared to 1.9% benefit to the expense ratio a year ago. Our combined ratio as a percentage of gross premiums earned was 95.3% for the second quarter of 2017 compared to 85.7% for the second quarter of 2016. The increase was primarily due to the previously noted changes in the ceded premium and operating expense ratios.

Net income for the second quarter of 2017 was \$6.6 million compared to \$18.4 million for the second quarter of 2016. In addition to the previously noted reduction in gross premiums earned and changes in our ceded premium and loss expense ratios, interest and amortization of issuance costs totaling \$2.2 million associated with our senior notes issued in December of 2016 accounted for the change in net income for the quarter compared to a year ago.

On the balance sheet side, stockholders equity stood at \$365.2 million at June 30, 2017, compared to \$358 million at December 31, 2016. We repurchased shares of our common stock totaling \$4.1 million during the quarter and declared dividends of \$1.8 million. Invested assets stood at \$601 million at June 30, of which \$569 million was invested in fixed maturity securities with an average credit quality of AA and an average duration of 3.5 years. Our cash position was \$134.2 million, approximately \$110 million of cash in short term bonds were held by our non-regulated entities. Our total assets stood at \$1.1 billion at June 30.

With that Bruce and I are available to take your questions.

QUESTION AND ANSWER SECTION

Operator: Yes, thank you. We will now begin the question-and-answer session. [Operator Instructions] . And the first question comes from John Barnidge with Sandler O Neil.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Great, thank you and congrats on the transaction. That \$70 million number you stated for net income for 2018 was that after tax?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yes.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Okay and should we assume that buybacks are going to be suspended for the foreseeable future?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

No.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Unless to offset dilution or no?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

No, I would not make that assumption. I mean part of what we're going to do, John, is more than likely issue a convertible bond offering. If that is the route that we take there will be a substantial buyback in connection with the bond which will counteract any short interest from hedge funds. And it will also retire stock to negate dilution caused by financing a small portion of the transaction through equity.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Okay, and then part of the transaction is stock related, have you locked in right now how many shares you will be issuing or not yet?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Not yet. We are -- pursuant to the purchase agreement we use the average of the five trading days prior to the closing date. So whatever that price is it is. We did not want to lock in the share count now because we believe that we are massively undervalued outside of Narragansett Bay acquisition. But with the Narragansett Bay

acquisition we feel like the equity price will perform extremely well. And so we thought it would be better to lock in share price toward the end of the transaction rather than the front to minimize dilution.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Got it. How much equity does Narragansett Bay [ph] have as of 2Q 2017 (17:04) because at least what I could find on S&L implied as of 1Q it was roughly \$95 million?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, so you got to remember our purchase price is based on the targeted book value of Narragansett Bay at year-end. And so at year-end the GAAP book value is estimated to be approximately \$118 million. On a multiple basis it's about 2.1 times year-end book value and on an earnings basis we're buying the company for about 3.5 times gross earnings, and roughly six times net earnings.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Okay, and then my last question and I'll re-queue. At least according to S&L Narragansett Bay had a 9% expense ratio in FY 2016, is that correct? And possibly more importantly should we expect the expense ratio decline on a consolidated basis in 2018 for Heritage?

Stephen L. Rohde

Financial Consultant, Heritage Insurance Holdings, Inc.

A

Okay, John this is Steve Rhode. Narragansett uses a lot of quota share reinsurance and so their expense ratio is understated if you look at it from like a gross basis. Their expense ratio on a gross -- to gross earned premium is about 20%, almost 25%, 24.8% in that range. I think the way to look at Narragansett because of the use of their quota share is that on a gross basis their combined ratio right now is running about 88%, 89% range and then we expect the synergies to have about an 8 point impact on that. So bringing their run rate combined ratio down into the low 80%s, 81% to 82%.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Great, that's very helpful. Thank you very much.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Thanks.

Operator: Thank you and the next question comes Soleimani Arash (sic) [Arash Soleimani] with KBW.

Q

Hi, this is [ph] Anthony in for Arash (19:02.) Thank you for taking my questions.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Certainly, good morning.

Q

So, I guess you were talking about a multiple of 2.1 and that seems a bit, still modest premium to the current environment and what they're paying for. Can you talk a little bit around that context?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, so I think first and foremost you cannot look at an acquisition just based on a multiple of book value. I think that this entire sector and the way we look at acquisitions is a little bit outdated, antiquated I'd say. You cannot look at it on that basis. You have to look at it on the return on your investment. So for example Narragansett Bay, we are paying 2.1 times expected year-end book value. We paid 1.7 times book value for Zephyr that has been an absolute homerun for the company. Another recent acquisition was UPC of American Coastal, roughly 1.7 times book value. We look at this and say okay, it's not that far outside of the range on a book value basis but when you look at it on a return basis and what your upside potential is, this is a great buy for us.

We're essentially buying the company for three and half times forward gross earnings. And net of income tax only six times earnings. The synergies are off the chart on this transaction. We are literally expecting to increase EPS by 50% year-over-year and increase top line 50% year-over-year with little to no dilution to our common stock shareholders.

We believe that Narragansett Bay has a lot of opportunity to expand its product offerings, increase the top line, and the more expansion that we have from Narragansett Bay the more synergies we're going to generate on the transaction which means more upside for the company. This is a strategically important company.

As I mentioned in my prerecorded statements, when we looked at M&A in 2014 we really thought that there were only two insurers outside of Florida that had any real merit to them, that are really hard to replicate and have big upside potential. Those two were Zephyr and Narragansett Bay. It's been a company that we've been at various points of time talking to over the past three years about acquiring them because we saw the upside potential. So we're pretty excited about it and we think that we bought this company at a very good price.

Q

Great, thanks, that's really helpful. And just a follow-up on that, how much of the purchase price reflects goodwill?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Goodwill was roughly \$130 million.

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

A

Which includes the intangible assets. So some will be, after we do a purchase accounting, some will be in -- recorded as intangible assets and some will be recorded as goodwill but, overall excluding any reclassification of deferred acquisition costs which does also gets rolled into the intangible assets it'll be about \$130 million of, call it, regular goodwill.

Q

Got it, and then I guess lastly it looks like NBIC's net income and combined ratio has been improving a lot but the improvement seems to be quite unusual in 2016, what's the actual run rate amount for this?

Steven Martindale*Chief Financial Officer, Heritage Insurance Holdings, Inc.*

A

Well, I think you can look at them, they're \$327 million of expected written premium, gross written premium for 2017 and they've been growing, expect to grow in that 6% to 7% range going forward. And as mentioned earlier I think you look on a gross combined ratio against earned premium the combined ratio is running around 88% right now but, with synergies that would equate to about a 80%, 81% gross combined ratio. And we expect that to you know continue to go forward.

Q

Got it and then lastly can you talk about the thought process behind the convertible bond, the repurchases, and the debt issuance. Why not just use all debt to finance the transaction rather than -- just rather than just going through all that trouble, [ph] is it just because of (23:56) market conditions or is there something more than that?

Bruce Thomas Lucas*Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.*

A

Well, I guess I'm not really sure I understand the trouble of issuing only \$40 million in equity. We wanted the sellers to have some skin in the game and that's important for me. And so on an acquisition of this size we wanted them to have a common alignment with our Heritage common stock shareholders. So the issuing \$40 million really made a lot of sense to us given that the probability of doing a convertible bond with a big share buyback will result in negligible dilution to shareholders and there's a chance at the end of the day it could be zero. I like the prospect of increasing top line and net operating income 50% year-over-year without diluting our shareholders.

So debt on this transaction certainly makes a lot of sense. I can tell you that the markets have been pretty receptive to what we're doing here. So I think this is a good way to go in terms of the mix of cash and stock given minimum shareholder dilution and an extremely high accretion to EPS and top line earnings.

Q

Thank you, I'll return back into the queue.

Bruce Thomas Lucas*Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.*

A

Thanks.

Operator: Thank you and the next question comes from Mark Hughes with SunTrust.

Mark Douglas Hughes

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Yeah, thank you, good morning.

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

A

Hey, Mark.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Good morning, Mark.

Mark Douglas Hughes

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

I might have missed this earlier -- with the synergies, the 80% to 81%, how much of that is reinsurance, is there any expense synergies you think you'll get?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, there are expense synergies and obviously reinsurance synergies. We're more comfortable just staying in total between all synergies we're expecting about \$25 million without giving the breakdown but that's a ballpark number of what we're expecting on a run rate basis.

Mark Douglas Hughes

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

And then you had suggested they're, they've been growing or the expectation is to grow 6% to 7% going forward, is that what they've been growing historically and you had mentioned kind of the opportunities for product expansion, geographic expansion, can you talk a little bit more about that?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yes, so I mean in 2014 their written premiums were \$240 million, in 2015 it was \$278 million, last year it was \$307 million and we are well above that number now in terms of 2017.

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

A

\$327 million.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

So, \$327 million is where we think we're going to be at by, or they will be at by the end of this year and that number continues to ramp higher as we move forward. One of the issues that you run into with any reinsurer is

aggregation of risk. And as you continue to aggregate policies on top of one another it could really send your reinsurance costs exponentially higher.

So we believe that having a combined reinsurance program similar to what we do now with Zephyr in the Carolinas for example will help to diversify the spread of that risk which means you can actually grow the top line in Narragansett Bay a lot more in the future without getting the same punitive reinsurance prices. So we do believe that that's a big factor and we also believe there are a lot of products and bundled opportunities that we're going to roll out once we close on this acquisition that will meaningfully impact the top and bottom line.

Mark Douglas Hughes

Analyst, SunTrustRobinsonHumphrey, Inc.

Q

And then in your core Florida business, did you mention any weather impact in the quarter?

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

A

We did not have any, this is Steve Martindale, we did not have any weather, non-hurricane weather impact. We did have a little bit of development on Matthew.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

It was small, maybe \$1.0 million or so.

Mark Douglas Hughes

Analyst, SunTrustRobinsonHumphrey, Inc.

Q

And then you may have touched on this, so I apologize, but where Narragansett has seen success, what's driven that, is that another dislocated cat market kind of similar to Florida or what's the kind of fundamental reason why they've prospered as much as they have?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Well, I mean they are a coastal insurer like Heritage. So their play is predominantly coastal exposures. That's where a lot of the bigger companies, the Allstates of the world, etc. don't really play that much. So there's a huge opportunity, Eastern seaboard coastal exposure all the way through the Gulf Coast of United States. I mean that's kind of the -- that's the sweet spot for companies like Heritage and other Florida insurers and Narragansett Bay. The company has really built a solid reputation in terms of their underwriting. Their targeted growth has been exceptional. They've been able to execute on their business plan year-in, year-out. They've got great relationships with agents, GEICO is a big producer for them. They've really built a first class organization, they inspect every property that they underwrite inside and out. That's a pretty rare thing to see in this business. So we know it's an extremely high quality book of business.

Basically they've really built an exceptional management team with a great business plan and it's translated into pretty impressive growth over the past four years or five years and they've really become a very profitable insurer and we think it's going to be a great diversification hedge upon our existing portfolio.

Mark Douglas Hughes

Analyst, SunTrustRobinsonHumphrey, Inc.

Q

Are you able to say how much is GEICO and are there any other meaningful relationships like that, that are producers or help them get policyholders?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, I would rather not give out market share data like that just because we view that as proprietary. But it is pretty meaningful in terms of the GEICO relationship and we see some pretty good upside potential there as well.

Mark Douglas Hughes

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Thank you.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Thank you Mark.

Operator: Thank you and the next question is a follow up from John Barnidge with Sandler O'Neill.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Great, thanks. You're obviously buying scale in New England, what are your thoughts on bringing the vertical integration of claims management that you have in Florida to the area as well?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, that's a really good question because that has saved us tens of millions since our inception. We believe in that model and I can tell you that Narragansett Bay in some of their areas they do have preferred vendor networks and pricing. And they are in those instances where they're used, they are saving money versus not using their network. So with the concentration that we see in New England we believe that we can start to roll out a similar repair program and increase the bottom line and increase customer satisfaction with a claim experience.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

You guys in Florida had acquired kind of like a contractor, do you think there'd be some interest in doing something similar New England as well?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Possibly, I think it's difficult to find the right contractor. You need to find a company that has scale and has quality people and they have to know the insurance industry. Those are three very hard things to find. We've been lucky with our acquisition so far in that they've ticked all the right boxes and have been highly accretive to us. But, it is something that we will look at in the Northeast as well.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

And then, sorry to go back to that \$70 million after tax number. That was 50% growth on an absolute basis as well as EPS, is that correct?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

That's right. We're projecting next year well over \$900 million in gross written premium and we are projecting over \$70 million of net operating income.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

So, then would that imply \$45 million for net income for this year?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

I don't think we're giving that level of guidance right now.

Steven Martindale

Chief Financial Officer, Heritage Insurance Holdings, Inc.

A

That's compared to 2018.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Yeah, we're looking at 2018 earnings as the increase, 50% of 2018 earnings.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Okay and then you said total insured value from the AOB Miami Tri-County will be 7% going forward, what was it as of the most recently completed quarter?

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

It would have been somewhere around mid-teens.

John Bakewell Barnidge

Analyst, Sandler O'Neill & Partners LP

Q

Great, thank you very much.

Bruce Thomas Lucas

Chairman & Chief Executive Officer, Heritage Insurance Holdings, Inc.

A

Thank you.

Operator: Thank you. And as there are no more questions this concludes the question-and-answer session, as well as the call. Thank you so much for attending today's presentation. You may now disconnect.

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