Fourth Quarter and Full Year 2021 Earnings Call Transcript
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PRESENTATION

Operator

Good morning, and welcome to the Palomar Holdings, Inc., Fourth Quarter and Full-Year 2021 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference time will be open for questions with instructions to follow at that time. As a reminder, this conference is being recorded.

I would now like to turn the call over to Mr. Chris Uchida, Chief Financial Officer. Please go ahead, sir, you may begin.

Chris Uchida

Thank you, Operator, and good morning, everyone. We appreciate your participation in our fourth quarter 2021 earnings call. With me here today is Mac Armstrong, our Chairman, Chief Executive Officer, and Founder.

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As a reminder, a telephonic replay of this call will be available on the Investor Relations section of our website through 11:59 PM Eastern Time on February 24, 2022.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about management's future expectations, beliefs, estimates, plans, and prospects. Such statements are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from those indicated or implied by such statements, including, but not limited to risks and uncertainties related to the COVID-19 pandemic. Such risks and other factors are set forth in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission. We do not undertake any duty to update such forward-looking statements.

Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to their most comparable GAAP measure can be found in our earnings release.

At this point, I'll turn the call over to Mac.

Mac Armstrong

Thank you, Chris. And good morning, everyone. Today, I'll speak to our fourth quarter and full-year results, our progress on strategic initiatives implemented in 2021, and our continued efforts to drive and sustain profitable growth. From there, I'll turn the call back to Chris to review our financial results in more detail.

To start, I am very pleased with not only our results in the fourth quarter and '21, but also the significant steps that we took throughout the year to position Palomar for long-term growth and predictable earnings in the years ahead.

Highlights for the year include strong top-line growth, as Palomar's gross written premiums increased by 56% for the fourth quarter and 51% for the full-year 2021. This strong growth was driven by our core products, including earthquake and Hawaii Hurricane, combined with the successful scaling of our E&S business, Palomar Excess and Surplus Insurance Company, PESIC. PESIC grew its gross written premium an impressive 158% year-over-year in the fourth quarter.

Second, we continue to invest in our business and plant the seeds for future growth. Notable accomplishments in 2021 include the recruitment of talented underwriters to build our casualty, professional liability, and excess property franchises, as well as the launch of the fee-generating PLMR-FRONT in September.

Third, we took considerable underwriting actions to improve our portfolio and reduce our catastrophe exposure to perils disproportionately impacted by climate change.

While we're focused on delivering sustained revenue growth, there will not come at the expense of our bottom line. To support this over the course of the year, we completed the run-up of our emitted all risks in Louisiana homeowner's portfolios, shifted our commercial wind exposed property focus to a layered and shared model, meaningfully reduced our maximum limit and line size, and took advantage of favorable market conditions to increase rates and improved terms and conditions. These actions helped reduce our Continental Hurricane probable maximum loss by approximately 40% from its apex in 2020 and eliminated a primary driver of our attritional loss ratio.

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Fourth, minimizing volatility in our business and protecting capital has been a constant theme of Palomar going back to our founding eight years ago. During 2021, we continued to thoughtfully use the risk transfer to protect our balance sheet and deliver consistent earnings. Highlights of these efforts include the placement of a multiyear catastrophe bond, Torrey Pines Re 2.0, the placement of multiple quota shares that reduced our maximum limit per risk and provide fee income, and the purchase of aggregate reinsurance. The aggregate not only protects our business from losses generated by multiple severe catastrophic events, but also puts the floor in our adjusted ROE.

Fifth, our Board of Directors authorized $100 million share repurchase program last month that affords us the ability to opportunistically deploy capital and buy back our shares at levels that we believe are meaningfully undervalued. Importantly, we continue to believe stock repurchase will not impede our ability to capitalize on the open-ended growth opportunity that we see before us. We believe the buyback notably demonstrates the conviction we have in our long-term strategic plan and the optimism in the future of Palomar.

Lastly, we launched our ESG portal in 2021, and released our annual sustainability and citizenship report last month. We are very pleased with the progress that we have achieved in our ESG initiatives, as well as the associated commitment to our employees, the environment, and the communities we serve that these initiatives demonstrate.

Turning to our results in more detail, we delivered strong premium growth through the fourth quarter as we experienced momentum across all lines of our business. Our earthquake franchise saw growth of 21% in the fourth quarter and 31% for the full year, with commercial earthquake growing 35% in our value select residential earthquake product, our largest product growing 26% in the quarter.

As we have discussed on previous calls, opportunity in the earthquake market remains abundant, whether it'd be from dislocation in the homeowner's market or the California Earthquake Authority, advocating the potential reduction in coverage, the shedding of limit, or the permission of participating insurers to seek alternative earthquake insurance solutions. We have less than a 6.2% share in the California residential earthquake market which provides considerable room for continued strong growth in this important, profitable line of business.

Shifting to PESIC, we launched the business in August of 2020 and have been extremely pleased with how quickly our operations have scaled as we've delivered $152 million in premium for the full year 2021 as compared to $29 million in 2020. This growth was driven by PESIC's main products, which include commercial earthquake, national layered and shared commercial property, and builders risk. During the year, we also launched several new E&S products, including professional liability, excess liability, and contractor's liability. These products along with others will be significant contributors to our success in bottom line in the years to come. Needless to say, PESIC will remain important growth driver for Palomar, and we believe the business can become 50% of our premiums over time.

Other strong performing product lines in the fourth quarter included the Inland Marine, which grew 219% year-over-year and exited 2021 at a $72.8 million run rate, Hawaii Hurricane with 109% year-over-year growth and flood, which grew 32% year-over-year.

Our first casualty product, Real Estate Errors and Omissions, continued to show great promise as it grew nearly nine-fold year-over-year. While the strong top-line growth is and will continue to be a significant driver of our success as an organization, Palomar is keenly focused on profitable growth. We're pleased to report in the fourth quarter for all of 2021, frankly, we're able to marry the 50% plus top-line growth with a very strong bottom-line and return on equity.

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We generated adjusted net income of $19.2 million and $53.4 million for the fourth quarter and full-year 2021 respectively which translated to an adjusted ROE of 19.9% and 14.1% for the same periods. Additionally, during the fourth quarter, we completed the aforementioned runoff of the admitted all risk in Louisiana homeowner's books of business. These lines contributed 61% of our catastrophe losses in 2021. We believe exiting these businesses not only reduces our catastrophe exposure, but also improves the predictability in our results.

Our strong results combined with the substantial investments in products, systems, and talent provide confidence in our positive outlook for growth in the years ahead. Over the course of 2021, we launched several new businesses and products to further fuel our growth in the medium-term. PLMR-FRONT is one that I'm particularly excited about. Introduced in September, our team has quickly built a strong pipeline, has already executed three programs which are all fee-based and do not involve a taking underwriting risks. Adding a fee-based revenue stream to our business for further fortifies our earnings base, and I believe we will build the fronting business to $80 million to $100 million of managed premiums in 2022.

We also recruited talented underwriters for our team in the third and fourth quarters, who are in the early stages of building their franchises in segments like general casualty, professional liability, and excess property. Palomar as an attractive company for experienced underwriters, given that we have the technology distribution relationships, reinsurance, and analytics acumen as well as back-office operations to rapidly scale the business. Our expectation is that the underwriting leaders will build their businesses over the course of 2022 and meaningfully contribute to our premium growth and bottom line in 2023.

Turning to the market in our 2022 outlook, we are increasing share and extending our TAM in a P&C market remains conducive to rate increases and improved terms and conditions. During the fourth quarter, we saw rate increases in the mid-single digits on our commercial earthquake book and expect that dynamic to persist in 2022. The builders risk segment of our Inland Marine franchise saw low-teen rate increases in the fourth quarter, and for 2022 we expect to see sustained price increases as well as an informed sense of insurance to value and the impact of inflation on loss costs. While our casualty lines are nascent and therefore don't offer much in the way of renewal price increased commentary, we are targeting rate increases of 5% to 10% on expiring terms, with certain segments of professional lines seeing greater upward movement.

Our national layered and shared property program saw a rate increase in excess of 20% in the fourth quarter, with December increases over-indexing the quarterly average. Pullback of capacity in the market will allow rate increases at this level to persist into 2022. As we look to manage volatility and reinsurance costs, we do not expect to increase our commercial and exposure in 2022. All growth from that line will come from rate.

On a related note, we are exiting specialty homeowner's business outside of the state of Texas to further reduced our Continental Hurricane exposure, probable maximum loss, and steady-state reinsurance expense. We believe the combination of rate increases and reduction in Continental Hurricane exposure potents for a successful reinsurance renewal. The run-off of the admitted all-risk in non-Texas Homeowners business and the capping of commercial hurricane exposure reduces our Continental Hurricane probable maximum loss by 60% from a tie point in 2020. Importantly, these efforts result in only 9% of the expected loss in our excess of loss catastrophe tower coming from Continental Hurricane; the segment of the property catastrophe reinsurance industry facing the most price pressure. Our program, dominated by earthquake and Hawaiian Hurricane, is truly a differentiator and a diversifier for reinsurers. The uniqueness of the reinsurance program is best exemplified by a recent renewal of a commercial earthquake quota share, where renewal pricing improved from the prior-year, January 1, 2022.

We are renewing our loss free aggregate program and we look forward to providing our shareholders with an update upon its completion. We are confident that the aggregate will provide the same utility in 2022

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that it did in 2021. While there are likely to be increases in our cost of reinsurance at June 1 this year, we believe it will be manageable and our program will be in high demand.

Turning to matters of capital allocation return, we expect to see operating leverage in our business model and financial metrics. Importantly, we have excess capital put to work as our net written premium to ending equity is at 0.78x, and we feel comfortable riding business up to 1x of our CAT exposed lines and higher for others. So, as we start new lines and build our front team business, we will see our return on equity increase from already compelling levels.

Additionally, when we renew our aggregate, we will continue to have a floor on our ROE that minimizes volatility, ensures predictable results, and consistently built our surplus. As our shares have come under pressure and we believe are trading below fair value, our Board of Directors authorized a new two-year $100 million share buyback plan that replaces our original $40 million plan.

Looking forward, we have sufficient capital resources to invest in our numerous growth initiatives as well as fully fund our buyback. We have more than enough capital to execute our strategy for the intermediate future.

Turning to our guidance for the full-year 2022, we expect to generate between $80 million and $85 million of adjusted net income representing 54% year-over-year growth in an adjusted ROE of 90% at the midpoint of the range. This range factors in the additional investments that we'll make in talent, systems, infrastructure, and reinsurance as we continue to position Palomar for the future. Assuming full utilization of the current aggregate reinsurance program, our adjusted ROE has a floor of 14%.

Before turning the call to Chris, I would like to conclude with an update on the many ESG initiatives we have underway. Of note, we launched our ESG portal on our corporate website that details our efforts and acts as a central repository for all Palomar's ESG materials. We also released our annual Shipment and Sustainability report this month, providing an update on our progress related specific ESG initiatives established in '21, as well as our initiatives and goals for the year ahead.

One endeavor that I'm particularly excited about is Palomar Protects, which is a charitable initiative that can reinvest earned premium back into communities to help them prepare or recover from natural disasters. As we move forward, our ESG program will continue to be an area of focus for us. I look forward to updating you on future initiatives.

With that, I'll turn the call over to Chris to discuss our results in more detail.

Chris Uchida

Thank you, Mac. Please note that during my portion when referring to any per share figure, I'm referring to per diluted common share as calculated using the treasury stock method. This methodology requires us to include common share equivalents such as outstanding stock options during profitable periods, and exclude them in periods when we incur a net loss. We have adjusted the calculations accordingly.

For the fourth quarter of 2021, our net income was $16.6 million or $0.64 per share compared to a net loss of $1.8 million or $0.07 per share in the same quarter of 2020. Our adjusted net income was $19.2 million or $0.74 per share compared to adjusted net loss of $1.3 million or $0.05 per share for the same quarter of 2020. For the full-year of 2021, our adjusted net income was $53.4 million or $2.05 per share compared to adjusted net income of $8.9 million or $0.35 per share in 2020.

Gross written premiums for the fourth quarter were $149.9 million, an increase of 56% compared to the prior year's fourth quarter. In full year of 2021, our gross written premiums were $535.2 million,

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representing growth of 51% compared to $354.4 million in 2020. As Mac indicated, this growth was driven by a combination of strong performance by our core products and new initiatives gaining traction in the market.

Ceded written premiums for the fourth quarter were $70.4 million, representing an increase of 30.8% compared to the prior year's fourth quarter. The increase was primarily due to increased catastrophe, excess of loss, reinsurance expense related to exposure growth, and increased quota share cessions due to a greater volume of written premiums subject to quota shares.

Ceded written premiums as a percentage of gross written premiums decreased to 47% for the three months ended December 31, 2021 from 56% for the previous months ended December 31, 2020. The decrease in this percentage was primarily driven by a higher reinsurance expense in the fourth quarter of 2020. You will recall that with the storm activity in the second half of 2020, we accelerated reinsurance expense, incurred reinsurance reinstatement premium and purchased backup reinsurance, resulting in a higher percentage of ceded written premiums in the fourth quarter of 2020.

Net earned premiums for the fourth quarter were $67.8 million, an increase of 74.3% compared to the prior year's fourth quarter. This increase is due to the growth and earning of higher gross written premiums offset by the growth and earning of higher ceded written premiums under reinsurance agreements and the higher ceded earned premium in the fourth quarter of 2020 as described earlier.

For the fourth quarter of 2021, net earned premiums as a percentage of gross earned premiums were 55.2% compared to 45.2% in the fourth quarter of 2020. The increase in this percentage is primarily the result of the additional reinsurance expense in the fourth quarter of 2020 described earlier, that reduced the ratio for that quarter. Net earned premiums for 2021 were $233.8 million, an increase of 50.8% compared to 2020. For 2021, net earned premiums as a percentage of gross earned premiums were 53.9% compared to 51.4% in 2020.

We believe the ratio of net earned premium to gross earned premium is a better metric for assessing our business versus the ratio of net written premiums to gross written premiums, as previously mentioned. As part of the June 1 reinsurance renewal, we adjusted our participation in the attritional quota share arrangements. With these changes, we expect this ratio to be around 53% to 55% on an annual basis, or our core historic business, lower at the beginning of a new reinsurance placement, and higher at the end with our expected growth in earned premium.

The launch in expected growth of our fronting business could push this ratio below 50% on an annual basis, though we'll add consistent fee income that will enhance our ROE and bottom line. We will continue to monitor this ratio and update the market based on our new business.

Losses and loss adjustment expenses incurred in for the fourth quarter were $10.2 million due to attritional losses of $11.9 million, slightly offset by favorable catastrophe loss development of $1.7 million. The loss ratio for the quarter was 15% comprised of an attritional loss ratio of 17.5% and a catastrophe loss ratio of negative 2.5%. Approximately 10% or 1.7 points of the attritional loss ratio for the quarter was from a line of business we have fully exited as of the end of the year. The attritional loss ratio would have been 15.7% if we excluded those losses. Our 2021 loss ratio was 17.7% comprised of a catastrophe loss ratio of 2.1% and an attritional loss ratio at 15.6%.

Our expense ratio for the fourth quarter of 2021 was 60% compared to 68.6% in the fourth quarter of 2020. On an adjusted basis, our expense ratio was 55.7% for the fourth quarter compared to 56.3% sequentially in the third quarter of 2021. Similar to our net earned premium ratio, we feel it's a better representation of our business to look at our expense ratio as a percentage of gross earned premium.

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Our acquisition expense as a percentage of gross earned premiums for the fourth quarter of 2021 was 22.2%, slightly higher compared to 21% in the fourth quarter of 2020, driven by the changes in our mix of business. The ratio of other underwriting expenses, including adjustments to gross earned premiums for the fourth quarter of 2021 was 19.2%, a sequential improvement compared to 9.4% in the third quarter of 2021.

As we continue to invest in talent systems and our infrastructure, we expect our business to scale over the long-term. Our combined ratio for the fourth quarter was 75% compared to 112.8% from the fourth quarter of 2020. For 2021, our combined ratio was 80% compared to 102.5% in 2020. Our adjusted combined ratio was 70.7% for the fourth quarter compared to 111% in the fourth quarter of 2020.

For 2021, our adjusted combined ratio was 76.1% compared to 100.4% in 2020. Net investment income for the fourth quarter was $2.4 million, an increase of 4.6% compared to the prior year's fourth quarter. The year-over-year increase was primarily due to a higher average balance of investments held during the three months ended December 31, 2021, offset by slightly lower yields on invested assets.

Our fixed income investment portfolio yield during the fourth quarter was 2.2% compared to 2.3% for the fourth quarter of 2020. The weighted average duration of our fixed maturity investment portfolio, including cash equivalents was 3.99 years at quarter-end. Cash and invested assets totaled $516.3 million as compared to $456.1 million at December 31, 2020.

For the fourth quarter, we recognized gains on investments in the consolidated statement of income of $2 million compared to $245,000 gain in the prior year's fourth quarter. The recognized gains were driven by dividend yielding equity index funds, and like the rest of our portfolio, we'll continue to be conservatively invested, but may impact our recognized gains and losses from quarter-to-quarter.

Our effective tax rate for the fourth quarter was 22.3% compared to 23.1% for the fourth quarter of 2020. For the fourth quarter of 2021, the tax rate differed from the statutory rate due to the non-deductible executive compensation expense. For the fourth quarter of 2020, our income tax rate differed from the statutory rate due to the tax impact of the permanent component of employee stock option exercises. Our tax rate for the full-year ended December 31, 2021 was 19.8%.

Our stockholder's equity was $394.2 million at December 31, 2021, compared to $363.7 million at December 31, 2020. For the fourth quarter of 2021, annualized return on equity was 17.2% compared to negative 2% for the same period last year. Our annualized adjusted return on equity was 19.9% compared to a negative 1.4% for the same period last year. Our adjusted return on equity for 2021 was 14.1% compared to 3% for 2020. As of December 31, 2021, we had 25,982,568 diluted shares outstanding as calculated using the treasury stock method. We do not anticipate a material increase in this number during the year ahead.

Looking ahead to 2022, we're providing adjusted net income guidance range of $80 million to $85 million, representing 54% year-over-year growth and an adjusted ROE of 19% at the midpoint of the range. With this guidance, it is worth reminding everyone about the impact Winter Storm URI had on our results for the first and second quarter of last year. As you look at future periods, we believe the fourth quarter of 2021 is a better starting point for estimating our future results. Additionally, consistent with previous guidance, these estimates do not include any losses from major catastrophic events.

As such, we're providing our continental U.S. wind projected net average annual loss or net AAL of approximately $6 million projected as of September 30, 2022, the peak of wind season. This net AAL is an industry metric used to assess Continental Hurricane and severe convective storm exposure. The projected net AAL is approximately 40% lower than the peak of wind season for 2021 and incorporates

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the underwriting and reinsurance changes mentioned by Mac earlier as we continue our commitment to consistent and predictable earnings.

In January, we announced a new two-year share repurchase program, with authorization to repurchase up to $100 million in shares. This program replaces our previous $40 million program. We did not repurchase any of our shares during the fourth quarter related to the previous $40 million share repurchase authorization and newer shares have been purchased under the new authorization.

While we are not pivoting from our established growth strategy, we view our current shares are trading at a discount and we will take an opportunistic approach to share repurchases under this program. Thus, we remain mindful of our goal of investing for profitable growth and are not deviating from that strategy. But we believe the share repurchase program is another capital allocation tool we can leverage to increase long-term shareholder value.

With that, I'd like to ask the Operator to open the line for any questions. Operator?

Operator

At this time, we'll be conducting a question-and-answer session.

Our first question comes from the line of Mark Hughes with Truist. You may proceed with your question.

Mark Hughes

Thank you. Good morning.

Chris Uchida

Mark, how are you?

Mark Hughes

I'm good. Still morning central time. Chris when we think about the progression, when you look at attritional losses in the expense ratio relative to your mix of business, obviously that's been migrating over time, how do you see that playing out in 2022?

Chris Uchida

Thanks, Mark. Good question. Obviously, we've talked about the loss ratio over last couple of quarters, and we have indicated that we did expect it to start going up as the mix of business has changed, and I think you're seeing that this quarter. When we adjust that loss ratio a little bit for the historic all risk book that we have now fully run-off as of the end of the year, that loss ratio for Q4 was closer to 15.7%.

It's also the same factor about 1.7 points of our full-year 2021 loss ratio was about 1.7 points as well from the historic all-risk book, so that puts the annual loss ratio below 15% if you use that metric. So, we believe that we've telegraphed that a little bit. We do—as we also said, we do expect that to continue to tick up slightly as we continue to change our mix of business. So, I wouldn't be surprised to see that go up another one point a quarter. As that continues to evolve, it's also important to point out that we still use a lot of quota share, especially for the new lines of business, the casualty lines, the Inland Marine, and then our national all-risk business that we have. So, we are still using that, so that is going to help make sure that loss ratio does not run away from us. So, we're continuing to do that, but these are all very profitable lines and that loss ratio is still anchored by our earthquake business, and our Hawaiian Hurricane

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business that is very binary, that is still about 55% of our overall book, so those are all things that help make sure that loss ratio stays low. But the mix is evolving in it. So, I do expect it to tick-up slightly. It's not going to run away from us, but it will tick up a little bit from there.

Moving onto the other piece, the expense ratio. I'd say the biggest driver that I expect to see from that over the next 12 months is going to be from the fronting. The fronting business, obviously, as you are aware, does come with a seeming commission. So, that seeming commission over the next 12 months I expect to drive down the acquisition expense.

Historically, I've said that I expect more scale from the other underwriting expense. I say that is still true on a long-term basis, but I think in the near-term, I would expect to see a little more movement in the acquisition expense and that's really from the fronting. We kind of see that fronting premium in our net written for this quarter. The ceded written premium for the quarter was about 47%, which is up from Q3 of about 38%. So, you can see that we are ceding a little bit more, and most of that is driven from quota share, which is from the fronting business. So, I think those two factors are going to push the acquisition expense ratio down a little bit as the year continues.

Then other underwriting I talked about that a little bit, I do expect that to improve over the long-term, but we are continuing to invest in teams, we are continuing to invest in systems and people and our organization to make sure that we have all the right pieces in place to be successful in the fronting, in the casualty, and in our core earthquake and in the marine lines that we've been building over time.

So, we wouldn't be surprised if that ratio flattens or is even potentially a little bit up Q1, but over the full-year, I do expect that ratio to improve. So, a lot of pieces there, just want to make sure I hit everything that you were looking for.

Mark Hughes

Yes, I know. That's great detail. The fronting premium, are you going to break that out that we know how much was attributable to that versus the other business?

Chris Uchida

Yes. I think over time, we will. It was still a very—a small component of our book. So, that is right now is sitting in the other premium. But over time, we will probably start breaking that out. I think one other thing I'd add about the fronting premium, and Mark, I spent a lot of time on this topic, is when you think about our net earned premium at the end of the quarter, it was sitting at about 55%—or for the quarter, it was sitting about 55%. With the fronting business, I do expect that to tick down. It's probably going to tick down at a similar rate that our acquisition expense also ticks down. So, you'll be able to see how that ROE or how the gains on ROE are running through the business as that fronting business comes through. But obviously as you are aware, that business is almost risk-free. We're not going to have losses from that book of business, we're not going to have any shocks from it, it's just going to help improve the long-term ROE of the organization. Yes, please go ahead.

Mac Armstrong

I would add two things. One on the front data, as a reminder, I did say that we're targeting between 80 and 100 million of managed premium there and think we have a very robust pipeline that could push that higher, but that's a good directional target.

Then secondly, all of these lines, while the attritional loss ratio may move up some, they're all accretive to the ROE, assuming that they're writing below 100 combined. I think that's best evidenced. We had a

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steady-state 15% loss ratio—attritional loss ratio in the quarter, and our annualized ROE was pushing 20%, almost 20%.

Mark Hughes

Yes. Chris, you mentioned the $6 million number for a possible loss or potential loss. Is that maybe a suggested or a reasonable CAT load for the business? Does that make sense?

Chris Uchida

Yes. I think that's a great question, Mark. So, this is our continental U.S. wind net AAL (phon) and that is $6 million, so that is what we believe if we were to put a bit of metric out there, a good CAT load estimate for 2022 based on our current book of business, and that's projected as of the peak of wind season. So, with all those other underwriting changes that we've made, you look at where it was last year that's still had our historic all risk business in it. You think about the changes that Mac talked about with underwriting and reinsurance that we're making this year. That number is about 40% lower than it was last year. So, we do believe that is a good metric or CAT loads that people can use to think about our book of business going forward.

Mark Hughes

Then one final question. The commercial quake pricing has been decelerating a bit. Mac, I think last quarter you said on a combined basis, you thought the quake business could grow 20% for maybe an indefinite period. How do you see that now?

Mac Armstrong

Yes. As I said on the call, Mark, we think the quake market remained kind of abundant with opportunity. I would say that it's both in the commercial and the residential market and probably even more pronounced in the residential market. On the commercial market, rates have decelerated some, but there's great integrity and you're seeing mid-single digit increases. I think that as you're—there's not a surge of new capacity in that market, so there's an opportunity to grow that book and continue to take share.

I think it's on the residential side that we feel that there is the most runway for growth and that's great because that's our largest line of business. Whether that's driven by continued dislocation in the homeowner’s market, I know AIGE came out at the end of the fourth quarter and talked about pulling out of California emitted (phon) homeowner’s further wildfire dislocation and then also what I refer to with the California earthquake authority.

So, I think all of that is creating a lot of opportunity and considerable runway, and I would say that just as an aside January of 2022 was our highest new business month ever for our value select residential earthquake business—the product, excuse me. So, I think that's a nice harbinger for continued strong growth in the earthquake line.

Mark Hughes

Thank you very much.

Operator

Our next question comes from the line of Matt Carletti with GMP Securities. You may proceed with your question.

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Matt Carletti

Good morning. Mark covered both what I had, but I guess a follow-up, Chris, for the conversation on fronting. Would the right way to think about it is we'll be wrong to assume it's a market level 5-ish percent fronting fee and if we use that against kind of the $80 million to a $100 million guide for '22, that that's kind of the magnitude of impact in (inaudible) that it might have on the acquisition ratio?

Chris Uchida

Yes, that's a fair assessment, call it $80 million to $100 million, that's the written number. So, obviously this will have to be earned over the term mostly, I would assume are going to be 12-month policies, so you'll have to earn that out, but yes, that's the right way to think about it. The margin is going to be between 5 to 7 on all these depending on the type of risk that we're looking at and the type of business that we're using. So yes, that's the right way to think about it and so that is going to—that's the right marker, as you said, to use to start, call it pushing down that acquisition expense.

Matt Carletti

Okay. Then Mac to maybe just a follow-up on the color you gave there on kind of some things going on in the California market for quake and particularly the CEA. It seems like you've been waiting for a little while now for them to decide how they want to handle risk management going forward. Is there a certain timeline around that by what you expect them to make a decision, or is it more of just a wait and see and (inaudible) already?

Mac Armstrong

I think there's a couple of things that I pointed out, Matt. First, they did put out in December a circular that did authorize the participating insurers to seek alternative solutions. So, there is something definitive there, and that bodes well for us because that potentially opens up new partnerships. As you know, carrier partnerships have been a nice driver of growth for us and a nice unique distribution channel for us, and in fact, in Q4 we did bring on a nice new partner in the California residential quake market.

But beyond that, it's hard to say whether they're going to go down the path of shedding limit or whether they're going to go down the path of buying less reinsurance or reducing coverages. All that said, though, that is a nice dynamic for us to market against. It does create agita amongst producers, it does create agita potentially amongst insurers, and certainly creates agita with participating insurers. So, that's the type of dislocation that Palomar does well in and it gives me the optimism that we all collectively have around the growth in that line.

Matt Carletti

Great. Well, thank you for the color and congrats on a strong end to the year.

Mac Armstrong

Thanks, Matt. Look forward to seeing you soon.

Operator

Our next question comes from the line of David Motemaden with Evercore ISI. You may proceed with your question.

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David Motemaden

Thanks. Good afternoon. Just a question on—as part of the outlook for 2022, I'm just wondering if you could just talk about your view on top line growth—gross premiums, written growth in 2022, and maybe just a little bit more color. I think you mentioned that you are exiting all homeowners outside of Texas. Then I wasn't quite clear on the statement you made about not growing exposure in the Southeast in 2022, and it would just be rate driving the premium growth. So, kind of a big question, but wondering, yes, what you're assuming for topline in '22, if you could elaborate on that, and also just some of the new changes that you're talking about?

Mac Armstrong

Sure, David? Yes. All good questions. Happy to expound upon that. I think we haven't given topline guidance, but what I would say is that we feel very good about the growth trajectory of the business. Last year, we grew 50 plus percent for the full year. When we factor in the runoff of the admitted all risk business, it's actually closer to 70%. Now I don't think we're going to grow at that rate in 2022. But what I will say is that we think that we can maintain pretty strong, if not industry-leading growth rates that allows us to maintain our margin structure and the combined ratio like we have this year and achieve that net income guidance range.

But, I think it's important to point out that the growth that we are—will achieve from a topline perspective and the 50% plus bottom line growth that we're targeting is coming with the business that we are running off further, and that is the specialty homeowner's business outside of Texas. So, that was around 5% of the book last year. On a steady-state basis ex-cat, it's probably a mid-80s combined ratio. What we're looking to do is exit the line of business that could give us good pre-CAT margin, but does have too much volatility for us. So, I think it's important to point out that the 80% to 85% that we're giving you is very different volatility profile than what we had last year, and certainly what we had the year before.

I think that's also exemplified by the fact that layered and shared national property program, the question you asked, we are not looking to grow our exposure there. We think we can grow that line, but it's going to come purely from rates. So, that allows us to say we've reduced our PML by 40% over the course of the year, but we think it will actually be by the peak of wind season reduced by 60%. It's allowing us to say that that net AAL is $6 million for Continental Hurricane, which is 2 to 3 points of CAT load.

So, the growth that we are targeting is a different complexion than what we had in years past. It's more predictable, it's more consistent, it's much less cat-exposed. It's fee income for Palomar front, it's new lines of business that are casualty-oriented that have considerable amount of quota share to reduce our net line size and insulated from the shock loss.

So, it's a different complexion. So, I think that's a long—it's a long-winded explanation, but I do think it's really important for us to get across to all of our investors that the growth—we have considerable confidence in the growth, but we're also very confident that reduced volatility in that book of business that will give us 50% top—50% bottom line growth.

David Motemaden

Got it. Thanks, that makes sense. That makes sense, and I guess with that, that $6 million AAL, is there going to be any change in the reinsurance program as a result of that? I think it's at $12.5 million or $12 million retention right now on the per occurrence, and that is both earthquake and wind. Are they going to change anything on the wind side, maybe bring down the retention or, yes, I guess any outlook on that?

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Mac Armstrong

Yes, David, I think the retention up until 6/01/22 is $12.5 million. I think that's a directionally good target. It could pick up a million dollars or so, depending on market conditions and what we're comfortable with. We obviously have always wanted to keep our retention inside of 3% of surplus, and well inside now at this point, a quarter of earnings. So, that's going to be our guidepost. I think the reduction in the exposure will help. That being said, as I said at the outset, only 9% of our expected loss in the reinsurance tower is going to come from Continental Hurricane. That is the toughest segment to place in the market right now. So, we're going to need to be nimble there, but I don't think it's going to change materially from where it is today. I think the actions that we're taking that will run its course over 2022 will allow us to maintain that on a prospective basis as well.

David Motemaden

Got it. Okay. That makes sense. Then maybe if I could just sneak more—one more in on share repurchases. Good to see the authorization—the $100 million authorization. You didn't utilize the prior $40 million authorization. I know it was over two years, but you had used, I think it was 40% of it. Are you—is this something you intend to exhaust, the $100 million or—I guess, yes. Maybe just a little bit more on how you're thinking about share buybacks now.

Mac Armstrong

Yes, absolutely David thanks for the question. I think for us, we will be opportunistic. We do look at where we are valued now from a PE standpoint, from a price earnings growth standpoint, and it's below the S&P, it's below the Russell 2,000, so that to us says that we should be thinking about buying back our stock, especially when we have excess capital.

In the fourth quarter, we would have liked to potentially bought back stock, but we were restricted because Chris is putting in place a credit facility which frankly provides us liquidity to—or incremental liquidity potentially buyback our stock on a levered fashion. But I don't think—we will be opportunistic. I'm not sure if we will fully exhaust that, but we certainly intend to use it.

I think the other thing that's worth pointing out is if we use it well, we can use our ROE's and we already have put a floor on the ROE with our aggregate that this year was targeting around 14%. If we buy back our stock, we can actually move that up and get a better return on the equity for our shareholders and leverage the cost of capital even more usefully.

David Motemaden

Got it. Thanks. That makes sense.

Operator

Our next question comes from the line of Tracy Benguigui with Barclays. You may proceed with your question.

Tracy Benguigui

Thank you. I wanted to go back to your comment about exiting specialty homeowner's business outside Texas to reduce your Continental Hurricane PML. So, I get you are only now going to grow on rate (phon), but this is going to sound super basic. Won't that leave you proportionately more exposed to wind as Texas is highly exposed?

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Mac Armstrong

So, Tracy, thanks for the question. Texas is exposed, but it's not as exposed as Texas plus Mississippi, plus Louisiana, plus Alabama, plus North Carolina and South Carolina. So, we reduced via simplistically, we reduced the target, so to speak. Furthermore, what we write in Texas is not on the coast, it's in Tier 2 counties. So, I think Harris County in Houston and then up in the state. So, we have a better dispersion of risk in that state, which allows us to finance a CAT more effectively than we did with other specialty homeowners lines, where it was purely coastal.

So I think—and it's a big enough book that it has a faster CAT payback than a state—a Mississippi or an Alabama where there is just not at much premium. Our choice to exit that line, we had a great partner that was very good at what they did. They had a good attritional loss ratio. It just unfortunately just brought too much volatility. When we have a stable earnings base that that should generate $80 million to $85 million next year, we feel like it's not worth adding a couple million dollars on a CAT per-year that could turn around and generate $10 million or $12.5 million of pre-tax loss.

Tracy Benguigui

Okay. Very helpful that you clarified that your Texas exposure is away from the coast. Could you also discuss what drove the negative CAT losses from prior period development? I guess once I adjust for that $1.7 million prior period development, it looks like you had zero CAT losses. Can you confirm that it is the case?

Chris Uchida

That is the case. Obviously, going to the first part of the question. The prior period development was storms from 2020, storms from 2021 that we had that we could have favorable development. We've said this in the past. We try and have a conservative position when it comes to loss ratios. That goes for the CATs, that goes through the attritional. So, this is kind of moving the direction that we would expect when we look at it. So, just think about all the storms that we were exposed to in 2020 and 2021 and just the favorable development there.

These are mostly also call it probably some of the smaller ones. These are within the retention changes, so not a lot of things that are happening above our prior retention. So, that's where the favorable development came in on the CAT side.

In thinking through what your other part—yes, we did not have any major CATs in the fourth quarter. We do have small exposure to many CATs, things of that nature, but nothing that we would call a CAT that hit our portfolio.

Tracy Benguigui

Okay. I guess what's interesting in taking that prior period development actions, it's like there's an overall concern about inflation, and I guess could you just comment if part of your thinking was that wasn't as big of an issue in replacement cost.

Mac Armstrong

Sure. Tracy, I would say inflation is front and center for us and it’s front and center in how we are underwriting, it's front and center in how we are transferring risk, it's front and center on how we're handling claims. So, the inflation certainly did factor in. I think with a lot of the development that we had

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was just the IBNR load that we had on certain of these events was conservative like Chris said, and we got through and closed down the majority of our outstanding claims, certainly on residential business for a storm like Hana, a storm like Ida, Delta and Zeta (phon). Unfortunately, there's a lot of them, but so I think it's worth—we still have very high IBNR for storms that's driven by inflation and the rising cost of things like lumber or staffing shortages that informs business interruption coverages and the likes. So, I wouldn't say that we were—we're making a call on inflation not being up persistent nuisance here.

Tracy Benguigui

Got it. Thank you.

Operator

Our next question comes from the line of Paul Newsome with Piper Sandler. You may proceed with your question.

Paul Newsome

Thanks. Good morning. Congrats on the year and quarter. A couple of modeling questions. The first is, if we—should we assume that essentially all things being equal with top-line growth will be a little less than the bottom-line growth because of the increased proportion of the business in fronting, in the margins there. Is that fair?

Chris Uchida

I just want to—I'm trying to make sure I'm bifurcating this the right way for you, Paul. So, you're saying the bottom-line growth is going to be higher than top-line growth. Are you talking about pure gross written premium? Because the gross written premium will include the fronting. So, we do continue to expect that to grow. I'd say the net written on that or the net earned on that, let's call it from a dollar standpoint, should be zero, but the overall pure top line gross written premium will increase. But I just want to make sure. Is that the way you're thinking about it?

Paul Newsome

No, on a net basis, on what we see goes to the income statement?

Chris Uchida

So, if you just look at pure fronting from that standpoint on a net written or net earned basis, right. The net earned or net written on that is going to essentially be zero, but our acquisition expense will be going down. So yes, we will—it will look like if you just add in fronting to the current book today and added $80 million to $100 million of pure fronting premium, then yes, our bottom line would increase with our net written and net earned not changing. So yes, you're thinking about that the right way.

Paul Newsome

You're netting out the fronting fees and running it through the expense line as a cash expense as opposed to putting it through the top-line?

Chris Uchida

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Correct. It's going through and reducing acquisition expense as ceding commissions. So, our acquisition expense was on a gross basis 22% up this quarter. I would expect that to start going down from the additional ceding commission on the fronting side.

Paul Newsome

I've seen the accounting done both ways, so just trying to clarify.

Chris Uchida

Absolutely. I just want to make sure we—yes, that's how we're showing it.

Paul Newsome

Yes. Properly done. It's a difference in opinion, accounting opinion. Then my second question has to do with the $6 million CAT mode. We are nearly—we take—we essentially assume a CAT load for the companies that we cover, and put that as part of our earnings assessment. But you're presenting it a little differently than others do. So, could you just talk about the intellectual pros and cons to basically just taking the risk guidance that you gave us and then subtracting out $6 million, whether that makes sense or not makes sense, and just why you think we should look at it either way. Maybe and just we're off, that's too simple, but your thoughts there would be great.

Mac Armstrong

I think Paul, I think we're trying to—we're not, and maybe it's superstition, maybe it’s not, we're not trying to load in a Hurricane to come through and hit our book, but we do think we obviously model everything out and look at the stochastic and deterministic results. This is the hurricane AAL and severe convective storm AAL for the continental U.S., and that's where we have had the majority of our loss. We think that's a good tool. It may be something that we start to incorporate in on a go-forward basis, but as we are in a transitional period, we think this is a great guidepost for you.

Paul Newsome

It's certainly helpful. Thank you.

Operator

Our next question comes from the line of Meyer Shields with KBW. You may proceed with your question.

Meyer Shields

Yes. Thanks. I should start by saying you're giving us tremendous amount of data and I really appreciate it. It's very helpful. Is there any way of sort of ball parking the AAL from either—with those earthquakes or Hawaii Hurricane?

Mac Armstrong

No. We have not given that. I just don't think that's relevant, Meyer, because it's earthquake and Hawaiian Hurricane, it doesn't have SDS exposure. The market doesn't look at it that way. We don't price in loss from an earthquake. So, I think this is the—this is how we would think about CAT load if we were in your shoes.

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Meyer Shields

Okay. That's fair. Is that a one event CAT load?

Mac Armstrong

No. This isn't—I mean, theoretically it's the average annual loss so this will be a multitude events. This could be multiple storms. It could be multiple hail events. It just averages it all out.

Meyer Shields

Okay. That's helpful. One last question, if I can, cause I think I got this, when I think about this, probably directionally too conservative, but I would assume that the combination of a growing earthquake book and some hesitation on the part of reinsurers, whether it's true or low level coverage or aggregate cover, that the 12.5 retention would have gone up over the course of this year when we head into June, and it sounds like you're not that concerned about it, and you know more about this than I do. So, I was hoping if you could take us through your thoughts in terms of those two factors, the gross book growth and reinsurance (inaudible).

Mac Armstrong

Sure. So, I think as it relates to the aggregate—well actually, let me start with the retention. Yes. I mean, I think we feel like the retention at $12.5 million, or directionally close to that is doable. I think it starts with the fact that the majority of the exposure now is going to be Hawaiian Hurricane and earthquake, so that is—remains is a great diversifier for reinsurers, and I think if what you saw at 1/1 was a gravitation, five, the reinsurance market to those segments that are more remote and not subject to what's called secondary apparel, severe convective storm or Winter Storm like Uri, and so I think that helps us stand out and uniquely positions us well.

As it relates to the aggregate, we are in the market. We have a loss free renewal up and it's also drop dominated by those same perils. We have pulled out 60 plus percent of the wind exposure that they were on risk for last year and they were loss free on, and now we're coming to them with something that's more quake and Hawaiian Hurricane and flood driven. So, we feel very good about that because of the uniqueness of the program, because of the improvements in the program, and the results that we've generated for them.

Meyer Shields

Okay. Fantastic. Thank you so much.

Mac Armstrong

Thanks Meyer.

Operator

Our next question comes from the line of Adam Klauber with William Blair. You may proceed with your question. Adam, you may proceed with your question.

Adam Klauber

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Good morning, guys. Thanks. Could you talk about the progression in your distribution? You did a fair amount of commercial earthquake this year, and on marine (phon) really picked up and clearly some of the other categories, some of the newer liability coverage's. Is a lot of that going through the wholesale channel? Is some of it going through other channels? If you give us some flavor there, that'd be great.

Mac Armstrong

Yes. Sure, Adam. Yes, I think our team did a great job broadening the distribution footprint. Total distribution across the Company increased 19%, Inland Marine grew 40 plus percent, this is distribution points, and residential quake was up to 25%. I would—just from a channel focus, I would say PESIC, the E&S company is going to be very wholesale-driven and that will be the majority of what we do through the E&S company.

The residential business, which is—tends to be more of the admitted company is going to be a mix of retailers and MGAs and wholesalers to a lesser degree. But Inland Marine is probably going to skew more wholesale with a small bit of retail distribution. Then the residential quake, a lot of that growth was driven by the carrier partners, which opened up individual producers that were either captive to them or were appointed by them that we now have the preferrable hunting license to go train and get producing on our products.

Adam Klauber

Then just because the commercial earthquake and some of the liability, is that also more of a wholesale channel?

Mac Armstrong

Yes, wholesale.

Adam Klauber

That's what I thought. Okay. Okay. Is it fair to say that in the wholesale channel, you are bigger than you were a year ago, but you're still relatively early stage with the big producers in that channel?

Mac Armstrong

Yes. I think we're still building out our franchise there. We've got great relationships with the wholesalers, but we can go deeper in certain offices. I think it varies by product. I think as it relates to earthquake, we have pretty good coverage. Builders risk at Inland Marine, it's extending. So yes, I think it's—there's a lot more TAM to address there.

Adam Klauber

Okay. Okay. Thank you. And then as far as the loss profile, the—greatly reducing exposures. With the liability programs (phon), what's the retention on those. Given that they have a tailwind, what sort of loss picks are you putting up on those? I'm not looking for exact but just some idea would be great.

Mac Armstrong

Yes. So, I think on the casualty and the longer tail business, what we're targeting from a net line exposure is $1 million to $1.5 million. Hopefully, we can put a gross quota share and allows us to do $5 million. But so for that, that's what we're doing on the casualty side. On the loss picks, it varies, but it's going to be

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anywhere from—if it's really good line maybe about low 40, pushing up to high 50s. But I think that's directionally where we will be. Again, we want to be conservative out of the gates here. We have terrific leadership in those segments that have longstanding histories in those markets, so our actuaries and those leaders are probably being conservative and that's fine by us.

Adam Klauber

Okay. Thank you. Then as far as the fronting business, I would assume those are generally one-off deals. How are those deals being generated? Is it contact to the market of you and your team? Are they being funneled through reinsurance brokers. What's the process to build up that book of business?

Mac Armstrong

Yes, you touched on several of the channels, Adam. We have—our program team led by Jason Sears is overseeing the fronting effort as well and they are—they have terrific distribution, reinsurance relationships, they have relationships with other non-rated or lower rated insurance companies. And then we also have—Jon Christianson and I have brought a couple of deals to the table through relations we have. So, I think it's all the above. Like you said, it's elephant hunting there. So, you can know when to really lean in and to go after something and you don't have to turn over too many stones.

Adam Klauber

Okay. Thank you very much.

Operator

Our next question comes from the line of Pablo Singzon with JP Morgan. You may proceed with your question.

Pablo Singzon

Hi. Thanks. So, first just in the fronting fees, will all of this call it $45 million (phon) based on the match premiums you provided appear in '22 or will it be spread out between 2023 based on that number that you gave? When thinking about how this will affect earnings, will all of it fall to the bottom line or are there any associate expenses to think about?

Chris Uchida

Yes. Tackling the first question, this will be spread over the next two years. So, we will earn this very similar to our normal acquisition expense. This will basically just for 12-month policies be earned over the next 12 months so that $80 to $100 million that Mac talked about, that is the full year written premium numbers, so that $80 million to $100 million will be earned over the next two years, and so that call it, 5% to 8% fronting fee will be earned over the same period. Going to the other part of your question. So, when we think about that a little bit—sorry.

Mac Armstrong

There's not much incremental expense, it should follow the bottom line, Pablo. Yes, you're exactly right. We don't need to add a lot of headcount. That doesn't—we're leveraging our programs, team, and other senior leaders. So, we should be—it should be pretty good margin.

Chris Uchida

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But I will say we are adding some more infrastructure around that just to make sure that we do have the proper procedures in place to manage that. When we think about it, we still need to do premiums and claims audit, we're still looking at underwriting results, making sure that we're looking at the collateral of all the partners that we're dealing with to make sure that we have the right people in place to manage that.

Pablo Singzon

Yes. Understood. The second one I had just a quick numbers question. I was hoping you could provide color in some of the line items that will build up to adjusted net income in '22. So, specifically I'm looking at add-backs for stock-comp and amortization, as well as what you're assuming for net realized interim losses, because that does flow through your adjusted number and that was a little larger than usual in the fourth quarter? Thank you.

Chris Uchida

Yes. So, stock-comp, we do see that going up. Obviously, we did talk about some of the new arrangements that were done during 2021 for the executive group. So, the stock-comp is going up. Obviously that is a standard non-cash expense. Amortization, most of that amortization is part of the Hawaii deal that we did last year. And so that will continue to run off a little over the term of that deal. I believe that is in a 7 to 10-year amortization period. Then the last piece of your question. So, when we think about that, the expenses associated with the, I think the transactions, those are—shouldn't b—it should be minimal, but as certain things approach us, we will be looking at those and adding those back as well.

Pablo Singzon

Yes, just to clarify because I was asking about investment gains or losses, I think…

Chris Uchida

Sorry, yes (inaudible). Yes. We've talked about that. The equity exposure that we do have has changed over time. When we look at our overall investments, we think about those and we feel like we do have adequate capital in place. We look at the duration in the changes of our mix, and the casualty we talked about a little bit earlier, those are longer tail so that we do feel that we could take a little bit more equity exposure in our portfolio, to help manage some of the abilities to collect gains, so that has increased. You did see that in the fourth quarter. So, we do expect to have some gains and potentially losses from those as we continue to move on, but we do not expect that to be material. As we said in the past, so we do view ourselves as underwriters, not investment managers, but we do have, obviously an adequate portfolio to play with. So we do—have taken a larger portion of our book into the equities, but these aren't call it pure individual stock plays. These are more index—equity index funds that we're investing in.

Pablo Singzon

Got it. Are you able to provide a number on how much you're assuming in that 80 to 85? Is it zero or is there some small positive number, or just any color there would be helpful. Thanks.

Mac Armstrong

Yes. Pablo, we are not assuming any equity gains or appreciation in there, that is zero.

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Pablo Singzon

All right, thank you.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Mac Armstrong for closing remarks.

Mac Armstrong

Great. Thank you, Operator. Thank you to all for joining us this morning. We appreciate your participation, questions, and your support. I'd also want to thank the Palomar team for their hard work and commitment over the last year as they are key to our success past, present, and future.

To conclude, I'm very proud of our results and the position we are in as we begin 2022. Our core products are benefiting from a strong market, which is driving both volume and price. Regulatory tailwinds and dislocation in the selected markets look like they'll present further opportunities over the course of the year. Our new businesses and existing products are scaling and they should drive 50% plus net income growth in 2022.

Then lastly, we have meaningfully reduced the volatility in our portfolio and will continue to do so, which should in turn generate consistent predictable growth. So, hopefully you all get a sense and ascertain our enthusiasm for 2022, and hopefully share it. So, we look forward to speaking with you at the end of the first quarter. Thank you and enjoy the rest of your day. Take care.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.

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