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For Wilkes-Barre-based insurance company, niche products key to success

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In the six months since Penn Millers Holding Corp. offered its first sale of stock in the company to the public, company officials said they have been more successful than they could have ever imagined.

In September, the property and casualty company converted from a mutual holding company to a publicly trading stock company. So far, the Wilkes-Barre-based company has raised \$45 million in capital, according to Chief Financial Officer Michael O. Banks.

All around, 2009 was a much better year for Penn Millers than 2008, Mr. Banks said. This year, the company generated \$3.9 million more in operating income than in 2008, mostly due to strategic planning decisions and an improving economy.

"For a lot of companies, 2008 was really tough," Mr. Banks said. "But for us, it went back to normal in 2009. Things really turned around for us."

Raising capital

When Penn Miller first went public in October, their stock traded for \$10 per share. In mid-March, the stock was trading for \$10.45. The ownership of the company is now 75 percent institutional, meaning the shares are held by mutual funds and other investors. Ten percent of shares are being held for an employee share program that replaced the company's pension program, Mr. Banks said.

Their initial public offering raised about \$45 million, most of which was then invested in low-risk bonds. The interest on those bonds generated a total of about \$180,000 after taxes in November and December, Mr. Banks said.

Considering the sluggish economy and the wariness of investors after the stock market took a dive in 2008, Penn Millers' success should be unlikely. The recession pushed back plans to go public by several months, said Mr. Banks.

"We needed more capital to grow the company," he said. "We'd been thinking of going public in the fall of 2008, but it was a tough time to take a company public."

Postponing the move to October paid off. The company received orders for \$73 million in stocks, said Mr. Banks, and ended up accepting only \$54 million to raise the \$45 million needed in capital. The remaining \$9 million was used to fund the offering expenses and an employee share program.

Experts and company officials link the company's success to the niche it occupies in the insurance business.

Penn Millers began in 1887, when 57 Pennsylvania grist mill owners wanted affordable insurance coverage for their factories. Now, it has agents in 33 states and mainly provide insurance to agribusiness, wholesalers, hotels, commercial laundries and manufacturers.

Therein lies the company's strength, said Penn State University associate professor of insurance David Cather, Ph.D. Life insurance companies have taken a hit during the recession as people look for ways to cut. But the type of insurance Penn Millers offers is not optional, Dr. Cather explained, and investors see companies that offer products or services unaffected by downturns as a good buy.

"It's probably not what you'd see CNBC talking about as a growing industry," Dr. Cather said. "Penn Millers is satisfying demands that are stable. That resonates with would-be investors."

Conservative model

Even so, 2008 was a tough year for Penn Millers. After making a profit yearly from 2003 to 2007, the company had a \$4.7 million loss in 2008. Company officials attributed most of that loss to declines in revenue from two divisions the company sold - Penn Software and Eastern Insurance Group. The company's most recent rating, in June 2009, by A.M. Best Co. Inc., is A-, or excellent.

Penn Millers' success reflects well not only on the company but the surrounding region, said Todd Vonderheid, president of the Greater Wilkes-Barre Chamber of Business and Industry. It is the only company in the region to go through the process to become a publicly held company, local officials said.

"Penn Millers has a conservative business model and they're doing great," Mr. Vonderheid said. "I think their success is an indication that there is capital out there."

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