S&P Capital IQ

CONTENTS

Argo Group International Holdings, Ltd.

NasdaqGS:AGII

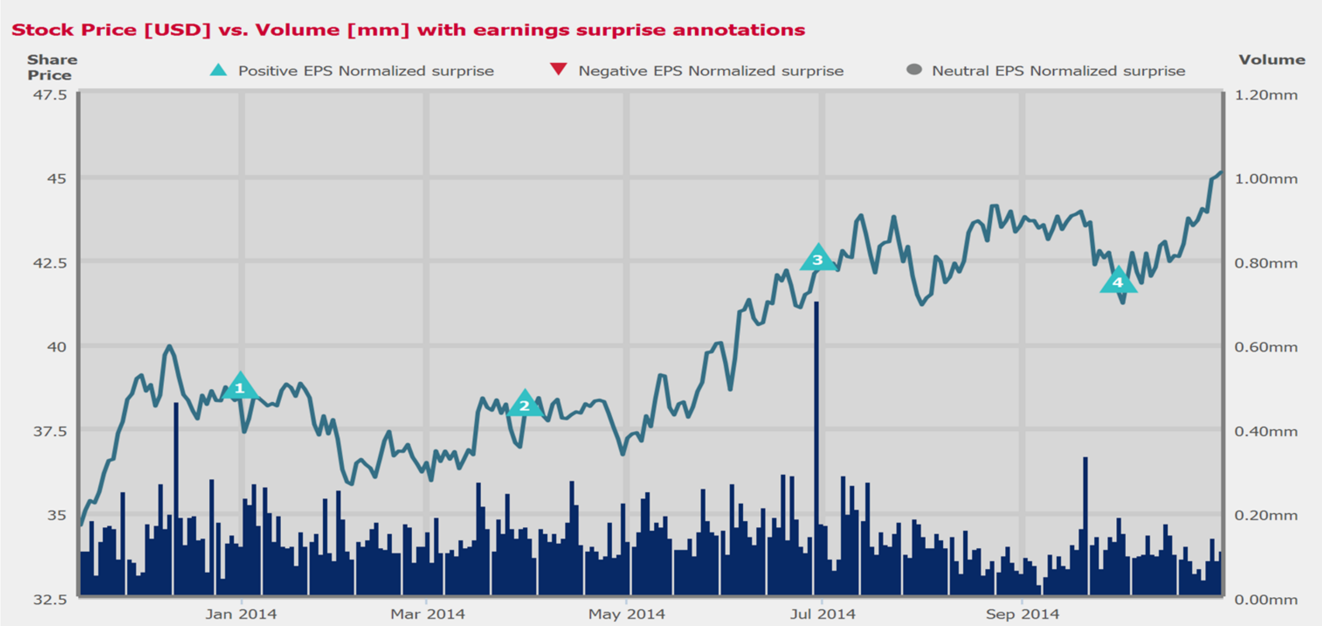
FQ4 2014 Earnings Call Transcripts

Tuesday, February 10, 2015 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.79	0.69	▼(12.66 %)	0.81	3.03	2.93
Revenue (mm)	369.20	412.10	▲11.62	360.20	1476.70	1518.70

Currency: USD
Consensus as of Feb-10-2015 3:42 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.62	0.68	▲1 9.68 %
FQ1 2014	0.62	0.77	▲2 24.19 %
FQ2 2014	0.66	0.74	▲3 12.12 %
FQ3 2014	0.71	0.74	▲4 4.23 %

Call Participants

EXECUTIVES

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Mark E. Watson
Chief Executive Officer and Director

Mark H. Rose
Chief Investment Officer and Senior Vice President

Susan Spivak Bernstein
Senior Vice President of Investor Relations

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Brett Patterson Shirreffs
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, and welcome to the Argo Group 2014 Fourth Quarter Earnings Conference Call and Webcast. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Ms. Susan Spivack Bernstein, Senior Vice President, Investor Relations. Please go ahead.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Thank you, and good morning. Welcome to Argo Group's conference call for the fourth quarter and year end 2014 results. Last night, we issued a press release on earnings, which is available in the investor section of our website, www.argolimited.com.

With me on the call today is Mark Watson, Chief Executive Officer; and Jay Bullock, Chief Financial Officer. We're pleased to review the company's results for the quarter and the year, as well as provide you with management's perspective on the business. As the operator mentioned, this call is being recorded. Following management's opening remarks, you will receive instructions on how to queue to ask questions.

As a result of this conference call, Argo Group management may make comments that reflect their intentions, beliefs and expectations for the future. Such forward-looking statements are qualified by the inherent risks and uncertainties surrounding future expectations, generally, and may materially differ from actual future results involving any one or more of such statements. Argo Group undertakes no obligation to publicly update forward-looking statements as a result of events or developments subsequent to this conference call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC.

With that, I'm pleased to turn the call over to Mark Watson, Chief Executive Officer of Argo Group. Mark?

Mark E. Watson
Chief Executive Officer and Director

Thank you, Susan. Good morning, everyone, and welcome to Argo Group's Fourth Quarter and Year End 2014 Earnings Conference Call. I will briefly share my thoughts regarding the highlights from the quarter and the year, after which Jay Bullock will add some comments to the financial results. We look forward to responding to any questions once we get to Q&A.

So for the year, Argo reported net income of $6.90 per share, which was an increase of 34% from 2013. We had 15% growth in operating earnings per share to $3.54. Our book value per share grew 8.6% and tangible book value per share grew 10%, and our return on average shareholders' equity was 11.4% for the year. We had a solid performance in many of our businesses, which showed continued year-over-year improvement -- improved underwriting profits resulting in record underwriting income in 2014.

We had an outstanding year in 2 of our core businesses. Our Excess & Surplus Lines operation reported its highest underwriting income in the company's history.

Its combined ratio on an accident year basis was the best in 10 years, and on a calendar year basis, the best in more than 12 years. In our second business, part of our Commercial Specialty operation, Rockwood, had its seventh consecutive year with combined ratio under 80% and the ninth consecutive year with the return on allocated capital above 20%. We ended the year with consolidated gross written premiums of $1.9 billion, a slight increase over 2013. Despite what appears to be modest growth, we continue to improve the overall quality of our portfolio. Actions, which as I've said in the past, mask growth in certain profitable lines, particularly, within our Excess & Surplus Lines business and to a lesser extent within our Lloyd's business.

I will go into more detail by business momentarily, but the bottom line is that we continue to see tangible improvement in the results.

For calendar -- for 2014, our underwriting income was $51.5 million, up from $31.8 million in 2013. And while reported investment income is down, our investment strategies continue to be a tangible contributor to growth in book value. Our realized investment gains including a meaningful component attributable to our strategy of focusing on total return in addition to a significant gain from the sale of our -- one of our real estate properties during the quarter. We expect to continue to report returns from the allocations we've made over the past several years to investment mandates away from core fixed income. And I'll comment more on investment results and strategy in a moment.

Before I speak about each of our operating segments, let me comment on a couple of important items related to our balance sheet. As we concluded 2014, we reported our ninth consecutive year of overall favorable reserve development. We've made a conscious effort to react to issues as they arise and to take good news only when we're confident of the results. This philosophy has served us well. In addition to this area of focus, we've also been actively managing the level of capital deployed in our business. Our philosophy there is first and foremost to remain -- maintain a strong capital provision, have capital available for opportunities as they arise and to actively return excess capital to our shareholders in an effective manner. With that in mind, this year, we repurchased 4% of our shares outstanding at an average price of $48.48 for total value of just under $51 million.

We've taken advantage of the opportunity to buy our stock at attractive prices. And over the last 6 years, we've returned more than $300 million of capital to shareholders through share repurchases and paid $55 million in cash dividends during the period. We continue to believe our stock is attractive at current prices and will balance the return of capital to shareholders with our priority of building our franchise, and thus, shareholder value in the long run.

Turning to market conditions. We are seeing competition in virtually all classes of business that we underwrite. That said, given our specialty focus, we're finding opportunities for growth in areas where we believe we have a competitive advantage. Despite the challenging rate environment in 2014, we still improved our underwriting margins while growing our more profitable books of business.

As we sit here today focused on executing our 2015 plan and strategy, I'm optimistic about our areas of growth and about the progress we've made over the past several years in our underwriting results.

Let me now briefly comment on each one of our segments in a little bit more detail. A few more things about our E&S business. Gross written premium was down 4.3% in the fourth quarter year-over-year, but was up 2.2% for the year. As has been the trend in prior quarters, growth in our higher margin businesses, so think about our Liability and Contract business, were offset by the exit from our commercial auto portfolio and intensifying competition in properties. Excluding these 2 lines of business, the growth in our E&S operation was actually up 8% for the year.

On average, rates were flat across the segment when adjusting for intense property competition. Prior year development had a positive impact on our results in E&S, and Jay will go into more detail in his discussion. On a current year basis, excluding catastrophe losses and reserve development, our loss ratio improved to 60.4% from 62.3% in 2013.

In our Commercial Specialty segment, overall premium was up 26% to $112 million in the fourth quarter of this year compared to a year ago. And for the full year, it was up 5% to 200 -- excuse me, to $440 million year-over-year. All of our main businesses contributed to the growth benefiting from strong renewals, new business opportunities and rate increases. Overall rate increases across the segment were 3.6% with higher increases in those areas where we've been focused on improving the underwriting results the most. For example, at Argo Insurance, rate increases averaged 7% year-over-year across the segment representing several consecutive quarters of meaningful rates improvement. I think that's like about 8 or 9 quarters of rate improvement. The segment's loss ratio for the year excluding catastrophe losses and reserve development was 60.5% compared to 63.4% in 2013.

Overall, gross written premiums in our International Specialty segment were down 4% in the fourth quarter to $45.6 million and down slightly for the year to just over $290 million. Growth in our excess casualty lines was offset by competition at Argo Re, our property CAT reinsurer, and to a lesser extent professional lines. In Brazil, growth is lower as the economy has slowed and we work on modest shifts in our portfolio mix. Rates in this segment, in general, remain under pressure affecting all businesses. The segment's loss ratio, excluding catastrophe losses and reserve development, was 47.5% for 2014 compared to 47.2% or about the same.

Turning to Syndicate 1200. While Lloyd's remains perhaps the most challenging broad market environment, our strategy of diversification into traditional areas of strength in that market continues to produce year-over-year improving results. For Argo management, our long-term shareholders and supporters on the call, the challenge of the early years of our operating -- of our operations at Lloyd's are not forgotten. That said, 2014 represents the third consecutive year of improvement on our loss and combined ratios in the third consecutive year of improvement in the absolute level of underwriting. Having said that, we are seeing more and more competition within the London market. And the expense of being compliant with all of the regulations that we now have to deal with both at Lloyd's and the -- I was going to say the FSA, but the FCA, appear to be never ending from my point of view. Gross written premiums declined in the fourth quarter 2.2% year-over-year and were down 3% for the year. On an annual -- excuse me, on an underwriting basis, the loss ratio, again excluding catastrophes and reserve development, was 55.2% for the year compared to 54.4% for 2013, thanks in part to a few large losses beyond what we expected.

Turning back to investments. The portfolio was up 1% in the fourth quarter bringing the full year return to 3.6%. Our return was positively impacted by the sale of an investment property in California that generated net gains of just under $26 million. Excluding these gains, the financial statement return on the portfolio was flat in the fourth quarter and 2.6% for the full year.

Similar to what you've heard from others this quarter, our investment results were impacted by foreign currency translations due to the strength of the U.S. dollar. Much of our currency exposure in the portfolio is naturally hedged with foreign denominated liabilities, meaning that we try to invest in the currencies that we expect to pay claims in, in the future. Factoring out the currency impact, our portfolio in dollar terms was up 3 -- 30 basis points for the fourth quarter and 3.1% in 2014.

Net investment income for the quarter was just under $22 million, up $1 million from the prior quarter and down just under $1 million from the prior year. We're encouraged by the sequential improvement in investment income, and I'm not sure if we've finally hit bottom, but if we haven't, we're awfully close. So we should start to see investment income rise again. Having said that, interest rates are lower than we thought they would be right now, and I'll come back to that. Our full year investment income was $86.6 million, down $14.4 million as compared to prior year. And again, given the drop in interest rates that occurred in 2014, net investment income growth continues to be challenging.

We continue to manage our bond portfolio by far the majority of our holdings defensibly with respect to duration. That seemed like a really good idea year ago, and of course, with interest rates dropping perhaps a little duration would have helped a year ago, but I sure don't want to make that trade today. Our bond portfolio duration is now about 2.4 years, which is down year-over-year and flat quarter-to-quarter. Our portfolio yield and net investment income continue to be impacted by an emphasis on total return over income, and we think this is the right approach and the most consistent with maximizing shareholder value in the long run. And the long run is our focus, and you all heard me talk about that quite a bit over the last couple of years. For example, our allocation to credit alternatives produced an excess total return of $3.6 million or 4.9% in 2014 versus some other parts of over portfolio, but the allocation also forgoes an estimated $4 million in investment income that you might otherwise see from traditional fixed income.

In other words, this return flows through as a gain instead of net investment income and the allocation outperformed from a total return perspective. Overall, the observed rate of decline in investment income continues to decelerate. We continue to analyze and seek investment opportunities, provide greater yield. Having said that, we're not chasing yield. And while it's difficult to predict the markets, we're optimistic that net investment income, as I said a minute ago, should continue to improve in 2015.

So in summary, we reported the solid 2014 demonstrating continued improvement in our results. The market is no doubt more challenging today on the underwriting side than it was a year ago, and we continue to face strong headwinds from the investment environment. Yet we're starting off 2015 in the best position we've been in for nearly a decade. Our focus and commitment to Specialty underwriting, the diversification of our platform and the actions we've taken on underperforming lines are producing steady profitable growth in our areas of strength. We're making ongoing progress on achieving operational efficiencies across the organization. We have a terrific management team in place, and we're proud of our record of generating growth in book value and stable returns for our shareholders. With that, I'll turn it over to our CFO, Jay Bullock.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Thanks, Mark, and good morning, everyone. I will quickly provide some additional detail on the financials and then open it up to Q&A.

In 2014, we reported another year of significant improvement in underwriting income, up over 60% from the previous 12 months. A lot of hard work and focus has gone into delivering that result. Going back to the work that we did to diversify and reunderwrite much of the business in the Syndicate in 2010, to the focused marketing efforts and improved reselection of the team in our Excess & Surplus Lines unit, and to the changes we've made to our reinsurance program, most notably in the last 2 years, capitalizing on the diversification in the business. The results in improvement in 2014 was very much a team effort realized over several years.

As Mark mentioned most of the relevant points related to revenue, I'll move straight to the discussion of our loss results. In 2014, loss trends were characterized by continued favorable reserve development on prior accident years, a relatively lower than expected level of catastrophe losses and a continued trend of higher-than-expected large, non-cat related losses. For both the quarter and for the year, we experienced favorable development. For the quarter, favorable reserve development was $11.3 million, representing our 15th competitive quarter of overall positive reserve development. For calendar year 2014, overall favorable development was $37.7 million compared to $33.6 million in 2013. The largest component of this quarter's release was from our Excess & Surplus Lines business, concentrated in Casualty, Allied Medical and Professional lines. Total favorable prior year development from the E&S segment in the quarter was $12.8 million. We also had $5.3 million of favorable development in the Syndicate driven by professional, indemnity and offshore energy. Commercial Specialty had modest adverse development of $1.6 million, as unfavorable development in our Retail business was offset by a favorable development in Rockwood in surety. International Specialty was relatively flat in total. And in run off, we had unfavorable development of $5.5 million, primarily from domestic assumed asbestos exposures. The table in the press release provides a full breakdown for the quarter and year end.

In the fourth quarter, we posted a 1.7 point improvement in the current accident year non-catastrophe loss ratio to 57.7%. And catastrophe losses for the quarter were $3.8 million, driven primarily by a storm in Australia and Hurricane Odile in Mexico. For the year, catastrophe losses were $17.7 million. And as I had mentioned, much the same as last year, the quarter and the year experienced large cat -- large non-cat losses greater than we might have expected representing about 2 points on the loss ratio.

Related to expenses in the quarter, the most significant item to note is once again the impact of accounting for certain elements of our stock-based incentive compensation. Argo stock price was up approximately 10% in the fourth quarter and the expense reflected on the income statement beyond what might be considered a normal quarter was approximately $3.9 million, representing 1.2% on the expense ratio or a tax affected $0.12 per share. For the 12-month period, the amounts related to the increased costs represented approximately 0.7% on the expense ratio or a tax affected $0.30 per share.

Last year's numbers reflect similar amounts, meaning that our expense ratio remains higher than what we'd like it to be. And while our focus is on dollars of underwriting income, we've not lost sight of the need to operate more efficiently. And we'll continue addressing this issue in light of the prevailing competitive environment.

In the quarter, we reported $51.5 million of net realized gains, the largest contributor as Mark mentioned to the net gain was the sale of a real estate investment in California. We also benefited from gains in our alternative portfolio in certain private equity investments. One extraordinary item to note on the income statement was the write-off in the quarter of $3.4 million of goodwill and intangibles related to ARIS [ph] Title in our Commercial Specialty business. While we continue to develop and pursue this strategy behind what we think is a potentially large art title market, the slower than anticipated development of revenues in this business led to the decision to write-off these balances.

For the fourth quarter of 2014, the effective tax rate for the group was 25.6%, higher than we typically assume, primarily attributable to the tax rate on the sale of the real estate investment. And for the year, the effective tax rate was 15.2%, largely a function of a greater proportion of income related to our Bermuda entities.

Turning to the balance sheet. The decline in cash and investments was primarily a result of the settlement of a reinsurance contract for 2009, prior accident year at Syndicate 1200, and the return of capital in the form of $50 million of share repurchases, $18 million of dividend and the $18 million retirement of one of our trust preferred securities at a discount of $2 million. We ended the quarter with a pretax unrealized gain position of $209 million, down from $240 million at the end of the third quarter. Of the decline in the quarter, the largest contributor was the core bond portfolio, which was impacted by the weakness in spreads in certain sectors such as energy and by the strengthening of the U.S. dollar against sterling and euro.
Operator, that concludes our prepared remarks. We're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Brett Shirreffs from KBW.

Brett Patterson Shirreffs
Keefe, Bruyette, & Woods, Inc., Research Division

First, I was wondering if you could just kind of revisit the 95% combined ratio target, based on what you're seeing in terms of pricing conditions and your growth outlook. Is that something that you still think is achievable in 2015, Mark?

Mark E. Watson
Chief Executive Officer and Director

Well, if you look at 2014 and you exclude the noncash charge for compensation expense related to our share price going up, we hit 95% this year. Actually, we hit 95% right on the nose if you take out the 120 basis points from the compensation expense. So do I think we can continue to improve? Absolutely. It gets a little old talking about large losses beyond what we expected and how unusual they are when we talk about them every quarter for probably the last 6 quarters. But some of them -- some of that really is timing. That drives a little bit of it, but what really drives it is continuing to focus our energy on growing the parts of the company that have the best margin and withdrawing from parts of the market that have the lowest margin. If I go just kind of go back to my opening comments, we're spending a lot of time, energy and money on continuing to invest in parts of our E&S business, particularly, our Contract and Liability business where we've had really good margins for a long time, which is why I kind of highlighted some of those financial results in my opening remarks. I think those businesses will continue to grow this year, and therefore -- and grow with a better than 95% margin. Our combined ratio for E&S for the year was just under 82%. I recognize that includes prior year development, but we've had a fairly consistent amount of prior year development in E&S for a number of years now. I can't tell you what that number is or we'd have accrued it already, but I would be surprised if there wasn't some in 2015. As I said earlier, we keep our loss reserve position awfully conservative at least in my opinion. And some of the things that have been dragging on us, they're still a drag, but not as much of a drag this year or a year ago. And so, for example, we did have prior year negative development in Commercial Specialty this year of a few million dollars, which I don't expect to repeat in that magnitude next year. I'd like to think that we've hit it all, but if not, it's probably a few million dollars, not a lot of money, but less than this year. So I think that helps. We had a fair amount of negative development from our run-off book earlier in the year. I think for the year, it was almost $25 million. So if you don't have that occur again next year, that -- or this year now 2015, that moves the needle. So I actually think that we are in the best spot to compete that we have -- that we've been in a long time. Even though the environment is more competitive, for the most part, it's more competitive with rational competition. So I think our ability to execute this year is even better than it was in 2014.

Brett Patterson Shirreffs
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's great. And then, on the E&S segment, I think the growth, excluding Property and Transportation, I think you said it was up 8%. And I think that's a little bit slower than the past couple of quarters. Is that just a dynamic of more competition coming in or what are kind of the factors impacting that?

Mark E. Watson
Chief Executive Officer and Director

I don't think so. It was a little slow in the fourth quarter. The growth there can be a little lumpy from one quarter to next. We're seeing just a ton of business right now. In fact, we were talking about this yesterday, of all the submissions that we get, we decide which ones we think are within our wheel house and we quote them and send them back to the broker. And some get bound and some don't, but if you -- sorry, a lot of the risks that come in are not -- they're not structured well, or they don't fit our wheel house for various reasons. But when you kind of get through slicing it all down, we end up only binding about 5% of all the submissions that come in the door. So imagine that if we were able to bind 6% or 7%, that's pretty huge, that's a pretty substantial growth rate. And so as we narrow our funnel a little better with the technology that we now have available that we've been investing in over the last couple of years, I suspect we'll see that ratio come up. So the problem isn't new business activity or opportunity, it's just getting the right mix in the door for us.

Brett Patterson Shirreffs
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then one last quick numbers question. I was wondering how much premium from the Transportation business is included in 2014 in E&S. And how much of that's likely to persist in 2015, if you could provide that?

Mark E. Watson
Chief Executive Officer and Director

Yes, so Jay is diving for his binder. I want to say the number is about $20 million. It's somewhere between $10 million and $20 million. And my guess is we'll have, I don't know, $5 million to $10 million in 2015.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

It's a pretty small amount in 2015.

Mark E. Watson
Chief Executive Officer and Director

Yes. So there's 2 bits of our Commercial Auto business. The part that we're trying to get out of is more of the trucker’s liability or long-haul trucking. We have another portfolio within Commercial Auto that we've referred to in the industry vernacular as garage. The largest part of that is insuring car dealers around the U.S. We like that portfolio. It performs quite well. So we'll still have a Commercial Auto segment. It just won't have all of that trucking business in it.

Operator

The next question comes from Adam Klauber of William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

A couple of different questions. With having some more pricing pressure, in general, is it going to be pretty tough really to get that expense ratio lower? And if you can, how can you do that in a tougher pricing environment?

Mark E. Watson
Chief Executive Officer and Director

Well, there's no question that if the pricing environment gets tougher that we won't write as much business as we intended, and expense ratio is just that, it's a ratio between earned premium and expenses. I'm not as focused on the ratio as other people are. I'm focused on how much expense can we really afford to incur to run the company and is that revenue going to come over time. And if the revenue comes a little slower, but it's still coming, that's what I'm focused on. We've been doing a fair amount recently to streamline the company and make it a little simpler to operate. It's not showing up in the financial results yet, but I'm pretty encouraged with some of the changes that we made and some of the restructuring that we started working on in the first quarter of this year.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, that's helpful. Then on investments, when does the new money yield get higher than the portfolio yield? Is that more of a 2016 type event you think?

Mark H. Rose
Chief Investment Officer and Senior Vice President

If you...

Mark E. Watson
Chief Executive Officer and Director

Hold on -- Mark Rose, our Chief Investment Officer, is with us. And so he is going to answer that question.

Mark H. Rose
Chief Investment Officer and Senior Vice President

It's a little more complex than just saying yield in the market, because you have different parts of the portfolio. But, clearly, in the investment credit market, the new money yield is challenged versus the old yield, and I would say it's flat to slightly down. But if you look at higher yielding securities in the risk portfolio, high yield has had a -- has repriced fourth quarter last year and that provides opportunity for improving the yield.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. So -- but overall, do you have an idea, or is it unless interest rates move up from here, it's going to be a couple of years out?

Mark H. Rose
Chief Investment Officer and Senior Vice President

Yes. But as we move allocations, it may still improve this year, while the market may not be providing it, the allocation -- we had under weighted some sectors because we found them less attractive, and now they're becoming more attractive. So we can up their allocation, which may actually show more yield even this year.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, okay. And then as far as the Excess & Surplus, excluding the Property, which is clearly under a lot of pressure, and I know you're reunderwriting some of the commercials, so excluding that, how are the general flows in the E&S between the standard and E&S market. I mean, a year ago, they were pretty strong. Have they started to ebb, are they still positive at this point?

Mark E. Watson
Chief Executive Officer and Director

Well, I think, it's still pretty positive, Adam. If you go back to my comments of a minute ago to Brett's question, we're seeing plenty of submission activity. It's just getting things structured properly to fit our wheel house. The large -- as you guys have heard me talk about on previous calls, the larger account business is very competitive. In fact, we lost a couple of accounts that were several hundred thousand dollar accounts in terms of premium. And we lost them to another wholesale competitor, not to the retail market. What was shocking is that we didn't lose them for like a 5% discount or 10% discount. We will lose them for a 20% or 30% discount. Now that doesn't happen very often, but it's just -- it's a reminder of why we continue to invest and focus on the smaller account business.

Operator

[Operator Instructions] Seeing that there are no other questions, I would like to turn the conference back over to Mark Watson, President and Chief Executive Officer, for any closing remarks.

Mark E. Watson

Chief Executive Officer and Director

Thank you. And I'd also like to thank everyone again for being on the call today. I think that 2014 was a pretty good year for us. We had record underwriting income. We had good growth in book value per share on both the GAAP and tangible basis. A lot of the initiatives that we've been working on -- or I should say, my colleagues have been working on at Argo are starting to bear fruit, and I look forward to talking to everyone about those in 2015. And for now, I'd just like to thank everyone at Argo for putting up a pretty good year. Certainly, a good year as compared to the last several. And I look forward to talking to everyone at the end of the first quarter. That concludes my remarks. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.