

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): November 12, 2020

TREAN INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

**150 Lake Street West
Wayzata, Minnesota**
(Address of principal executive offices)

001-39392
(Commission
File Number)

84-4512647
(I.R.S. Employer
Identification No.)

55391
(Zip Code)

(952) 974-2200

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d- 2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e- 4(c))

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol | Name of each exchange on which registered |
|---------------------------------------|-------------------|--|
| Common Stock, par value \$0.01 | TIG | The Nasdaq Global Select Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company.

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On November 12, 2020, Trean Insurance Group, Inc. (the “Company”) issued a press release announcing the Company’s financial results for the three and nine months ended September 30, 2020. The full text of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”), the information furnished pursuant to Item 2.02 of this Current Report on Form 8-K (including Exhibit 99.1) is deemed to have been furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Such information shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(d) Exhibits.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press Release issued by Trean Insurance Group, Inc., dated November 12, 2020 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 12, 2020

TREAN INSURANCE GROUP, INC.

By: /s/ Julie A. Baron
Name: Julie A. Baron
Title: Chief Financial Officer, Treasurer and Secretary

TREAN INSURANCE GROUP REPORTS THIRD QUARTER 2020 RESULTS

- 23% Year-over-Year Growth in Gross Written Premiums to \$132.3 Million -

- Net Income of \$69.3 Million, Diluted Earnings per Share of \$1.41 -

- Adjusted Net Income of \$10.5 Million, Adjusted Diluted Earnings per Share of \$0.21 -

- Significant Year-over-Year Improvement in Loss and Combined Ratios -

Wayzata, MN, November 12, 2020 – Trean Insurance Group, Inc. (Nasdaq: TIG) (“Trean” or the “Company”), a leading provider of products and services to the specialty insurance market, today reported results for the third quarter ended September 30, 2020.

Trean completed its initial public offering (“IPO”) in July 2020 and the results detailed below reflect gains and expenses related to the IPO and the Company’s public company readiness efforts.

Third Quarter 2020 Highlights and Subsequent Events

- Gross written premiums increased 23.0% to \$132.3 million, compared to \$107.5 million in the third quarter of 2019
- Loss ratio of 55.9%, a 720 basis point improvement compared to 63.1% in the third quarter of 2019
- Expense ratio of 25.1%, a 90 basis point improvement compared to 26.0% in the third quarter of 2019
- Combined ratio of 81.0%, an 810 basis point improvement versus 89.1% in the prior-year period
- Net income was \$69.3 million and diluted earnings per share were \$1.41, primarily driven by a one-time \$69.8 million gain on revaluation of the Company’s Compstar Holding Company LLC (“Compstar”) investment, and partially offset by \$11.7 million in certain IPO-related bonuses, expenses and contract buyout fee
- Adjusted net income⁽¹⁾ (excluding the aforementioned IPO-related events), was \$10.5 million, and adjusted diluted earnings per share were \$0.21
- Return on equity of 102.5%; Adjusted return on equity⁽¹⁾ (excluding the aforementioned IPO-related events) of 15.5%; Adjusted return on tangible equity was 25.9%⁽¹⁾
- Subsequent to quarter end, completed acquisition of 7710 Insurance Company and its associated program manager and agency

⁽¹⁾ Adjusted net income, adjusted return on equity, adjusted return on tangible equity and underwriting income are non-GAAP financial measures. See discussion of “Key Metrics” below.

“Our proven business model and operating strategy produced an outstanding third quarter performance despite the ongoing challenging environment,” stated Andrew M. O’Brien, President and Chief Executive Officer of Trean. “We produced double-digit growth in gross written premiums, in large part due to the onboarding of new program partners that are already providing valuable contributions. Furthermore, our prudent underwriting approach and ability to quickly and fairly resolve claims led to a strong quarter of profitability. As we begin looking into 2021, we are excited about the multiple opportunities present in workers compensation and other lines. We will also continue to invest thoughtfully in our business to support our program partners and to promote sustainable long-term growth.”

Underwriting Results

Gross written premiums increased 23.0% to \$132.3 million for the third quarter of 2020, compared to \$107.5 million for the third quarter of 2019, primarily attributable to the addition of new program partners brought on board during the second and third quarters of 2020. Net earned premiums of \$27.9 million grew 25.7% compared to the prior year's third quarter, driven by the increase in gross written and gross earned premiums, partially offset by an increase in ceded earned premiums compared to the prior-year period.

Underwriting income⁽¹⁾ was \$5.3 million, resulting in a combined ratio of 81.0% for the third quarter of 2020, compared to underwriting income of \$2.4 million and a combined ratio of 89.1% for the prior-year period. Losses and loss adjustment expenses for the third quarter of 2020 were \$15.6 million, which resulted in a 55.9% loss ratio, a 720 basis point improvement compared to 63.1% in the prior-year period. The improvement in the loss ratio during the third quarter was primarily attributable to the increase in net earned premiums during the period, offset by a decrease in favorable loss reserve estimate true-ups made during the third quarter of 2020 versus the third quarter of 2019.

General and administrative expenses were \$7.0 million for the third quarter of 2020, compared to \$5.8 million for the prior-year period. The Company's expense ratio was 25.1% for the third quarter of 2020, a 90 basis point improvement compared to 26.0% for the prior-year period, primarily attributable to an increase in net earned premiums, partially offset by a rise in net agent commissions resulting from the increase in written premiums, higher salaries and benefits resulting from an expanded workforce and an increase in professional service expenses.

The third quarters of 2020 and 2019 included certain gains and expenses related to the IPO transaction and other consulting expenses, and management fee expenses including cash bonuses paid to unitholders and employees. Adjusted net income⁽¹⁾, which excludes those items, for the third quarter of 2020 was \$10.5 million, a 61.8% increase compared to net income of \$6.5 million for the prior-year period. Adjusted diluted earnings per share for the third quarter of 2020 were \$0.21.

Investment Results

Net investment income was \$1.9 million for the third quarter of 2020, compared to \$1.7 million for the prior-year period. Cash and invested assets consist primarily of fixed maturities, equity securities and cash equivalents. The majority of the Company's investment portfolio at September 30, 2020 was comprised of fixed maturity securities that were classified as available-for-sale of \$375.3 million. Also included in investments at September 30, 2020 were \$3.7 million of equity securities and \$165.3 million of cash and cash equivalents. The Company's investment portfolio had an average rating of "AA" at both September 30, 2020 and September 30, 2019.

Other

Other revenue increased \$2.8 million, or 110.9%, to \$5.4 million for the third quarter of 2020, compared to \$2.6 million for the prior-year period, largely driven by an increase in brokerage fees earned due to the timing of effective dates of reinsurance contracts for current and new programs and increases in estimated premiums on reinsurance contracts.

Equity earnings in affiliates, net of tax were \$0.4 million for the third quarter of 2020, compared to \$1.0 million for the third quarter of 2019. The decrease primarily resulted from the Company acquiring the remaining 55% interest in Compstar in July 2020; following the acquisition, the Company now owns 100% of Compstar.

Shareholders' Equity and Returns

Total shareholders' equity was \$401.8 million at September 30, 2020, compared to \$141.6 million at December 31, 2019. Return on equity was 102.5% for the third quarter of 2020, compared to 18.0% for the prior-year period, and adjusted return on equity⁽¹⁾ was 15.5% for the third quarter of 2020, compared to 20.2% for the prior-year period. The change in return on equity reflected a significant increase in the Company's shareholders' equity, primarily resulting from the increases in additional paid-in capital related to the IPO and retained earnings since December 2019. Return on tangible equity was 171.2% for the third quarter of 2020, compared to 18.5% for the prior-year period and adjusted return on tangible equity was 25.9% for the third quarter of 2020, compared to 20.7% for the prior-year period.

Webcast and Conference Call

A webcast and conference call to discuss the Company's results will be held today beginning at 5:00 p.m. (Eastern Time). The audio webcast is accessible through the investor relations section of the Company's website at <https://investors.trean.com>.

The dial-in number for the conference call is (877) 407-3982 (toll-free) or (201) 493-6780 (international), conference ID# 13711785. Any person interested in listening to the call should dial in or access the website at least 10 minutes before the call.

A replay of the call will be available at <https://investors.trean.com> for one year following the call.

Key Metrics

The Company discusses certain key financial and operating metrics, described below, which provide useful information about its business and the operational factors underlying its financial performance.

Underwriting income is a non-GAAP financial measure defined as income before taxes excluding net investment income, investment revaluation gains, net realized capital gains or losses, IPO-related expenses, intangible asset amortization, noncash share-based compensation, other revenue, interest expense and other income. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of underwriting income to income before taxes in accordance with GAAP.

Adjusted net income is a non-GAAP financial measure defined as net income excluding the impact of various unusual events, including the consummation of the reorganization transactions in connection with our IPO, noncash intangible asset amortization and share-based compensation, or gains or losses that the Company does not believe reflect its core operating performance, which items may have a disproportionate effect in a given period, affecting comparability of the Company's results. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted net income to net income in accordance with GAAP.

Loss ratio, expressed as a percentage, is the ratio of losses and loss adjustment expenses to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of general and administrative expenses to net earned premiums.

Combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

Return on equity is net income expressed on an annualized basis as a percentage of average beginning and ending shareholders' equity during the period.

Adjusted return on equity is a non-GAAP financial measure defined as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending shareholders' equity during the period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on equity to return on equity in accordance with GAAP.

Tangible shareholders' equity is defined as shareholders' equity less goodwill and other intangible assets.

Return on tangible equity is a non-GAAP financial measure defined as net income expressed on an annualized basis as a percentage of average beginning and ending tangible shareholders' equity during the period.

Adjusted return on tangible equity is a non-GAAP financial measure defined as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending tangible shareholders' equity during the period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on tangible equity to return on equity in accordance with GAAP.

Forward-Looking Statements

This press release contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that are not historical or current facts. These statements may discuss the Company's net income, cash flow, financial condition, impairments, expenditures, growth, strategies, plans, achievements, capital structure, organizational structure, market opportunities and general market and industry conditions. Such forward-looking statements can be identified by words such as "anticipate," "estimate," "expect," "intend," "plan," "predict," "project," "believe," "seek," "outlook," "future," "will," "would," "should," "could," "may," "can have," "likely" and similar terms. Forward-looking statements are based on management's current expectations and assumptions about future events. These statements are only predictions and are not guarantees of future performance. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements if the underlying assumptions prove to be incorrect or as a result of risks, uncertainties, and other factors, including the impact of the COVID-19 pandemic on the business and operations of the Company, our program partners and other business relations. Other factors that may cause such differences include the risks described in the Company's filings with the U.S. Securities and Exchange Commission, including the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020. These forward-looking statements speak only as of the date on which they are made. Except as required by applicable securities laws, the Company disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future developments, changes in assumptions or otherwise. Investors are cautioned not to place undue reliance on the forward-looking statements contained in this press release or in other filings and public statements of the Company.

About Trean Insurance Group, Inc.

Trean Insurance Group, Inc. (Nasdaq: TIG) provides products and services to the specialty insurance market. Trean underwrites specialty casualty insurance products both through its program partners and its own managing general agencies. Trean also provides its program partners with a variety of services including issuing carrier services, claims administration and reinsurance brokerage. Trean is licensed to write business across 49 states and the District of Columbia. For more information, please visit www.trean.com.

Contacts

Investor Relations
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(952) 974-2260

Trean Insurance Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(in thousands, except for percentages)

(unaudited)

| | Three Months Ended September 30, | | Change | Percentage Change | Nine Months Ended September 30, | | Change | Percentage Change |
|--|-------------------------------------|-----------------|---------------|----------------------|---------------------------------|------------------|---------------|----------------------|
| | 2020 | 2019 | | | 2020 | 2019 | | |
| Revenues | | | | | | | | |
| Gross written premiums | \$ 132,284 | \$ 107,534 | 24,750 | 23.0% | \$ 349,755 | \$ 313,488 | 36,267 | 11.6% |
| Increase in gross unearned premiums | (22,963) | (5,612) | (17,351) | 309.2% | (39,601) | (18,099) | (21,502) | 118.8% |
| Gross earned premiums | 109,321 | 101,922 | 7,399 | 7.3% | 310,154 | 295,389 | 14,765 | 5.0% |
| Ceded earned premiums | (81,465) | (79,761) | (1,704) | 2.1% | (238,460) | (230,227) | (8,233) | 3.6% |
| Net earned premiums | 27,856 | 22,161 | 5,695 | 25.7% | 71,694 | 65,162 | 6,532 | 10.0% |
| Net investment income | 1,857 | 1,721 | 136 | 7.9% | 6,653 | 4,578 | 2,075 | 45.3% |
| Gain on revaluation of Compstar investment | 69,846 | — | 69,846 | 100.0% | 69,846 | — | 69,846 | 100.0% |
| Net realized capital gains (losses) | 115 | (34) | 149 | (438.2)% | 3,345 | 689 | 2,656 | 385.5% |
| Other revenue | 5,401 | 2,561 | 2,840 | 110.9% | 11,323 | 8,049 | 3,274 | 40.7% |
| Total revenue | 105,075 | 26,409 | 78,666 | 297.9% | 162,861 | 78,478 | 84,383 | 107.5% |
| Expenses | | | | | | | | |
| Losses and loss adjustment expenses | 15,564 | 13,976 | 1,588 | 11.4% | 40,681 | 38,446 | 2,235 | 5.8% |
| General and administrative expenses | 6,995 | 5,756 | 1,239 | 21.5% | 23,437 | 15,894 | 7,543 | 47.5% |
| IPO bonuses and contract buyout fee | 11,054 | — | 11,054 | 100.0% | 11,054 | — | 11,054 | 100.0% |
| Intangible asset amortization | 1,120 | 11 | 1,109 | 10,081.8% | 1,154 | 35 | 1,119 | 3,197.1% |
| Noncash share-based compensation | 307 | — | 307 | 100.0% | 307 | — | 307 | 100.0% |
| Interest expense | 520 | 498 | 22 | 4.4% | 1,482 | 1,683 | (201) | (11.9)% |
| Total expenses | 35,560 | 20,241 | 15,319 | 75.7% | 78,115 | 56,058 | 22,057 | 39.3% |
| Other income (expense) | 209 | (8) | 217 | (2,712.5)% | 263 | 118 | 145 | 122.9% |
| Income before taxes | 69,724 | 6,160 | 63,564 | 1,031.9% | 85,009 | 22,538 | 62,471 | 277.2% |
| Provision for income taxes | 788 | 1,395 | (607) | (43.5)% | 4,679 | 4,404 | 275 | 6.2% |
| Equity earnings in affiliates, net of tax | 401 | 1,021 | (620) | (60.7)% | 2,333 | 2,494 | (161) | (6.5)% |
| Net income | \$ 69,337 | \$ 5,786 | 63,551 | 1,098.4% | \$ 82,663 | \$ 20,628 | 62,035 | 300.7% |
| Earnings per share: | | | | | | | | |
| Basic | \$ 1.41 | \$ 0.15 | | | \$ 2.00 | \$ 0.55 | | |
| Diluted | \$ 1.41 | \$ 0.15 | | | \$ 2.00 | \$ 0.55 | | |
| Weighted average shares outstanding | | | | | | | | |
| Basic | 49,054,441 | 37,386,394 | | | 41,304,132 | 37,386,394 | | |
| Diluted | 49,056,001 | 37,386,394 | | | 41,304,652 | 37,386,394 | | |

Key Metrics

| (in thousands, except percentages) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|----------|---------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Underwriting income (1) | \$ 5,297 | \$ 2,429 | \$ 7,576 | \$ 10,822 |
| Adjusted net income (1) | \$ 10,477 | \$ 6,474 | \$ 21,600 | \$ 21,797 |
| Loss ratio | 55.9% | 63.1% | 56.7% | 59.0% |
| Expense ratio | 25.1% | 26.0% | 32.7% | 24.4% |
| Combined ratio | 81.0% | 89.1% | 89.4% | 83.4% |
| Return on equity | 102.5% | 18.0% | 40.6% | 23.4% |
| Adjusted return on equity (1) | 15.5% | 20.2% | 10.6% | 24.7% |
| Return on tangible equity (1) | 171.2% | 18.5% | 67.3% | 24.0% |
| Adjusted return on tangible equity (1) | 25.9% | 20.7% | 17.6% | 25.3% |

- (1) Adjusted net income, adjusted return on equity, return on tangible equity, adjusted return on tangible equity and underwriting income are non-GAAP financial measures. See "Reconciliation of Non-GAAP Financial Measures" below for a reconciliation to the applicable GAAP measure.

Trean Insurance Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands)

| | September 30, 2020 (unaudited) | December 31, 2019 |
|---|-----------------------------------|-------------------|
| Assets | | |
| Fixed maturities, available for sale | \$ 375,286 | \$ 337,865 |
| Preferred stock, available for sale | 240 | 343 |
| Common stock, available for sale | 3,458 | 492 |
| Equity method investments | 232 | 12,173 |
| Total investments | 379,216 | 350,873 |
| Cash and cash equivalents | 165,255 | 74,268 |
| Restricted cash | 21,175 | 1,800 |
| Accrued investment income | 2,418 | 2,468 |
| Premiums and other receivables | 99,635 | 62,460 |
| Income taxes refundable | 797 | — |
| Related party receivables | 33 | 22,221 |
| Reinsurance recoverable | 350,425 | 307,338 |
| Prepaid reinsurance premiums | 103,929 | 80,088 |
| Deferred policy acquisition cost, net | 3,777 | 2,115 |
| Property and equipment, net | 8,439 | 7,937 |
| Right of use asset | 6,558 | — |
| Deferred tax asset | — | 1,367 |
| Goodwill | 139,575 | 2,822 |
| Intangible assets, net | 73,436 | — |
| Other assets | 9,721 | 3,277 |
| Total assets | \$ 1,364,389 | \$ 919,034 |
| Liabilities | | |
| Unpaid loss and loss adjustment expenses | \$ 465,502 | \$ 406,716 |
| Unearned premiums | 143,390 | 103,789 |
| Funds held under reinsurance agreements | 160,614 | 163,445 |
| Reinsurance premiums payable | 59,756 | 53,620 |
| Accounts payable and accrued expenses | 73,865 | 14,995 |
| Lease liability | 7,054 | — |
| Income taxes payable | — | 714 |
| Deferred tax liability | 12,597 | — |
| Long-term debt | 39,858 | 29,040 |
| Total liabilities | 962,636 | 772,319 |
| Redeemable preferred stock | — | 5,100 |
| Shareholders' Equity | | |
| Common stock | 511 | — |
| Members' equity | — | 78,438 |
| Additional paid-in capital | 287,234 | 17,995 |
| Retained earnings | 104,853 | 40,361 |
| Accumulated other comprehensive loss | 9,155 | 4,821 |
| Total shareholders' equity | 401,753 | 141,615 |
| Total liabilities and shareholders' equity | \$ 1,364,389 | \$ 913,934 |

Reconciliation of Non-GAAP Financial Measures

Underwriting income

The Company defines underwriting income as income before taxes excluding net investment income, investment revaluation gains, net realized capital gains or losses, IPO-related expenses, intangible asset amortization, noncash share-based compensation, other revenue, interest expense and other income. Underwriting income represents the pre-tax profitability of the Company's underwriting operations and allows management to evaluate the Company's underwriting performance without regard to investment income, IPO-related expenses, intangible asset amortization, noncash share-based compensation, interest expense and other revenue and income. The Company uses this metric because the Company believes it gives management and other users of the Company's financial information useful insight into the Company's underwriting business performance by adjusting for these expenses and sources of income. Underwriting income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define underwriting income differently.

| | Three Months Ended | | Percentage Change | Nine Months Ended | | Percentage Change |
|--|-----------------------|-----------------|----------------------|-----------------------|-----------------|----------------------|
| | September 30, 2020 | 2019 | | September 30, 2020 | 2019 | |
| <i>(in thousands, except percentages)</i> | | | | | | |
| Net income | \$ 69,337 | \$ 5,786 | 1,098.0% | \$ 82,663 | \$20,628 | 300.7% |
| Income tax expense | 788 | 1,395 | (43.5)% | 4,679 | 4,404 | 6.2% |
| Equity earnings in affiliates, net of tax | (401) | (1,021) | (60.7)% | (2,333) | (2,494) | (6.5)% |
| Income before taxes | 69,724 | 6,160 | 1,031.9% | 85,009 | 22,538 | 277.2% |
| Other revenue | (5,401) | (2,561) | 110.9% | (11,323) | (8,049) | 40.7% |
| Net investment income | (1,857) | (1,721) | 7.9% | (6,653) | (4,578) | 45.3% |
| Gain on revaluation of Compstar investment | (69,846) | — | 100.0% | (69,846) | — | 100.0% |
| Net realized capital gains (losses) | (115) | 34 | (438.2)% | (3,345) | (689) | 385.5% |
| Interest expense | 520 | 498 | 4.4% | 1,482 | 1,683 | (11.9)% |
| IPO bonuses and contract buyout fee | 11,054 | — | 100.0% | 11,054 | — | 100.0% |
| Intangible asset amortization | 1,120 | 11 | 10,081.8% | 1,154 | 35 | 3,197.1% |
| Noncash share-based compensation | 307 | — | 100.0% | 307 | — | 100.0% |
| Other income (expense) | (209) | 8 | (2,712.5)% | (263) | (118) | 122.9% |
| Underwriting income | \$ 5,297 | \$ 2,429 | 118.1% | \$ 7,576 | \$10,822 | (30.0)% |

Adjusted net income

The Company defines adjusted net income as net income excluding the impact of certain items, including the consummation of the reorganization transactions in connection with the IPO, noncash intangible asset amortization and share-based compensation, or gains or losses that the Company believes do not reflect its core operating performance, which items may have a disproportionate effect in a given period, affecting comparability the Company's results across periods. The Company calculates the tax impact only on adjustments that would be included in calculating the Company's income tax expense using the effective tax rate at the end of each period. The Company uses adjusted net income as an internal performance measure in the management of its operations because the Company believes it gives its management and other users of its financial information useful insight into the Company's results of operations and underlying business performance by eliminating the effects of these items. Adjusted net income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define adjusted net income differently.

| <i>(in thousands, except percentages)</i> | Three Months Ended September 30, | | Percentage Change |
|---|---|-----------------|--------------------------|
| | 2020 | 2019 | |
| Net income | \$ 69,337 | \$ 5,786 | 1,098.4% |
| Intangible asset amortization | 1,120 | 11 | 10,081.8% |
| Noncash stock-based compensation | 307 | — | 100.0% |
| Expenses associated with Altaris management fee, including cash bonuses paid to unitholders | — | 441 | (100.0)% |
| Expenses associated with IPO and other one-time legal and consulting expenses | 645 | 387 | 66.7% |
| Expenses related to debt issuance costs, including OID amortization | — | 25 | (100.0)% |
| FMV adjustment of remaining investment in subsidiary | (69,846) | — | 100.0% |
| IPO bonuses and contract buyout fee | 11,054 | — | 100.0% |
| Total adjustments | (56,720) | 864 | (6,664.8)% |
| Tax impact of adjustments | (2,140) | (176) | 1,115.9% |
| Adjusted net income | \$ 10,477 | \$ 6,474 | 61.8% |

| <i>(in thousands, except percentages)</i> | Nine Months Ended September 30, | | Percentage Change |
|---|--|------------------|--------------------------|
| | 2020 | 2019 | |
| Net income | \$ 82,663 | \$ 20,628 | 300.7% |
| Intangible asset amortization | 1,154 | 35 | 3,197.1% |
| Noncash stock-based compensation | 307 | — | 100.0% |
| Expenses associated with Altaris management fee, including cash bonuses paid to unitholders | 883 | 1,324 | (33.3)% |
| Expenses associated with IPO and other one-time legal and consulting expenses | 1,845 | 829 | 122.6% |
| Expenses related to debt issuance costs, including OID amortization | 135 | 75 | 80.0% |
| FMV adjustment of remaining investment in subsidiary | (71,846) | — | 100.0% |
| Net loss (gain) on purchase & disposal of subsidiaries | (3,115) | (634) | 391.3% |
| IPO bonuses and contract buyout fee | 11,054 | — | 100.0% |
| Total adjustments | (59,583) | 1,629 | (3,757.6)% |
| Tax impact of adjustments | (1,480) | (460) | 221.7% |
| Adjusted net income | \$ 21,600 | \$ 21,797 | (0.9)% |

Adjusted return on equity

The Company defines adjusted return on equity as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending shareholders' equity during the period. The Company uses adjusted return on equity as an internal performance measure in the management of its operations because the Company believes it gives management and other users of the Company's financial information useful insight into the Company's results of operations and underlying business performance by adjusting for items that the Company believes do not reflect its core operating performance and that may diminish comparability across periods. Adjusted return on equity should not be viewed as a substitute for return on equity calculated in accordance with GAAP, and other companies may define adjusted return on equity differently.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| <i>(in thousands, except percentages)</i> | 2020 | 2019 | 2020 | 2019 |
| Adjusted return on equity calculation: | | | | |
| Numerator: adjusted net income | \$ 10,477 | \$ 6,474 | \$ 21,600 | \$ 21,797 |
| Denominator: average shareholders' equity | 270,519 | 128,299 | 271,684 | 117,688 |
| Adjusted return on equity | 15.5% | 20.2% | 10.6% | 24.7% |
| Return on equity | 102.5% | 18.0% | 40.6% | 23.4% |

Return on tangible equity and adjusted return on tangible equity

The Company defines tangible shareholders' equity as shareholders' equity less goodwill and other intangible assets. The Company defines return on tangible equity as net income expressed on an annualized basis as a percentage of average beginning and ending tangible shareholders' equity during the period. The Company defines adjusted return on tangible equity as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending tangible shareholders' equity during the period. The Company regularly evaluates acquisition opportunities and have historically made acquisitions that affect shareholders' equity. The Company uses return on tangible equity and adjusted return on tangible equity as internal performance measures in the management of the Company's operations because the Company believes they give management and other users of its financial information useful insight into the Company's results of operations and underlying business performance by adjusting for the effects of acquisitions on the Company's shareholders' equity and, in the case of adjusted return on tangible equity, by adjusting for items that the Company believes do not reflect its core operating performance and that may diminish comparability across periods. Return on tangible equity and adjusted return on tangible equity should not be viewed as substitutes for return on equity calculated in accordance with GAAP, and other companies may define return on tangible equity and adjusted return on tangible equity differently.

| <i>(in thousands, except percentages)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|--------------|--|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Return on tangible equity calculation: | | | | |
| Numerator: net income | \$ 69,337 | \$ 5,786 | \$ 82,663 | \$ 20,628 |
| Denominator: | | | | |
| Average shareholders' equity | 270,519 | 128,299 | 271,684 | 117,688 |
| Less: Average goodwill and other intangible assets | 108,476 | 2,982 | 107,994 | 2,993 |
| Average tangible shareholders' equity | 162,043 | 125,317 | 163,690 | 114,695 |
| Return on tangible equity | 171.2% | 18.5% | 67.3% | 24.0% |
| Return on equity | 102.5% | 18.0% | 40.6% | 23.4% |

| <i>(in thousands, except percentages)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|--------------|--|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Adjusted return on tangible equity calculation: | | | | |
| Numerator: adjusted net income | \$ 10,477 | \$ 6,474 | \$ 21,600 | \$ 21,797 |
| Denominator: average tangible shareholders' equity | 162,043 | 125,317 | 163,690 | 114,695 |
| Adjusted return on tangible equity | 25.9% | 20.7% | 17.6% | 25.3% |
| Return on equity | 102.5% | 18.0% | 40.6% | 23.4% |

