The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2025

To Our Shareholders:

It could have been a contender. Our 2024 year might have set a profit record -- but instead it provided no more than ordinary returns. I can take a good measure of the blame for the gap. With my old friend and partner Jim Bailey having partially retired from his investment duties here, I play an expanded role at our investment committee, where we made the call to hold on to a couple of troubled equity positions. The worst-performing of these, Intel, cost our portfolio's market value $85 million, as the whole world watched its stock price wither month by month. The insurance side of the Plymouth Rock story for 2024 was favorable, buoyed by improved underwriting results in all three of our operating groups. The overall combined ratio for the year of 100.4% was much more acceptable than the 106% we reported for 2023. Andy McElwee and I are setting admittedly challenging goals for lower ratios in the future, but, with normalized investment returns, a combined ratio like this past year's can produce a respectable return on equity capital for our enterprise. This past year, with lower investment gains, the return on equity for the Plymouth Rock family of companies was 10%.

Andy and I are used to concentrating every year on underwriting and investment results, but this past year threw us an unaccustomed task on the personnel side as well. Two of our three operating group chiefs left us in the spring. Our Independent Agency Group president was recruited to an international insurance company and our Direct Group leader left us to join a specialty carrier. That's the downside of being known in the industry for unusually strong executives. In both cases their new roles offered heavily remote working environments. I wondered if this was an influence on the decisions, but both exiting executives reassured us that remote work was not a principal lure. We, as you well know, insist on in-office work – five days a week on site for officers and four days for most everyone else. Andy and I were not happy to see either of the departing officers leave, but both left behind strong benches, and we have not been seriously injured by their partings. We filled the position of president in our Independent Agency Group by internal promotion during 2024. A new Direct Group leader with a remarkable background at a major-league competitor will join us later this month. That unit, up to now, has been perking along under the guidance of a competent interim leader.

Consolidated comprehensive income for the year was $153 million, as compared with $253 million in the prior year. Our shareholder-owned company earned almost $123 million in comprehensive income versus $198 million a year earlier. Some of the year's profit was the consequence of a predictably improved industry environment. Premium increases always tend to lag an inflationary surge, and this provides a compensating benefit when inflation later cools. The industrywide tailwinds in our case were supplemented by loss and expense ratio improvements of our own making in all the groups. Growth in our premium revenues was 15%, allowing us to end the year with about $2.3 billion of annual premiums in force. Consolidated equity rose by 2.6%, after dividends paid, to give us a closing enterprise book value of $1.6 billion. The 40-year compounded rate of return on shareholder book value, adjusted for dividends, now stands at 18%. The shareholder entity's 2024 return was 13%.

Front-page placement this year belongs to our Home Group, which has experienced the greatest performance shortfall of our three operating units in the last few years. Inadequate prices and insufficient use of underwriting tools employed when our homeowners line commenced its period of rapid expansion have plagued it ever since. The good news is that the volume managed by our Home Group has risen from $75 million in 2015 to over $400 million today. The bad news is that its combined ratio (claims and expenses to premiums) has been wholly unsatisfactory for five years in a row now; it peaked (we hope) at a nasty 118% in 2021. The cumulative underwriting loss suffered in the Home Group over that period has exceeded $140 million. A year ago I predicted solid improvement in 2024 as we aggressively raised rates and tightened underwriting standards. Last year's budget called for an improvement of eight points to 108% and we successfully beat that mark by over a point. None of us considers the Home Group yet out of the woods, but we may finally have paid the piper for the errors in the initial growth burst. There is no reason to expect a recurrence of double-digit underwriting losses in that line absent extreme natural catastrophes.

The curative measures taken are not without adverse consequences, of course. We had to urge regulatory authorities to permit adjustments that tested the limits of their comfort zones, and we have doubtlessly sacrificed a measure of heft from our storehouse of customer and agent goodwill. We must accept, moreover, that the new strictures will restrain unit growth for a while, though many of our competitors face a similar problem. We are reconciled to this reality. Plymouth Rock has always paid more attention to its bottom line than the top line, so our primary emphasis is on reaching our profit targets as soon as possible, even if that means a temporary slowdown in growth. We have always told our officers to remember this quip: first prize is for growth and profitability, second prize is for profitability without growth ... and there is no third prize. We are cautiously optimistic that we will achieve profitability with moderate growth in the Home Group in 2025. The ingredients -- adequate rates, sensible underwriting rules, and a strong team -- are, at long last, all in place now.

The Independent Agency Group, our largest business segment by a good measure, has a new leader. Ethan Tarby, for three years its respected marketing chief and the group's interim CEO for most of 2024, is now that group's president. His team took volume up 23% to $1.3 billion during this past year and, more important, pushed the combined ratio below the much spotlighted 100% marker by nearly a point. While Andy and I would ideally like to see a combined ratio for the group a few points lower still, this recent result is a welcome reversal of an unfavorable recent trend. Although our Independent Agency Group results were never embarrassing by industry standards, I have long thought there was opportunity for improvement. Lately, the group's expense ratio has decreased nicely, and there is every reason to believe the gains are durable. Considering growth and the combined ratio together, I can rate the 2024 results as quite satisfactory.

Powering the favorable results with respect to both scale and profitability is Massachusetts, our home and headquarters state. We have over a half-billion dollars' worth of independent agent auto premium there. The results in New Jersey, our other state with a large and mature market share, were also satisfactory. That's fortunate since the Bay State and the Garden State together represent more than three-fourths of our total independent agent business. Looking to the smaller states, New Hampshire remains a reliable contributor while Connecticut returns continue to be inadequate and call out for attention. Neither of these smaller states is likely to provide Plymouth Rock with a cornucopia of future growth, but we should be grateful for our incremental New Hampshire profits and pay more mind to our counterpoint losses in Connecticut. New York and Pennsylvania provide the paths to seriously increased scale for our enterprise. I would love to see our market shares in these states someday match our shares in Massachusetts and New Jersey. In both of the new states, our folks have worked extra hard to establish close and mutually respectful relationships with regulatory agencies we have only recently come to know. This has led us toward fairly complete corrections of newcomer inadequacies in pricing and imprecise risk segmentation in both jurisdictions. As recently approved premium levels work their way onto our books throughout 2025, we expect both states to enjoy profits and to see an expanded eagerness on our part to acquire additional market share. Commercial automobile insurance enjoyed another strong year for us. And Pilgrim, our Steady-Eddie third-party administrator for residual market business, increased its volume by 65% to a new scale record and produced a record profit contribution for the group.

If all goes as Andy and I are hoping, we will be a substantially larger company in a few years. The Independent Agency Group has potential to be a continuing growth engine as long as it keeps our agents convinced that we are an unusually high-service carrier. The Home Group has a doubled opportunity to expand -- by attracting first-time customers in New York and Pennsylvania and pairing their products with our existing auto policies in the more mature states. The grand slam of growth possibilities, in both difficulty and payoff, however, resides with the Direct Group. That is why we are so happy to welcome Greg Kalinsky as the group's new president. Greg earned his spurs over his 37 years working at GEICO, starting in the mailroom and eventually becoming GEICO's Executive Vice President with responsibility for managing all aspects of a $40 billion book of direct business.

The Direct Group has three business sources: Legacy business we purchased from Prudential in 2003; Partner business, encompassing new business from other carriers, super-agents, affinity groups, and aggregators; and what we call Core Direct business because it involves no relationship with an intermediary. The average tenure of a customer in the Legacy book, which represents aggregate premiums written of $140 million, is now at least 21 years. It is no surprise that these stable, seasoned New Jersey policyholders are a highly responsible, and thus quite profitable, group of drivers. Although this book of business gradually suffers attrition, we hope the decline will be very slow. We urge all of our Legacy policyholders to adopt the lifestyle and longevity habits of Jimmy Carter and Henry Kissinger.

The Partner segment of the Direct Group's volume, including new business from Prudential, is about twice as large as the Legacy book. It was a loser in profit terms for quite a while, but our team has cleaned it up effectively, and its new business performs better than a year ago by double digits. Our always-valuable Teachers product, meanwhile, has grown to nearly $60 million in scale. It takes discipline to find the treasures in business turned away by our competitors, which may mean that growth in that element of the Partner channel may never be explosive. The potential jewel in the Direct Group's crown is its direct-to-the-consumer business, our Core Direct book. Our Core Direct customers are acquired in a manner similar to the direct response business done by the giants of the field, GEICO and Progressive. We now write just over $100 million in annual Core Direct premiums, up by 6% over last year. Potential there is unlimited. Our aim is to grow those premiums exponentially, but we do not underestimate the task of competing with carriers that can spend billions on advertising.

The Core Direct business can be best understood by focusing on three controlling parameters: the average cost of acquiring a new customer, the combined loss and general expense ratio, and the number of years that a customer remains with us. Optimizing all three parameters at once is no easy chore. It is easy to get bad customers cheaply. It's also relatively easy and cheap to get decent customers who won't stay long enough to cover their acquisition costs. To acquire good drivers with high renewal persistency at an affordable acquisition cost is not easy, but that is exactly what the Direct Group needs to do. Our approach leans toward the use of telematics, offering unusually attractive prices to customers willing to have their care behind the wheel monitored. We believe this is the way of the future for auto insurance and we are energized by striving to expand its frontiers. At the same time, Andy and I are of frugal DNA. We are not so excited as to overspend, and we haven't. The Direct Group's overall combined ratio for 2024 rounds to 99%, its first underwriting profit in four years.

Our equity investment performance can be labeled as merely sub-par in absolute terms but it was starkly dismal in relative terms. We held at yearend about $1.75 billion worth of common stocks, having earned a common stock return for the year of only 7%. Had we simply owned, or mirrored, the Standard & Poor's index, the increase in market value of our equities this year would have been 22%. The total portfolio value would then have approximated $2 billion. The lion's share of the shortfall can be attributed to two under-performing stocks: CVS which fell in price by just over 40% and Intel which plunged by nearly 60%. You will doubtlessly ask yourselves why we held these two stocks through the year and why we still own them. Each has its own story, of course. CVS suffered setbacks galore throughout the year – a rebuff to its California Caremark business, ongoing fraud and opioid accusations, threats to its vaccination revenues, allegations of non-compliance with the Dobbs decision and HIPAA, various systemic uncertainties shared by the entire health insurance industry, an abrupt CEO replacement, and more. Our investment philosophy, though, has led us often to favor positions in companies with short-term problems and promising ten-year success prospects. To decide to sell our CVS holdings now, we would have to conclude that CVS is not primed for a comeback. Yet it remains the national leader in the pharmacy business, which we hold to be a fundamental and irreplaceable component of our economy, especially with an aging population and a national culture that demands treatments for all that ails us. We agree with CVS leadership, moreover, that a trusted pharmacy can effectively provide basic clinical services as well as selling pills and other physical products. While the future of the health insurance segment of the business is hard to divine, we are not inclined for now to take our losses and sell at a valuation so depressed by the company's immediate issues.

Intel is a far closer call. On one hand, there is no question it has fallen way behind TSMC in the silicon chip foundry business and behind NVIDIA in intelligent chip design. It should never have allowed this to happen. Experts tell us it will take Intel the better part of a decade to catch up, if in fact it ever can. History, moreover, suggests that the corporate giants in every field have no permanent grip on their prominence. The list of the largest U.S. companies when I was young bears little resemblance to today's rollcall of titans. On the other hand, many of the falls from Olympus occurred because the industries the giants had served were degraded or gravely disrupted. The chip industry is still a rising component of the world economy and, just as telling, Intel is an important strategic asset of the United States. It is hard to imagine that our country will not insist on maintaining a massive chip production capacity. Assuming this is so, a bet on Intel is a wager that startups cannot replace it at the massive scale required. What is more, if it appears that the reunification of Taiwan with the mainland is on the horizon, amplification of the calls for secure domestic production capacity will surely follow. Finally, we mustn't forget that the market view of Intel is anything but stable. In 2023, Intel was among our best performing stocks, nearly doubling in value. The central question for us as investors is whether today's widespread pessimism is justified or an exaggerated over-reaction, which would make the crash in Intel's price sound more like an opportunity knocking than a death knell. After all, you make more money in the equity markets by betting correctly against consensus views than by following them. Intel remains a winner for Plymouth Rock over our full holding period. Our investment team debates Intel's current merits and challenges constantly, and, at least as of today, we have not brought ourselves to the point of giving up on it.

We are implementing some broader portfolio strategy changes as well, which will result in a visible shift in our overall portfolio composition. We have begun to buy sectoral Exchange Traded Funds to complement our individual stock picks. This is in line with our 2023 conclusion that current levels of vulnerability to individual stock price fluctuations have become a suboptimal match to our plans for accelerated growth in our new states. Put another way, our heightened growth rate has reduced the overcapitalization that previously allowed for a super-concentrated stock portfolio. We have no inclination to restrain growth, so we decided on more closely tracking the S&P as a simple way to mimic a more diversified portfolio. This should give a measure of comfort to our regulators and rating agencies. On the other hand, we surely don't want to be passive and abandon stock picking entirely. This past year's two misjudgments notwithstanding, our 31-year investment track record suggests that we are pretty good at it. Plymouth Rock's long-sighted, buy-and-hold strategy has worked too well for us to give it up. Your company's portfolio has returned 11.4% annually compounded since 1993 while the S&P index over the same period has returned 10.5%. Few hedge funds and not many famed investors can claim to have matched, let alone beaten, the S&P over such a long period of time. Accordingly, we have settled on a middle ground, a half-way solution that will have us tracking the S&P somewhat more closely than in the past but still aiming to beat the index with individual stock selections.

We are also going to shift our portfolio composition, with similar reasoning, a bit more toward fixed-income. You can doubtlessly recall my rants over the years against bond investments. I still don't understand how the majority of carriers in our industry became wedded to investing over 70% of their assets in fixed-income instruments. But the spread in available returns is now a great deal less than it used to be. Just a few years back, we could observe that the 100-year annual return on stocks, the 50-year return, and the 25-year return were all in the neighborhood of 10% while bonds of moderate duration were yielding less than 2%. With 800 basis points as an anticipated premium for holding equities, our preference for stocks was unshakable. And it helped build our company's strong capital base. Now, however, we are earning about 5% in bonds, and I am far from certain that the next hundred years of domestic stock returns will hit the double digits again. The 20th century was very much an American century. The United States rose to become the strongest country on the globe, economically and militarily, after World War I. World War II cemented our position of worldwide economic supremacy by devastating virtually all of our rivals. We barely had to share the world with anyone. Now, however, it is readily apparent that we will need to share the world's markets. The future is unlikely to see an expected spread between stocks and bonds of anything like 800 basis points. With lower stock rewards envisioned and higher bond rewards already in place, and considering the favorable rating agency treatment of bonds, the case for a more balanced portfolio has strengthened. Consistent with our desire to support more growth, you should expect to see the percentage of our portfolio invested in fixed-income rise -- though not nearly to the level our competitors seem to like. We will make this adjustment cautiously during the present year.

There is little to report with respect to our real estate. We have established the stable ownership position with respect to office space we have long sought. Our space needs in the present and in the foreseeable future are locked in comfortably. The occupancy costs are reasonable; the teams that work in our buildings tell us they like their surroundings; and we owe nary a penny of bank mortgages. Perhaps more important, Andy and I are completely relieved of all the distraction and worries that pop up every time office leases expire. We like being permanent owners, and thus we expect to remain neither buyers nor sellers of real estate indefinitely.

Last year's letter struck a less-than-cheerful tone with respect to our political climate and prospects for world peace. The facts have not improved. So my emphasis this year will be on what we might wish for in 2025 to provide us some relief. Domestically, our foremost hope should be that the gyroscopic stability provided by our remarkable Constitution will get us through the experience of a house divided, a division unparalleled in degree since the days of Abraham Lincoln. I have faith that most Americans would welcome a reduction in the extremes of racial and identity rhetoric that have tended to split us rather than unite us. We should also wish for action on a few more specific fronts. We can hope to see a bipartisan border law that balances tighter entry control with compassion. Our health care system, whose aggregate costs are plainly out of step with outcomes, could use a fresh look. While our educational quality at the university level is unmatched, the richest nation in the history of the world can surely do a better job on grade school education. The same is just as true for infrastructure. And let's hope that shrill voices in both parties stop insisting that deficits don't matter. Of course they do, especially when debts are owed to other countries.

On the foreign policy front, we can hope our leaders will channel some wise advice from past presidents. Perhaps they will take more seriously the Shanghai Communiqué language approved by Richard Nixon and pair that with Jimmy Carter's 2018 affirmation that "the most important bilateral relationship in the world is between the United States and China". A peaceful resolution to the Taiwan issue would grant some welcome relief to the entire world as well as the direct parties. Our leaders should recall Dwight Eisenhower's warning us about the Military-Industrial Complex and accordingly restrain the flood of arms sales throughout the world. With respect to the situation in Ukraine, they should heed John F. Kennedy's insistence that "...nuclear powers must avert those confrontations which bring an adversary to a choice of either humiliating retreat or a nuclear war." They could even reprise the wish that Ronald Reagan communicated to his Secretary of State when he wrote "Why wait until the end of the century for a world free of nuclear weapons?" And, if our leadership is to be a genuine blessing in this world, we should spare no effort to facilitate peace in the Middle East. There's much to be accomplished if nations work together to address planetary issues such as climate change and the acceleration of wealth inequality, even as we compete with one another for economic success. Let's hope this is a time to see that more clearly.

Bringing this down to earth, I see no reason for Plymouth Rock not to continue its commitment to investment in shares of American corporations. Surely there will be stock market fluctuations to be endured, but the U.S. economy is fundamentally strong and we remain the most creative nation on Earth with respect to science and technology. Our cultural allowance for criticism of political and business bosses, and for unceasing challenges to outdated ways, is our enduring secret sauce.

We are entering a new year feeling good about its tidings for Plymouth Rock. An old Russian proverb advises that living a life is not as easy as walking across a field. This maxim applies to corporate lives as well as human lives, so we are far from smug. Bad stuff happens. Still, Plymouth Rock has just celebrated its fortieth year in business with extra-special holiday parties, and anniversaries like this one inevitably invite reflection. Your company has thrived and prospered beyond any of our initial expectations, and its staffing, reputation, and positioning give it a stronger feel today than in any of those past forty years. Andy and I cannot promise you a copious 2025, but -- even money -- we would bet on it.

James M. Stone