S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

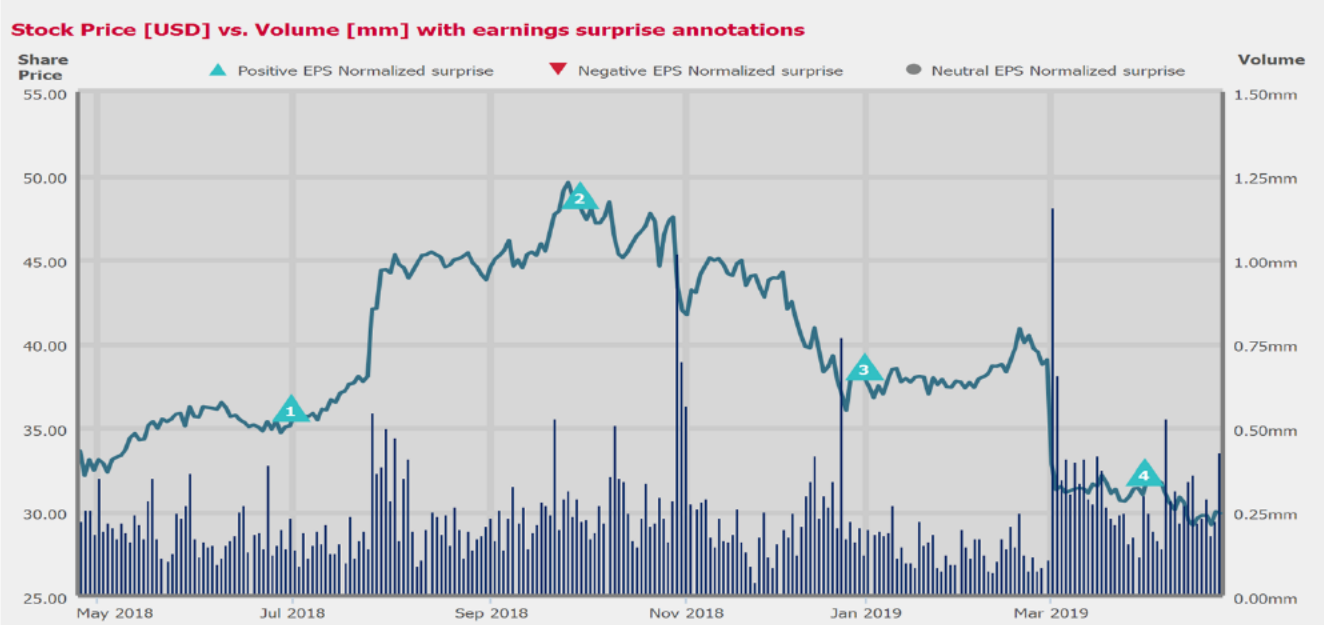
FQ1 2019 Earnings Call Transcripts

Thursday, April 25, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.98	1.00	▲2.04	1.04	3.05	3.60
Revenue (mm)	236.42	236.59	▲0.07	240.42	973.42	1059.92

Currency: USD
Consensus as of Apr-12-2019 9:56 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.97	1.29	▲1 32.99 %
FQ3 2018	1.00	1.08	▲2 8.00 %
FQ4 2018	0.06	0.13	▲3 116.67 %
FQ1 2019	0.98	1.00	▲4 2.04 %

Table of Contents

Call Participants

EXECUTIVES

Frank Wilcox

Jon W. Springer

Rob Luther

Sean P. Downes

ANALYSTS

Christopher Campbell

Samir Khare

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the UVE First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only-mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.I would now like to turn the conference over to Rob Luther, Vice President of Corporate Strategy and Investor Relations.

Rob Luther

Thank you, and good morning, everyone. Welcome to our discussion on our first quarter 2019 earnings results, which we reported yesterday. On the call with me today is Sean Downes, Chairman and Chief Executive Officer; Jon Springer, President and Chief Risk Officer; Steve Donaghy, Chief Operating Officer; and Frank Wilcox, Chief Financial Officer.Before we begin, please note today's discussion may contain forward-looking statements and non-GAAP financial measures. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information, please see the press release, our earnings presentation and UVE's SEC filings, all of which are available on the Investors section of our website at universalinsuranceholdings.com and on the SEC's website. A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the quarterly press releases.With that, Sean, I'll turn it over to you.

Sean P. Downes

Thank you, Rob, and good morning, everyone. Thank you for joining us today. Yesterday, we reported our first quarter 2019 results and we're off to a good start to the year.Total revenue was up 23.5% to $237 million. Direct premiums written were up 7.1% due in large part to our strong growth outside of Florida. EPS was a $1.14 on a GAAP basis and $1 on a non-GAAP adjusted basis. Our annualized return on average equity was 30.4%. Book value per share grew 17.2% and our pretax income margin was a strong 22.7%, all supported by our premium volume, pricing, integrated services and our investment portfolio performance.Turning to our progress on our strategic initiatives. We received rate increase approvals in Florida and Georgia for new and renewal business with the majority of these changes to take place in the latter half of the second quarter. We continue to proactively expand our addressable market in the first quarter by launching Universal property and casualty insurance company, as well as Universal Direct our proprietary platform in Illinois, which is one of the top five largest personal residential homeowners' states in the country by direct premiums written. We also added nine carrier appointments to our digital insurance distribution channel Clovered across homeowners, auto, flood and E&S lines, which include a mix of national and specialty carriers. These milestones show more progress against our strategic priorities and put us in a position to focus on disciplined growth, maximize earnings stability and continue to strengthen our foundation.Additionally, we continue to monitor the recent developments with the assignment of benefits legislation in Florida and have continued to make good progress since our discussion in Q4 on accelerating our operational focus on claims resolutions. These efforts continue to result in a reduction in our outstanding non-cat litigated claims year-over-year as well as a reduction in our new inbound litigated claims. So it's the changes we implemented.So overall, we're seeing positive momentum across the company on our initiative to position ourselves for the future. In a moment. Jon will provide an update on our reinsurance progress, but first, let me now turn it over to Frank to walk through our financial results. Frank?

Frank Wilcox

Thank you, Sean, and good morning, everyone. As a reminder, discussions today on adjusted operating income and adjusted EPS are on a non-GAAP basis and exclude impacts from unrealized and realized gains and losses on investments, an extraordinary reinstatement premiums and related commissions. Adjusted operating income also excludes interest expense. Total revenue grew 23.5% for the quarter, driven primarily by higher organic premium volume, pricing in our investment portfolio performance, partially offset by realized losses in our investment portfolio.Pretax income margin was 22.7% for the quarter, bolstered by our investment portfolio, an integrated service businesses. EPS for the quarter was $1.14 on a GAAP basis and $1 on a non-GAAP adjusted basis. Annualized return on average equity was 30.4% and book value per share grew 17.2% year-over-year.Turning to our underwriting results. In-force premium grew to approximately $1.2 billion, an increase of 12% from the prior year. Direct premiums written were up 7.1% for the quarter, led by growth of 31.5% in other states and 3.4% in Florida. Underlying growth in Florida was tempered by more disciplined underwriting guidelines, while our other states, geographic expansion continues to be strong. Ceded premium earned as a percent of direct premium earned declined 1.4 points to 29% for the quarter.On the expense side. The combined ratio increased 10.6 points for the quarter to 87.2% driven by increased losses in connection with the diversified growth in the company's underlying business, increase estimated losses as discussed in Q4, a reduced benefit from our claims adjusting business, and the Q1 hail event in Brevard County, Florida, partially offset by a reduction in our expense ratio as set forth in the following. The expense ratio improved 1.7 points for the quarter to 33.3% driven primarily by 1.6% point improvement in other operating expense ratio to 12.5% related to scale benefits and reduced executive compensation. We expect the expense ratio for 2019 to be between 34% and 37% allowing for continued investment in our operations.The net loss and loss adjustment expense ratio increased 12.3% points for the quarter to 53.9%, quarterly losses and LAE drivers include. Weather events in excess of plan of $5 million or 2.4 points for the quarter were directly related to the hailstorm that affected Brevard County, Florida in March. There were no weather events in excess of plan in Q1 of 2018. All other losses and loss adjustment expenses of $108.3 million or 51.6 points for the quarter includes diversified growth in the company's underlying business, an increase in estimated losses as previously discussed in the fourth quarter and reduced benefit from our adjusting business as prior year claims conclude.Turning to services. Total services revenue increased $12.2 million for the quarter, driven by commission revenue, earned on ceded premium by our reinsurance intermediary, Blue Atlantic and an increase in MGA policy fees related to new and renewal policy volume. On our investment portfolio, net investment income increased 70.2% to $8.1 million for the quarter due to rising interest rates compared to the prior year's quarter, asset mix as well as higher average levels of invested assets. Realized losses in the first quarter of 2019 with the result of liquidating underperforming equity securities. Unrealized gains were driven by market fluctuations in equity securities resulting in a favorable outcome for the quarter.The effective tax rate for the first quarter was 25.3%, an increase of 2.8 points over the prior year's quarter, largely due to higher net credits for discrete items in the first quarter of 2018. For 2019, we expect an effective tax rate between 26.5% and 27.5% before discrete items.In regards to capital deployment. During the first quarter, the company repurchased approximately 321,000 shares for a total cost of $10.1 million. The company's current share repurchase authorization program has $4.4 million remaining as of March 31, 2019 and runs through May 31, 2020. On April 10, 2019, the Board of Directors of the company declared a quarterly cash dividend of $0.16 per common share of stock, payable May 10, 2019 to shareholders of record as of the close of business on May 3, 2019.Let me now turn it over to Jon to walk through some additional specifics.

Jon W. Springer

Thank you, Frank, and good morning, everyone. I first would like to add a few additional comments on the Brevard County, Florida hailstorm that occurred at the tail end of Q1, then I will give an update on our current loss position as it relates to the three major catastrophe events in 2017 and 2018 and reserves in general. And finally provide some additional color surrounding our upcoming June 1 reinsurance renewal.On the Brevard County hailstorm. Our teams are working diligently to support consumers affected by the hailstorm. At present, we have had approximately 250 claims reported and expect that this number may continue to grow in the coming months. While an exact loss number would be difficult to predict at this point, as Frank mentioned, we have elected to add an additional $5 million beyond plan for 1Q weather events, in large part due to this late first quarter event.In regards to the three major catastrophe events Irma, Florence and Michael, our ultimate loss projections disclosed in detail for each of these events at year-end remain unchanged as of the end of the first quarter. Our claims team successfully closed another 2,100 of the remaining open catastrophe claims during the first quarter, bringing the total claims closed on these three events to over 97,000. As we noted in Q4, we accelerated our operational focus on litigated claim resolutions in the second half of 2018, particularly in the fourth quarter, which resulted in resolving numerous outstanding claims in a timely fair and equitable manner.

That performance has continued in Q1 with open non-cat litigated claims down meaningfully from Q1 of 2018 and sequentially when compared to Q4 of 2018. This continued progress along with putting up close to $100 million in reserves in Q4 better positions us going forward.As a reinsurance update, over the course of the past several months, we've met face to face with the vast majority of our reinsurance partners to discuss our experiences in Hurricane Irma, Hurricane Florence and Hurricane Michael, the difference in the storms and the upcoming June 1 reinsurance renewal. There continues to be widespread speculation around the magnitude of change for catastrophe pricing at June 1 both in the Florida market as a whole and as it relates to our specific program, including what form AOB legislation will take and that potential impact on reinsurance pricing.To provide some color specifically to our reinsurance program. Our reinsurance partners have paid catastrophe losses totaling nearly $1 billion on our behalf from the three major hurricanes impacting the Southeast in 2017 and 2018. This was subsequent to more than 10 years without any severe cat impact in Florida including which -- at which time we ceded hundreds of millions of dollars to our reinsurance partners. There are of course many other factors that can come into play, but generally speaking one would expect, catastrophe prices to decline after last three years and rise in years following major loss activity.Let me walk you through some of the specifics as it relates to our core first event reinsurance tower for this year. As previously disclosed, we started this renewal season with over $365 million of open market catastrophe capacity, already secured a predetermined pricing via prior multi-year deals. We are projecting to receive nearly $2 billion of capacity from the Florida Hurricane Catastrophe Fund at terms generally similar to last year. This leaves less than 30% of our 2019-2020 reinsurance capacity to be renewed in the current market.The market pricing for the majority of this remaining first event capacity has already been sent into the worldwide catastrophe reinsurance market for its proper subscription and since last week, we have already been receiving authorizations from our reinsurance partners for the 2019-2020 hurricane season. All told, we are nearly 90% completed on our first event core tower and we'll turn our attention to the supplemental parts of the program very soon.In summary, we designed a thoughtful, strategic reinsurance program over the past several years, one in which has afforded us the ability to provide stability throughout part of the cyclical nature of the reinsurance market. In addition, we have created strong committed relationships with our reinsurance partners, while other forms of capacity entered marketplace. We assess on a rolling basis the most cost effective stable approach to reinsurance and we'll continue to do so going forward.And with that, I'd like to turn it back to Rob.

Rob Luther
Thanks, Jon. I'd like to ask the operator to now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question or comment comes from the line of Christopher Campbell from KBW. Your line is open.

Christopher Campbell

Hi, good morning, gentlemen.

Sean P. Downes

Good morning, Chris.

Jon W. Springer

Good morning, Chris.

Christopher Campbell

My first question is, can we just get some color on the expense ratio improvement. I guess just how much this quarter was from scale and then how much was from executive comp savings?

Jon W. Springer

Yeah, around $2 million came from executive comp and the balance from scale. $8 million reduction year-over-year, give or take. So about $2 million a quarter.

Christopher Campbell

Okay, got it. And then since you guys came in, I have you pegged it like a 33.3, and Frank, I think you said in your script that the guidance is going to go up to 37% -- or 34% to 37%. So I guess just given the strong growth, what's driving that expense ratio higher, is that like higher ceded premiums from reinsurance cost increases. Just trying to understand like why that would be going up?

Frank Wilcox

Well, we're allowing ourselves that range for operational initiatives and many of which should be surrounded or related to the branding initiatives specifically Clovered, technological platforms that we'd be investing in during the year and some of that could lead into the next years. But we just want to allow ourselves that range to be nimble.

Christopher Campbell

Okay, got it. And that's a net range, correct?

Frank Wilcox

That is correct.

Christopher Campbell

Not all the direct, right? Okay, got it. Okay. And then next one is just I think Jon mentioned, no change to the gross Irma, Florence or Michael loss estimates. So I guess just could we get an update on what are your reserves for each of the storms, what's the current IBNR? And then what is like the monthly burn rate? I guess I have like an idea of kind of what's the survival ratio on those, if I looked at it that way?

Frank Wilcox

Yeah, I will share a few numbers with you Chris, I don't know that I have exactly everything you just asked in that question. But we have disclosed previously that the ultimate we booked for Irma was $960 million. As of the end of the first quarter, we had incurred loss of $917 million. So that of course will be $43-ish million there of IBNR. It's important to understand that we have less than 6,000 open claims and we've already paid partial payments totaling nearly $80 million on those 6,000. So that sometimes gets lost in this equation. So if you factor in the remaining, let's call it 6,000 open claims, nearly $80 million already paid, reserves on those claims totaling nearly $50 million and then $43 million IBNR on top of that. We still have a fair amount of room within that Irma ultimate.

Christopher Campbell

Got it. And then I guess just there was -- the senate just -- the Florida senate just passed the AOB bill -- the AOB reform bill yesterday, and I know it's really still too early to kind of go through like everything but I'll ask anyway, right. So I guess just what are your thoughts -- what would be the biggest impact that you saw from the passage of that bill on UVE's book? And do you think that also create -- is going to create any additional pressure on your mid-year reinsurance renewals, if we see the spike of like AOB related claims coming in that could cause adverse development for you guys or for your reinsurance partners?

Sean P. Downes

Chris, this is Sean. I'll start off. Obviously few of the things after digesting the Senate Bill 122 is number one, the correction to the one way attorneys fees, obviously looks to us to be the number one most important item, as well as maybe the possibility of limiting AOB depending on how that your policy will be structured going forward. So those two things jumped out to us the most. Obviously, we really appreciate the Insurance Commissioner, David Altmaier his help in pushing this and getting this over the finish line. As for the second part of your question, I really don't see that would be an issue as far as us looking at a major increase, as far as litigation is concerned because of the change here. I think a lot of these folks thought there was going to be some sort of change that was going to transpire previously and as Jon stated in his opening remarks, we've seen a consistent reduction quarter-over-quarter in our non-cat litigation. So I think there could be something that may see a spike of people trying to get in some litigation in the last minute, but as of right now, I don't foresee anything happening that would affect us from a reinsurance perspective.

Christopher Campbell

Okay, got it. And with the plan, what UVE's game plan be to offer like these AOB line or no AOB policies? And any idea of how much cheaper those would actually be for policy holders?

Sean P. Downes

Yeah, the answer to those question it's too early obviously Chris for us to make that determination. Now we obviously have to look at what the verbiage is, directly correlated to this legislative change. And then obviously from an actuarial perspective look at it from a rate perspective and see how it would change our rate indications going forward. So it's early days for that to make the determination.

Christopher Campbell

Okay, got it. And so if we get this AOB reform any impact, any potential impact that you guys think in terms of this year's reinsurance renewals, like maybe less on rate online increase? Or would we expect like maybe a more of a benefit in next year's reinsurance renewals one slight, new products and all that type of stuff like was?

Jon W. Springer

Yeah, well the bill is intended once it's signed by the Governor is intended to be effective July 1. So as reinsurers are evaluating this prospectively it will certainly help, it will lessen their exposure to some of the things that occurred specifically during Hurricane Irma. It is obviously very difficult to quantify. I think the general consensus at this point amongst those in the reinsurance market is that it certainly helps. It's just -- it remains to be seen exactly how it will be quantified and work its way into the reinsurance pricing.

Christopher Campbell

Okay, great. Well, thanks for all the answers. Best of luck, rest of the year.

Sean P. Downes

Thanks Chris. Have a good day to you.

Operator

Thank you. Our next question or comment comes from the line of Samir Khare from Capital Returns. Your line is open.

Samir Khare

Hi, good morning. I had a quick question about the expense ratio as well. It was -- in the quarter it was lower and particularly lower compensation accruals. Is this in light of the 2018 results? So what's causing the lower compensation accrual?

Frank Wilcox

No, Sean renegotiated his -- his contract expired 12/31/18 and he renegotiated a new deal with the compensation committee which resulted -- when you compare to the amount compensation that was reported in the proxy or will be reported in the proxy would represent a reduction of over 55%.

Sean P. Downes

And Sameer to recall, I attempted to make some changes to my contract the last two years, but we were obviously not able to do so because of the tax change and we would have had to take a large hit in this specific quarter when that contract was changed.

Samir Khare

Okay. And so Frank, the 34% to 37% expense ratio guidance, does that contemplate a continuation of lower compensation for this?

Frank Wilcox

Yeah, that would naturally include lower compensation, but allow for as I pointed out future investment, with a wide range obviously.

Samir Khare

Understood, okay. And then the rate increase that is going to affect in Florida, how much is it for?

Jon W. Springer

2.6.

Samir Khare

2.6. Okay. And I believe this is a change from -- I guess your late 2018 rate increase 2.9. So can you just talk about how it evolved and if it's incorporating your view and higher loss ratio and municipal here and then we expect that the loss ratio to come down, that the loss ratio you're booking to come down?

Frank Wilcox

I'm not exactly sure on the 2.9. There is a little bit of work that needs to be done towards the end of a rate filing to get to that final approval by the OIR. So that might have been the difference there. The last part of the question, could you repeat that again, Samir?

Samir Khare

Sure. I was just wondering if there's any incorporation into this rate filing of your view and higher loss ratios, things that you guys have reserved charge at the end of the year and then you guys increased your booking, the loss ratio, you're booking, such that when it's fully earned in, a year or two from now that we could expect a lower loss ratio to be booked.

Sean P. Downes

Well, I think, I don't know exactly where it will be a year or two from now. Obviously, when we're asking for a rate increase it is because of our loss experience. So we would hope that the effect of increasing our rates would result in an improved loss ratio.

Samir Khare

Okay. And then any guidance on what gross written premium growth might look like throughout the year, whether it will be above or below the 7% level we saw this quarter?

Frank Wilcox

I think that's how to look at it, mid-single digits, mid to high single digits.

Samir Khare

Okay, And just on buybacks, what's your philosophy in buying back during wind season. Is it safe to assume that you guys...

Sean P. Downes

Our buyback during what?

Samir Khare

During wind...

Sean P. Downes

Yeah, obviously, as we've said it before, we're constantly evaluating our capital needs. And with the help of our Board make a determination when it's -- what's the best interest for us to purchase stock, obviously, during hurricane season, a little bit more conservative with our buybacks. So I think, obviously, we will take a look at that here the next month because of our existing buyback plan right now, I think has remaining roughly $4.4 million and it so, we'll be advising you on that sometime here shortly.

Samir Khare

Okay. And how much cash do you have in your unregulated companies that would be available for buyback currently?

Frank Wilcox

We don't report that on an interim basis. The amount is available in the 10-K for the financial statements, the holding company I believe it was 90 something million at that point in time.

Samir Khare

Okay, thanks.

Operator

Thank you. I'm showing no additional questions in the queue at this time, I would like to turn the conference back over to management for any closing remarks.

Sean P. Downes

As always, in closing, I would personally like to thank all of our consumers, our employees, our agents and our shareholders for their continued support of Universal. This concludes the call, have a nice day. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.