S&P Global
Market Intelligence

Universal Insurance Holdings, Inc.

NYSE:UVE

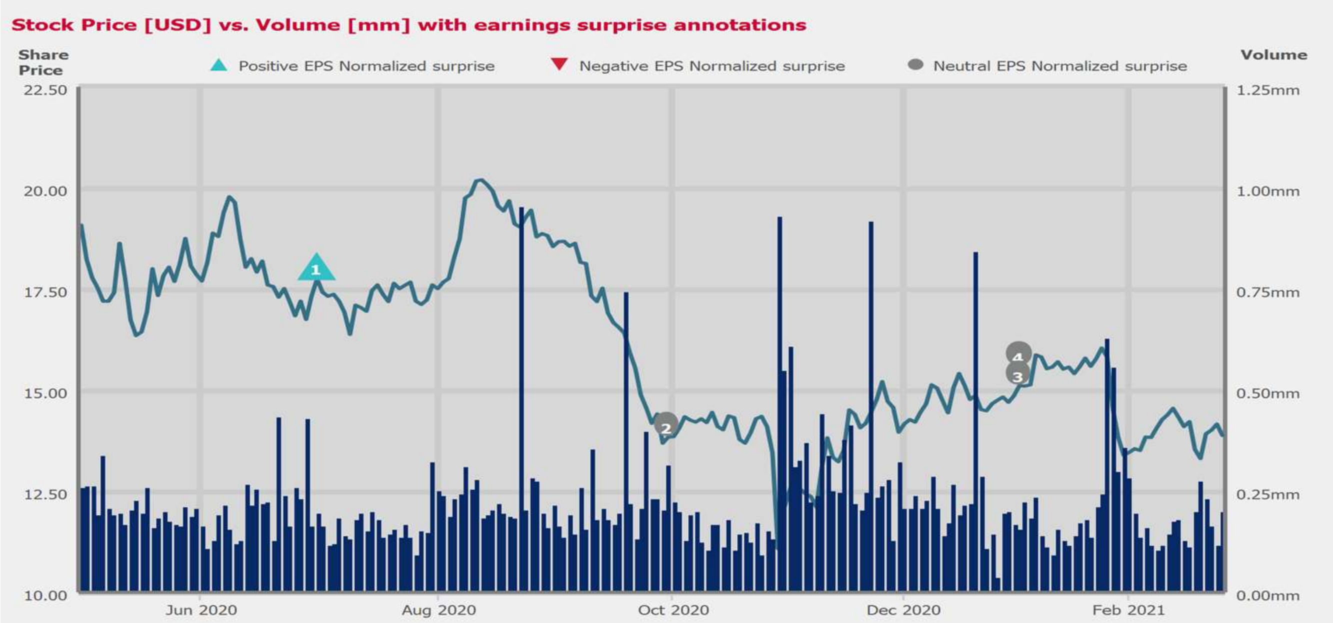
FQ4 2020 Earnings Call Transcripts

Friday, February 26, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(1.69)	(0.84)	NM	0.70	(1.76)	(0.90)	NM	2.40
Revenue (mm)	263.10	273.13	▲3.81	271.10	1062.75	1072.77	▲0.94	1130.78

Currency: USD
Consensus as of Feb-18-2021 8:46 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	-	-	-
FQ2 2020	0.50	0.52	▲1 4.00 %
FQ3 2020	0.10	(1.43)	NM
FQ4 2020	(1.69)	(0.84)	NM

Table of Contents

Call Participants

EXECUTIVES

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Rob Luther
Vice President of Corporate Development, Strategy & Investor Relations

Stephen Joseph Donaghy
CEO & Director

ANALYSTS

Bill Broomall

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the UVE Fourth Quarter 2020 Earnings Conference Call. [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
Vice President of Corporate Development, Strategy & Investor Relations

Thank you, and good morning, everyone. Welcome to our discussion on our fourth quarter 2020 earnings results, which we reported yesterday. On the call with me today is Steve Donaghy, Chief Executive 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 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 press release.

With that, Steve, I'll turn it over to you.

Stephen Joseph Donaghy
CEO & Director

Thank you, Rob, and good morning, everyone. We ended the year with a record of more than $1.5 billion of premium now in force. Unfortunately, the industry markets we serve had a record-setting frequency of weather events during the 2020 wind season which impacted our fourth quarter and full year results. We were impacted by Hurricanes Sally, Isaias, Zeta and Eta in 2020 and, to a much lesser extent, Hurricane Delta.

In addition, we had exposure to a series of other 2020 PCS weather events and minimal exposure to the Midwest Derecho.

All told, we had a bit over 10,000 claims in the fourth quarter from named 2020 storms and other PCS events.

We did not have any exposure to Hurricane Laura or any other weather in Texas or Louisiana, including the recent winter storms. We also had no exposure to the West Coast wildfires, as we do not write business in those markets.

Despite the weather in 2020, we continued our focus on underwriting, increasing our primary rates in Florida close to 20% for the full year, including 7% in the fourth quarter for 2020 reinsurance costs, as well as increases in some of our Other States. We continue to implement new binding guidelines to address emerging loss trends.

We have continued to maintain a resilient balance sheet that has self-funded our risk-bearing entities' capital requirements in addition to enhancing our reserves. We continue to be backed by our great reinsurance program and partners, with close to 75% of our first-event reinsurance capacity for June 1, 2021, secured already.

We continued our geographic expansion efforts in 2020 and implemented our catastrophe rapid response teams during the COVID-19 pandemic, which accelerated our use of digital technology for adjusting claims. We also continued to develop adaptive adjusting approaches to address claims loss cost trends.

We look forward to 2021 as we continue to focus on resiliency and taking the necessary steps to provide reliability to consumers and reduce uncertainty for shareholders.

So with that, let me now turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Thank you, Steve, and good morning, everyone. As a reminder, discussions today on adjusted operating income and adjusted EPS are on a non-GAAP basis and exclude effects from unrealized and realized gains and losses on investments and extraordinary reinstatement premiums and related commissions. Adjusted operating income also excludes interest expense.

We ended 2020 with total revenue up 14.2%, to $1.1 billion, driven primarily by growth in net premiums earned, realized gains on investments and increases in service revenue, partially offset by decreases in net investment income and increased reinsurance costs.

EPS for the quarter was a loss of $0.57 on a GAAP basis and a loss of $0.84 on a non-GAAP adjusted basis. For the year, we generated EPS of $0.60 on a GAAP basis and a loss of $0.90 on a non-GAAP adjusted basis.

These results were impacted predominantly by weather events in 2020 and related social dynamics and increased reinsurance costs.

Our direct premiums written grew by 21.9% in Q4 compared to the prior year's quarter, led by the impact of rate increases in Florida and Other States taking effect as well as strong direct premium growth in Q4, of 18.9%, in states outside of Florida. For the full year, direct premiums written were up 17.4%, led by rate increases and increased volume as well as strong direct premium written growth of 17.7% in Other States and slightly improved policy retention.

On the expense side, the combined ratio decreased 18.9 points for the quarter, to 124%, but increased 9.7 points for the full year, to 113.6%. The full year increases were driven primarily by an increase of 13 points for increased weather in 2020. In addition, increases were also attributable to an increase in our core loss pick when compared to the full prior year and the effect on the ratio from increased reinsurance costs.

The increases were partially offset by a lower level of prior year's reserve development on prior year's losses in LAE reserves, which accounted for 4.1 loss ratio points; a benefit from our claims adjusting business; and a 90-basis point improvement in the expense ratio.

Net investment income decreased 62.7% for the quarter and 33.7% for the full year, primarily due to lower yields on cash and fixed income investments during 2020 when compared to 2019. Realized gains for the quarter and for the full year resulted primarily from taking advantage of increased market prices on our available-for-sale debt investment portfolio and, to a lesser extent, aided by the sale of equity securities. Unrealized gains were driven by market fluctuations in equity securities, resulting in a favorable outcome for the quarter and the full year.

In regards to capital deployment, during the fourth quarter the company repurchased approximately 193,000 shares, at an aggregate cost of $2.4 million. For the full year, the company repurchased approximately 1.6 million shares, at an aggregate cost of $28.9 million.

For 2021 guidance, we expect a GAAP and non-GAAP adjusted EPS range of between $2.75 and $3, assuming no extraordinary weather events in 2021, and a return on average equity of between 17% to 19%. The guidance assumes no extraordinary weather events in 2021 and also assumes a flat equity market for GAAP EPS. If weather events exceed plan, we expect to see both a benefit from our claims adjusting business and increased loss costs.

With that, I'd like to ask the Operator to now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Tom Shimp, from Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

My first question relates to the core loss pick. In the fourth quarter it was 55.6%. It was 58.3% in the full year. I know some of that is claim adjusting income. But when compared to the third quarter, at 59.9%, which I imagine would have had adjusting income as well from Hurricane Sally, it seems like a decent-size decline in the core loss pick. I know we have price increases earning in, offset by rising reinsurance costs, but can you walk me through how you're thinking about that?

And also, I believe towards the start of the year the direct core loss pick was increased to 40%. So how did we end the year compared to where you started? And what are you thinking about '21?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Tom, this is Frank. So your observation is correct. It was 40% for the full year 2020, which was a tick or two up from the previous year. We did that to build on additional reserves to take into consideration the loss trends.

The other adjustments that flow through there would be any billings for the adjusting company. And you're absolutely right, the adjusting company was very busy in the fourth quarter, not only dealing with the weather events in that quarter, but a lot of the claims that came in for events that occurred through 9/30.

Stephen Joseph Donaghy
CEO & Director

Bill, this is Steve. I would say that on a go-forward basis, we analyzed all the things that come in from claims, litigation, et cetera, on our side, along with input from our actuaries and third parties. And due to the very good rate increases that we've got flowing through the book, we will stick with a 40% in 2021 as well.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. The next question I had was just regarding guidance and weather events. I know the guidance excludes extraordinary weather. But according to my model, we've had 11 quarters in a row with weather events beyond plan. So considering the headwinds in Florida regarding the litigation environment, it seems like storms that would have been more moderate-size losses previously and would have been below your weather event plan threshold seem to be coming significantly above that threshold the past couple of years. So my question just is how is management viewing that in the context of the guidance with the worsening severity of those weather losses and the frequency? And how does that relate to guidance and how you're thinking about pricing adequacy?

Stephen Joseph Donaghy
CEO & Director

Bill, I think we look at that and we -- again, we don't have a crystal ball nor does the market on weather. We have built the infrastructure of our company, along with our litigation team, to be unique within the Florida market relative to the strength that we provide to our insureds and to our shareholders.

So it would be a challenge for us to begin estimating what we think could happen, even though we are preparing for all of that within our estimates as best possible. So as that weather comes, we will announce if there is an impact. And if the weather comes, we'll announce how we handle it, as we've done in the past.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

And Tom, just to follow-on, just to point out, if you were to look at the guidance that we offered last year, which is our core earnings guidance, and that's what we intend to do, is to provide guidance on our core earnings and deal with weather as it comes, if you were to look back at the actual results for 2020 and adjust for the weather that we report separately, you'll find that the results are right in line with the guidance that we provided.

So we believe that, going forward, that's the best baseline to deal with. And as we progress through the years and to the extent that we incur weather, we layer that into future guidance.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. Next question. Just regarding growth versus capital, we've got a decent amount of growth coming in. A lot of that is price increases, but you're also seeing significant growth in Florida. A lot of the Florida insurers are shedding policies, sending them off to Citizens given the litigation environment. So I just want to get your thoughts there on how you're thinking about growth relative to capital requirements and how you fit in what's going on in Florida right now?

Stephen Joseph Donaghy
CEO & Director

Tom, this is Steve. At the end of 2019, we put in additional controls, both for reserves, which we demonstrated when we put up additional reserves throughout 2020, along with a focus on capital deployment. So as we sit here today we'll continue to enhance those controls, but we also feel like we've got a very good handle on our capital, our deployment of that.

And we have taken underwriting steps in late '19 relative to Tri-County. We've not been writing business there. We did disperse the business across Florida quite nicely in 2020 and wrote in a lot of markets where many of our agents felt our rates were too high. But as the market hardened, we became a viable contender in many of those spots.

We do not see, with the way the market is right now, being wide open in Florida in 2021, for a whole host of reasons, one of them being adverse selection. If you're the only game in town, it's not a very good place to be within the insurance business. So we're going to be somewhat more conservative in 2021.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. And then just building off of that, I think there was a press release earlier in the month about using some of the offerings by Verisk. And hopefully, I think they offer some data to help policy selection. Is there any color you can give us there on how you're thinking about deploying that?

Stephen Joseph Donaghy
CEO & Director

I appreciate your following up on that, Tom. We are data-driven. So when we talk about reinsurance, we talk about it all year long. We've got all the models in-house, run by our own staff. And as we look across the underwriting spectrum, we constantly look for better data so that our underwriting at point-of-sale becomes more informed and we are better to control what comes into our underwriting spectrum, so to say.

So many of the policies that we write and have written, of course all the policies are underwritten by our own associates, but we feel good about the data and have enhanced that data to get better roof geometries, better home year built, et cetera, et cetera. So Verisk seems to be a great partner for us, and we're quite excited about the relationship.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

All right. Great. And then just last question. I was hoping to just get an update on the Florida operating environment, in general. I'm sure you see the same as me in various articles and journals that some people are alluding to that AOB reform just wasn't the big help that everyone was hoping for and litigation environment is either the same or even possibly worsening for some guys. And then the issues around Tri-County are spreading throughout the state. So just, in general, can you give us an update on what your thoughts are on what's going on down in Florida right now?

Stephen Joseph Donaghy
CEO & Director

Tom, our thoughts are that we are very fortunate to have built a company where all of the things that we do, we do ourselves as much as possible. And if you look back, we started Fast Track in 2016 by trying to do all of our own adjusting. That has a benefit today where when a case is filed against us, for whatever reason, we've got better content to defend that case in court. So our own adjusters are more inclined, whether they favor that or we force them to, to take additional photos, make sure the file is complete and provide our litigators an ability to defend the case. We were successful in Q4 and in Q1 while the courts were open and even successful in an appellate decision relative to fees paid out on a case to the other side.

So we're doing everything we can to represent our shareholders, our associates, to do the best job in an environment that, as you know, is unpredictable. And our subrogation team had a tremendous year last year in light of the court systems not being open. And those same adjusters, when they get to a claim in a condominium or wherever, are trained in how to diagnose where the leak may have started, whether it was in our unit that we have a policy on or a neighboring unit that could be 2, 3, 6 stories above ours.

So again, we're trying to do everything we can to manage an unruly business as best possible. And without getting into specifics, I would say the Florida market is hard. There's tremendous rumors, which I try and avoid because they're normally not worth listening to, but I think the market is hard. And unfortunately, many of my peers are forced to deal with a lot of things that we have not had to deal with due to our structure, our subsidiaries generating profit and being able to kind of self-fund our own operations.

So that's kind of a long-winded answer, and I apologize, but there are a few points in there that I think are relevant. But we all know the state of Florida, and the one-way litigation fees are really the symptom that needs cured at this point. And hopefully, the department and the legislature are doing everything they can to help Floridians, because it's only going to continue to come out in the form of rate.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Just one last question, to what you just brought up. What are you hearing in regards to putting pressure on the politicians, the government down there to look at meaningful reforms, to your point, to do what needs to be done to help the policyholders down in Florida?

Stephen Joseph Donaghy
CEO & Director

I think the -- if you look back, Tom, we've always had things to deal with, whether it was sink holes, AOBs, as you referred. And I give the legislature and the department great points for the AOB legislation. It has been effective in thwarting some of the unsavory players across the state. And I think that has somewhat diminished the ability for first-party litigation to grow at the rate they were. They continue to grow. And I think a lot of what you're seeing in CaseGlide and other areas, with the court systems being closed you can't dismiss a case that shouldn't even be contemplated. So they're beginning to reopen. We feel good about that.

And the same thing is true on the subrogation side, too. The courts were closed quite a bit in 2020. So as we can get back to pressuring people to defend our case, we feel good about that, going forward, as well.

But I do think, to be more specific, the legislature has a lot of bills that they're contemplating right now. Some of them are stronger or weaker. They've got a lot of constituents they have to satisfy. As an insurance carrier, we're doing our best to make sure that our case is represented as best possible. But it is a complex business, and I know that they have a lot on their minds as they contemplate the reform that we hope they pass.

Operator

Your next question comes from the line of Bill Broomall, from Dowling & Partners.

Bill Broomall

My first question is on the rates. I think you mentioned you got 7% reinsurance rate in Q4. I was just wondering if you could lay out your strategy maybe going forward in terms of maybe the frequency that you'll do rate filings and just your strategy how you think about getting rate through the system would be helpful.

Stephen Joseph Donaghy
CEO & Director

Thanks, Bill. This is Steve. We are in the process now of -- we traditionally have somewhat of a spring to early fall filing for traditional rate, which we will do probably in the April/May time frame. I don't have any indicators on that at this point, but the team is diligently preparing that from my review.

And then secondly, last year, we did use the reinsurance, the ability to take that rate due to the increases we experienced. And as we get through the reinsurance season this year, we will look at that and potentially do the same thing if the increases are substantial. We feel that the benefit is necessary to the business, and it's a good way to offset the expense we incur.

Bill Broomall

Perfect. Just staying on that reinsurance comment, in your press release you talked about the 75% being completed. Can you just remind us -- I think a big piece of that is the multiyear and the FHCF layer, but the multiyear. Can you just remind us how the multiyear should unfold over the next year or two?

Stephen Joseph Donaghy
CEO & Director

We traditionally -- I think if you look back, Bill, we were one of the first to enter into multiyear agreements with our partners, and they've been very supportive throughout the years of our desire to secure the necessary reinsurance so that we are not in a position where we have to focus on such a large tower as we enter into the June season.

So right now, we've got areas in our tower that we are securing below the FHCF and above it. And all in all, that 75% number is actually a little low as we sit here today. So we feel good about where we're at.

And again, it gets lost in some of our translation, but the fact that we have our own associates that work on reinsurance all day, all year is a tremendous advantage to us, so that when we're working with our actuaries even prior to renewal, we've got the expertise and the smarts to make decisions all year about how we are preparing for reinsurance. And as you know, reinsurance is becoming more of an all-year-round event, rather than just waiting for a broker to get it for you for June 1.

So we feel good about our structure, good about our team and our ability to work with people we've worked with for over 20 years on multiyear agreements.

Bill Broomall

Great. That's helpful. On the adverse development in Q4, a large portion of the development for the full year came in Q3 and Q4. And I think last quarter, you talked about companion claims. Do you mind just helping us understand what was the bigger -- was it still companion claims in Q4? Or was there anything else that you might have saw that changed maybe some of your assumptions?

Stephen Joseph Donaghy
CEO & Director

Well, again, we were very fortunate, Bill, in 2020 that the Irma date of 3 years beyond in September arrived and that we are hopefully putting -- hopefully, the industry is putting that behind us, both for our reinsurance partners and ourselves.

That, along with the AOB legislation that worked, both of those had somewhat of a run-up in claims. And some of the players in Florida were looking at people's homes and trying to figure out what other opportunities they might have to incorporate into a claim or multiple claims on a single claim. So we did see some of that run up. I think you see some of that in our prior year development because we've got to take the medicine, so to say, for some of the claims that were called in, in addition to an Irma or somebody that might have been represented in an AOB claim in the system as well.

We have seen it dissipate in Q4 as well. So we feel good about the basis of the book and the claims environment going forward, barring weather, but it definitely is in the soup, so to say.

Bill Broomall

Okay. Perfect. The next one I had was more on the question about capital management. And I saw you did buybacks in the quarter. Could you just help us frame how you think about using resources for growth versus capital management, whether it's buybacks or special dividends, and kind of how you balance it, given the strong rate environment in Florida?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Bill, this is Frank Wilcox. Thanks for the question. Our #1 priority is to ensure that the insurance entities are adequately capitalized. They fuel opportunities for the entire holding company system. So we, first and foremost, ensure that. We have been there in the past. We currently made some additional contributions, and we stand ready to do that in the future.

Beyond that, we look at returning value to shareholders when it's prudent to do so. We haven't quite wrapped up our repurchase program that's been authorized. There's $19 million on that. That would be looked at very carefully before we make any decisions there.

And then, of course, we're going to have discussions around dividends with the board.

Bill Broomall

Okay. And maybe just my last, more of a numbers question. What was your RBC ratio at the end of the year? And did you downstream any capital? And maybe I'll stop there and then I have actually one more numbers question.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

We did. We got approval to downstream capital after the reserve analysis was complete and we discovered that we needed additional capital at UPCIC. Both entities are just above 300%.

Bill Broomall

Okay. And last one, and following up on Tom's question about the guidance, you have an assumption for what you think of as a weather plan. Is there any way you could help us think about what your weather plan is so I can size how much you're kind of thinking within that core guidance? And then I'm all done.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Within the core guidance, it's in the high single digits.

Stephen Joseph Donaghy
CEO & Director

That's for weather, Tom. And I think we look at that as, obviously, there's no crystal ball on weather. So it is -- we discussed a whole lot about are there different ways we could provide guidance relative to weather. So it's a tough one, but we feel good about where we're at. And hopefully, we get back on a track of favorable weather, so to say.

Bill Broomall

Perfect. And that high single digit, that's points, correct?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Correct, yes.

Operator

Thank you. And I'm not showing any further questions in the queue. I'd like to turn the call back over to the speakers for any closing remarks.

Stephen Joseph Donaghy
CEO & Director

In closing, I'd like to thank our associates, consumers, agents and our stakeholders for their continued support of Universal. And with that, I wish you all a great day. Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.