S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

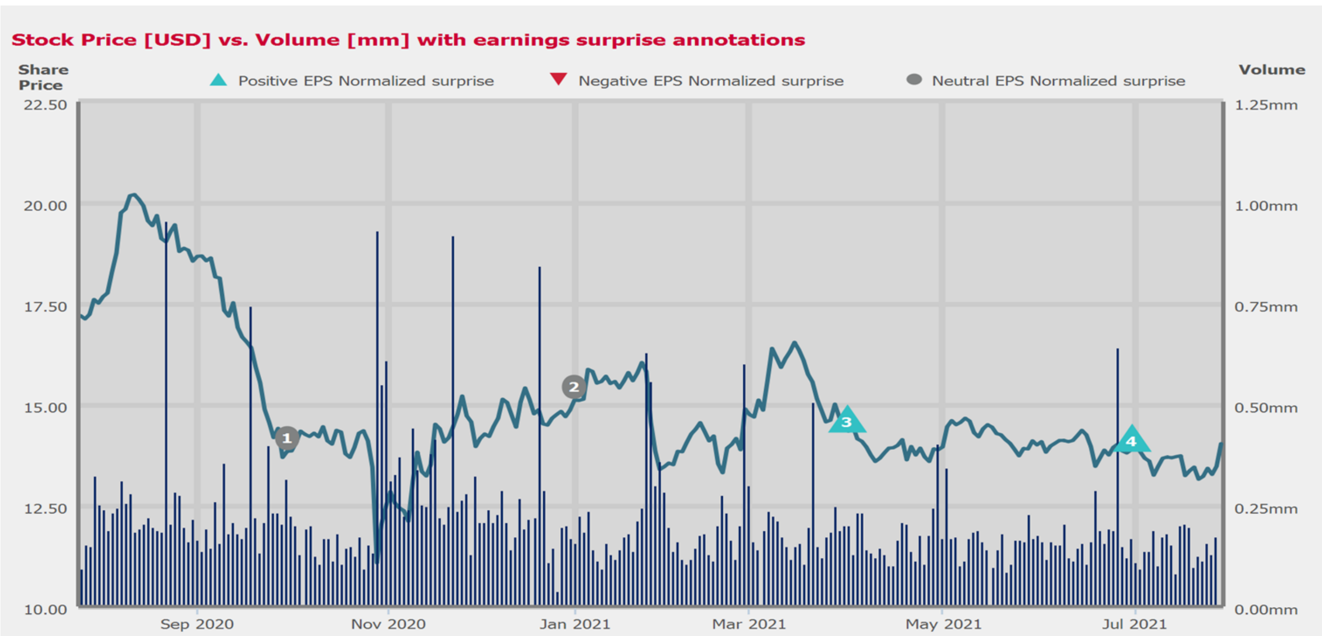
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.52	0.65	▲25.00	0.62	2.26	2.40
Revenue (mm)	272.90	279.18	▲2.30	275.43	1092.75	1192.07

Currency: USD
Consensus as of Jul-09-2021 8:39 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.10	(1.43)	NM
FQ4 2020	(1.69)	(0.84)	NM
FQ1 2021	0.63	0.84	▲1 33.33 %
FQ2 2021	0.52	0.65	▲2 25.00 %

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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

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Unknown Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the UVE Second Quarter 2021 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. Please go ahead.

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

Thank you, and good morning, everyone. Welcome to our discussion on our second quarter 2021 earnings results, which were 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 quarterly press release.

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

Stephen Joseph Donaghy
CEO & Director

Thanks, Rob. In opening, I would be remiss to not acknowledge how absolutely devastated we were to hear of the tragedy in our local community at the Champlain Towers in surfside Florida. The devastation of an event like that is immeasurable. Our hearts and prayers go out to those affected by the condo collapse.

Turning to our results for the quarter. We delivered solid second quarter results, highlighted by an 18.7% annualized return on average equity. While we are pleased with our second quarter results, there are a number of industry factors that we are relentlessly focused on over the near term. First, we applaud the Florida OIR, working hand-in-hand with legislators to acknowledge the issues plaguing the state's residential homeowners insurance market in comparison to the rest of the country, and to bring about positive legislative change, which we are cautiously optimistic will help in curtailing some of the one-way attorney fee abuses that have impacted Florida the past couple of years.

That being said, the recent preliminary injunction, which blocks portions of the new law that went into effect July 1st, from being enforced, namely the mass solicitation from restoration companies, leaves gaps in the bill. We continue to address the social headwinds with significant primary rate increases, exposure management, and strengthening reserves.

In addition to social inflation impacts, material and labor costs are having an impact on replacement costs. We expect that as supply chain backlogs subside, we will see a normalization of some of these material costs, but are monitoring these factors and inflationary pressures closely and are utilizing primary rate pricing and operational measures to manage these risks. While macro inflationary pressures are a headwind on replacement costs, they also imply tailwinds from increased economic activity in addition to the potential for higher investment income rates to return.

On top of the previously mentioned factors, reinsurance cost increased as expected and discussed in our reinsurance filing on May 28, but were more moderate in comparison to prior years. We continue to address these impacts to margins through primary rate increases, and our exposure management program. We were pleased to not only see the vast majority of our core long-standing reinsurance partners offer increased capacity in 2021, but also that we're able to attract new reinsured capacity at the six one renewal.

Lastly, looking ahead to Q3 as it relates to weather, Hurricane Alpha made landfall in Taylor County, Florida on July 7th. We are closely monitoring this event as it is the first event since new legislative reform was enacted and should have more history on it in the coming quarter. We continue to be hyper-focused on driving more primary rate into our portfolio across our entire geographic footprint, which is underpinned by a more strategic vision regarding desired new business exposure for the foreseeable future. These two pillars of price and exposure discipline, coupled with the recent property insurance legislation that went into effect in July 2021 in our biggest market, Florida, as well as a comprehensive reinsurance program in place for the 2021 hurricane season, puts us on solid footing to handle the continued challenges we face.

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

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Thank you, Steve. 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 the second quarter with total revenue up 10.5% to $279.2 million, driven primarily by rate increases approved in 2020; earning through the book as policies renew; an increase in policies in force when compared to the prior year's quarter; and commissions earned on ceded premiums.

Total revenue growth was partially offset by the impact of higher reinsurance costs when compared to 2020 in the investment portfolio's performance. EPS for the quarter was $0.70 on a GAAP basis and $0.65 on a non-GAAP adjusted basis. These results were primarily impacted by an improvement in weather events when compared to the prior year's quarter and the benefit of a reduced share count, partially offset by the impact of lost cost trends on prior and current accident years.

As to underwriting, direct premiums written were up 17% for the quarter, led by direct premium growth of 19.6% in Florida. The combined ratio improved 2.2 points for the quarter to 97.3%. The improvement was driven by a 1.6 point improvement in the net loss and LAE ratio from decreased weather events, partially offset by prior year's reserve development, current year strengthening, and higher reinsurance costs impact on the ratio.

The expense ratio decreased 1 point on a direct premium earned basis due to the continued focus on operating efficiencies, which was partially offset by the impact of increased reinsurance costs on the net ratio, resulting in a 60 basis point improvement in the next -- the net expense ratio for the quarter.

On our investment portfolio, net investment income decreased by 53.7% to $2.9 million for the quarter, primarily due to significantly lower yields on the reinvested portfolio following the sale of a majority of securities in the portfolio that were in unrealized gain position in the third and fourth quarters of 2020.

As to capital deployment, on July 19, 2021, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, which is payable on August 9, 2021, to shareholders of record as of the close of business on August 2, 2021.

As mentioned earlier in our release yesterday, we are maintaining our guidance for 2021. We still expect a GAAP and non-GAAP adjusted EPS range of between $2.75 and $3 and a return on average equity of between 17% and 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 comes from the line of Tom Shimp with Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

So we had the insurance reform bill passed during the quarter with industry observers that have been saying it only gets about 40% there towards effective reform. As the bill stands now, how do you think that equates to loss cost improvement for the Florida guys?

Stephen Joseph Donaghy
CEO & Director

Yes. It's a really good question, Tom. We've been analyzing the legislation and going to work and setting up internal functions to handle many of the new aspects of it. And as we indicated, we're cautiously optimistic. I think it would be presumptive of me or anyone to really start estimating the net effects of that at this point. The first month is in -- roughly in July. There's a whole lot of issues and questions on the plaintiff side relative to what they can file, when they can file, and how they can file. So we're trying to educate them as best we can in the process. So I think it's early to tell, again, cautiously optimistic is probably the best you'll get from me as we sit here today.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

In regards to what other provisions a reform bill would need, do you have any thoughts there? And also at the same time, I'm trying to get at the appetite for potential further reform down the line. You guys are down there, and you've got your fingers on the pulse. Is there an understanding by the Florida's citizens and legislators that this bill is not enough to prevent further rate increases? Appreciate your thoughts there.

Stephen Joseph Donaghy
CEO & Director

Yes, Tom. I think as a Floridian myself, we are all faced with rate increases that are necessary. I certainly understand the causes of the increases and can reconcile them in my own mind. I think your average Floridian is really faced with increases that they don't understand, especially if they haven't filed a litigious claim or really benefited from the bad behaviors in the state. So it's a challenge. I think the legislature, as you know, in the department, they took steps, they took the steps they felt they could at this point. And I think as they continue to see increases in rate, like our own, they're going to have to reconcile, did they do enough and what else can they do. And clearly, the cause of much of the pain is the attorney fees that have been processed to date. We look forward to them reducing, but I don't expect the legislation to eliminate them in the future.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. And I know you're still parsing through the bill and trying to figure out how it affects universal. But would you generally agree that it's -- the bill is probably not enough to prevent further rate increases throughout the state?

Stephen Joseph Donaghy
CEO & Director

Tom, we have -- I would tell you, one of the benefits that I have, not only do I have my own reinsurance team in-house, I also have a considerable litigation team in-house and a claims team that is second to none where we manage a majority of that business ourselves. It would be a mistake for an attorney or anyone else to think we don't completely understand the legislation that was passed and how to deal with it. We put it in place effectively July, 1st, and we've got various people we moved from some departments to handle the notice of a 10-day litigation. And we think there's going to be more bites at the apple for us to close claims in a fair manner than there was in the past. So again, we're going to do everything we can and take advantage of every piece of the legislation. And really just to help Floridians to hopefully reduce rates in the future as a result of what occurs in the state. And I don't -- even if we can get to a flat rate, that would be beneficial for the state.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

I wanted to move to expenses. It looks like the other operating expense ratio dropped by almost 0.5. That's good to see. Can you give us more color there on how we should be thinking about the sustainability of those expense rates?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Yes. I think it reflects a few things. I mean, as you know, we're taking rate increases. Those rate increases are earning through and increasing your direct earned premium and even with pressures of the increase of reinsurance costs, we get some efficiencies there. As it relates to our behaviors, since COVID-19 unveiled itself in the beginning of 2020, our spending patterns have been a little bit different. And in doing so, we haven't incurred certain expenses as a result of working remotely, but we also identified a lot of efficiencies that we generated which will stick. So I'd like to think that we're going to have continued efficiencies going forward.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Great. And then just on the slate reserve development. Can you give us more detail there? Particular accident years? And is there particular catastrophe loss events that drove the increase?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Yes. So we have gross development on several of the storms, including Irma. We had development on Sally and Michael and very, very little development on Matthew. And because of the way our reinsurance programs are structured, where we have an all states program and then another states program. A lot of the net development was offset by a reduction in the original retention losses that we recorded for Michael and Sally. So while we had gross, net was -- it was negligible. We put up about $7.8 million for prior accident years non-CAT. And of course, the gross would be the same. Gross and the net would be the same on that.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then in regards to Irma, can you remind us how we should think about the reinsurance tower there and what was left?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

We've got, I believe, north of $1.1 billion or $1.2 billion capacity left on Irma. So there's plenty of capacity.

Operator

Our next question comes from the line of [Nick Lacoviello] with Dowling & Partners.

Unknown Analyst

I think, Tom hit on most of my questions. But maybe if you could just add some more color to the current year strengthening. What you're seeing in terms of there is for more on the frequency or the severity side? And I assume there wasn't any development on Q1 weather events, but anything you could add on the current year would be great.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Yes. So we chose to strengthen the current year, which we did in the first quarter by $3.5 million, in the second quarter just about $4.1 million, which equates to an additional 1% on our loss pick. We did so for a variety of reasons including some increased activities that we saw coming in ahead of the legislation passing. People, when they see potential legislation that's going to close the doors on their activities, you tend to get a little bit of a run-up there. So we, as an added measure of caution, we put up additional for the current year.

Unknown Analyst

Great. And I guess just one more. Could you talk a little bit about where you're at with your direct efforts with respect to Clovered, please?

Stephen Joseph Donaghy
CEO & Director

We continue to grow the Clovered book of business. We're approaching $40 million in written premium. Like many of the agencies in Florida where a predominant amount of the business resides, there's just not a lot of markets to place business. So we pivoted and began cross-selling to our existing customers. So we're selling all of the policies, flood policies. You name it. They are actively growing the book in light of the tough market. And I think across other states, we continue to see penetration as our knowledge base grows and our ability to quote multiple carriers at any one time. So the business continues to grow. We like the business. It's increasing in non-risk-bearing revenue, which we feel is a positive. And the technology continues to be revamped and enhanced quarter-to-quarter. So the team is doing well. They're processing, and we're very proud of the business to date.

Operator

At this time, I would now like to turn the call back over to Steve for closing remarks.

Stephen Joseph Donaghy
CEO & Director

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

Operator
Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.