S&P Global
Market Intelligence

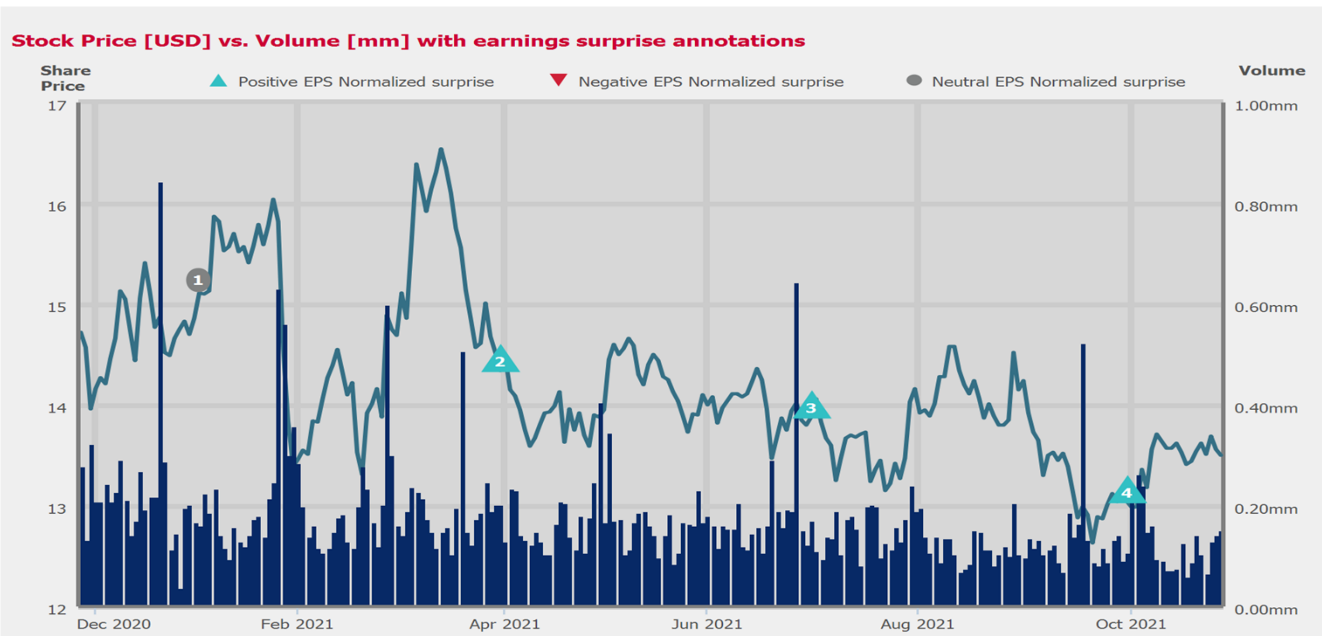
Universal Insurance Holdings, Inc. NYSE:UVE
FQ3 2021 Earnings Call Transcripts

Thursday, October 28, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.60	0.63	▲5.00	0.29	2.40	NA
Revenue (mm)	281.82	287.25	▲1.93	290.28	1114.04	NA

Currency: USD
Consensus as of Oct-08-2021 8:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
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 %
FQ3 2021	0.60	0.63	▲3 5.00 %

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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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the UVE Third 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.

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

Thank you, and good morning, everyone. Welcome to our discussion on our third 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. Good morning, everyone. Our third quarter results, reported yesterday, demonstrate continued execution of our multiyear strategic priorities, including disciplined growth and operational improvements. Our direct premiums earned growth of 15% in the third quarter was primarily driven by primary rate increases in Florida earning through the book.

We have now filed for more than 34% in primary rate increases in Florida over the past 18 months while simultaneously continuing to shape our underwriting risk with total policies in force relatively flat year-over-year. Our business expenses were lower from continued expense management controls, including lower agency commissions and employee productivity gains, in addition to lower executive compensation accruals. These results were highlighted by a 16.4% annualized return on average equity in the quarter.

I'd like to now turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Thanks, 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 any extraordinary reinstatement premiums and related commissions. Adjusted operating income also excludes interest expense.

We ended the third quarter with total revenue down 7.8% to $287.3 million, driven primarily by the realized gain on investments of $53.8 million in the third quarter of the prior year versus a $4.3 million realized gain in the current quarter. Direct premiums earned were up 15% for the quarter, led by primary rate increases in Florida and other states earning through the book as policies renew.

EPS for the quarter was $0.64 on a GAAP basis and $0.63 on a non-GAAP adjusted basis, driven by a combined ratio improvement of 36.1 points for the quarter to 98.6%. The improvement was driven by a 30.9 point improvement in the net loss and LAE ratio from decreased weather events and lower prior year's reserve development, partially offset by current year strengthening and higher reinsurance costs impact on the ratio.

The expense ratio improved 3.7 points on a direct premiums earned basis due to continued focus on operating efficiencies, as Steve mentioned in his remarks. On a net basis, the expense ratio improved 5.2 points for the quarter.

On our investment portfolio, we saw our net investment income decrease 38.6% to $2.8 million, and our realized gains decreased 92% to $4.3 million for the quarter. Both decreases are the result of the sale and subsequent reinvestment at lower yields of a majority of securities in the portfolio that were in an unrealized gain position in the third and fourth quarters of 2020 to recognize the fair value benefits in surplus.

In regards to capital deployment, during the quarter, the company repurchased approximately 101,000 shares at an aggregate cost of $1.4 million. The company's current share repurchase authorization program has $17.8 million remaining as of September 30, 2021, and runs through November 3, 2022.

On July 19, 2021, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, which was paid on August 9, 2021, to shareholders of record as of the close of business on August 2, 2021.

As mentioned 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 the 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] And our first question comes from the line of Tom Shimp with Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

We're now a few months past the effective date of the Florida property insurance reform. I know it's still early, but can you guys give us your first thoughts on how the bill is impacting litigation trends? And additionally, are there aspects of the bill that are ending up to be more positive or more negative than you initially expected?

Stephen Joseph Donaghy
CEO & Director

Tom, it's Steve Donaghy. I think our initial comment, we used the term cautiously optimistic, and we continue in that vein for several reasons. The scale of Alder Adjusting, which is our internal adjusting arm, enabled us to move very quickly in responding to the legislation.

And I think the other side of the legislation arm, the attorneys are forced to prepare their request in a way they didn't have to in the past. So there's some pressure on them to be more organized in how they proceed. And it gives us a window to settle the claim fairly, which didn't exist in the past. So we see that as a positive result of the legislation.

We also see the fact that the other side needs to look at their fee recoveries in a way that they did in the past, and it forces them to be more fair in their request if they realize they have to go to court and eventually win a larger settlement that usually is not achievable and has not been achievable in the past. So those aspects of it, we feel good about the 2-year tail on cats and other requests for funds after the claim is settled. It's also -- we feel that'll be favorable if that's 2 years out. So as we get to those points, we'll see the benefit.

I would also point that CaseGlide year-over-year is beginning to decline as well across the states. So I think that's a fair indicator to look at. And the AOB legislation from 2019 continues to serve us and the state well at this point. So sorry for the long answer, but figured I'd try and cover it for you.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

No, that's great. So the company has been fortunate to avoid some of the most serious storms in the past year or 2. Maybe you could give us an update on capital adequacy and what is available to downstream from the holding company. In addition, maybe some updated thoughts on your growth appetite as it relates to that capital because I know in the third quarter, PIF fell in both Florida and other states. Maybe just an update there on how you're thinking through both of those dynamics.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Tom, this is Frank. So I mean the good news is that we are growing top line premium for UPCIC through rate increases, and that increase in premium demands capital. So we continue to support the capital needs. In addition to that, we've taken a more conservative approach to the current accident year by increasing the loss pick up to 42%, which also puts demands on capital.

So we infused $15 million of cash in the month of August. And in the month of October, we also infused $20 million, which will count as a surplus as of 9/30 through an approval process that you go through with the OIR, similar to what we did at the end of the year. So the holding company continues to have capacity to continue to support the insurance entities, which we believe is the #1 priority.

Stephen Joseph Donaghy
CEO & Director

Yes. And Tom, I would add relative to your question about rate in the other states, we are hyper-focused on risk and rate at this point. So we analyze what we're willing to take in, where we're willing to take it in. And our internal profitability model has served us well relative to ZIP codes, territories, et cetera, as to where we want write to business in a rate adequate manner. And we continue to grow in certain states, and we've pulled back in some others where we didn't feel as though the rate was adequate for growth.

But overall, growth continues, from a policy count, more on a tempered basis. But on a rate perspective, it continues to flow through the books.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. Great. And maybe just one more for me. In the press release, you said a 34% rate increase in Florida over the past 18 months. I think investors sometimes forget it takes time for these rate increases to become active and then written and then eventually earned into the income statement. So maybe you could help us think through the timing of how we should think about these rate increases leading to improved underlying results.

Stephen Joseph Donaghy
CEO & Director

Yes. It's a really good aspect, Tom, that you pick up on. The rate is always a laggard by 12 months within our business across it. So while the rate is flowing through, we continue to deal in a very hard market across several states. But within Florida, the most recent approved rate is 14.9%. That is really just beginning to flow through for new business and in Q4 will affect renewals. So a savvy investor could -- would understand that we will continue to take rate throughout the next 12 months in a favorable manner at UPCIC.

Operator

[Operator Instructions] And I'm showing no further questions at this time. And I would like to turn it back over to Steve for any closing remarks.

Stephen Joseph Donaghy
CEO & Director

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

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