S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

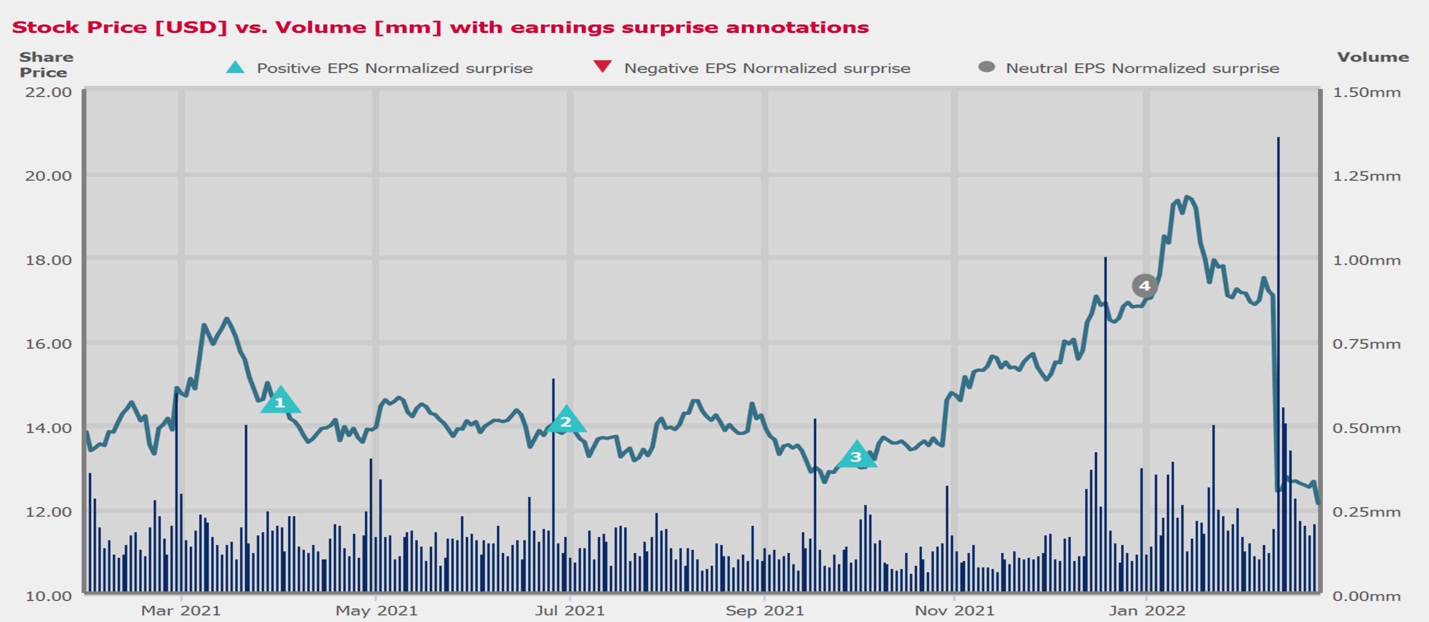
FQ4 2021 Earnings Call Transcripts

Friday, February 25, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(1.60)	(1.53)	NM	0.63	0.50	0.61	▲22.00	2.00
Revenue (mm)	292.98	292.66	▼(0.11 %)	293.02	1122.17	1121.85	▼(0.03 %)	1228.75

Currency: USD
Consensus as of Feb-24-2022 11:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	0.63	0.84	▲33.33 %
FQ2 2021	0.52	0.65	▲25.00 %
FQ3 2021	0.60	0.63	▲5.00 %
FQ4 2021	(1.60)	(1.53)	NM

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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 Fourth 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 Development and 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 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 press release.

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

Stephen Joseph Donaghy
CEO & Director

Thank you, Rob. We ended the year with a record of approximately $1.7 billion of premiums in force and a return on average equity of 4.6% despite the accelerated inflationary trends we announced on February 10, which resulted in the company increasing its reserves. Additionally, clovered.com, our digital agency subsidiary, surpassed $40 million in place premiums during 2021. The lion's share of our approved rate filings for UPCIC in Florida over the past several quarters is now effective as of the fourth quarter of 2021.

We continue to sharpen our pencils on our 2022 Florida primary rate filing in the coming months and are hitting the ground running on our reinsurance renewal, with over 77% of capacity on our first event All States tower already secured. We look forward to continuing to focus on resiliency through this cycle and are monitoring closely the actions in the Florida legislature in regards to several bills, including SB1728, SB1402 and SB186, amongst others.

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. 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 2021 with total revenue up 7.2% to $292.7 million for the quarter and 4.6% to $1.1 billion for the year, driven primarily by growth in net premiums earned from primary rate increases, partially offset primarily by lower policies in force and lower realized gains on the investment portfolio and increased reinsurance costs. EPS for the quarter was a loss of $1.54 on a GAAP basis, a loss of $1.53 on a non-GAAP adjusted basis. For the year, we generated EPS of $0.65 on a GAAP basis and $0.61 on a non-GAAP adjusted basis.

Results for the quarter and the year benefited from continued primary rate increases earning in, but were predominantly impacted by strengthening of reserves due to inflationary trends and a reduction in realized gains on the investment portfolio when compared to the prior year period.

Moving on to underwriting. Our direct premiums grew by 11.5% to $417.8 million for the quarter and 14.4% to $1.6 billion for the year, led by primary rate increases in Florida and other states. Policies in force declined 4.2% as a result of continuing to shape our underwriting risks.

On the expense side, the combined ratio increased 7.4 points for the quarter to 131.4%, driven primarily by strengthening reserves for the full accident year 2021 as a result of inflationary pressures and increased reinsurance costs impact on the ratio. For the full year, the combined ratio improved 8.1 points to 105.5% as a result of primary rate increases, weather events being more in line with plan, lower net prior year's adverse reserve development in 2021 when compared to 2020 and continued business expense management. For the year, the expense ratio improved 1.2 points on a direct premium earned basis due to business expense management, including a reduction in agent commissions, advertising and lower executive compensation as well as primary rate increase impact on the ratio.

Net investment income increased 37.9% for the quarter, primarily due to higher levels of invested assets. For the full year, net investment income decreased 38.5% as well as a significant decline in realized gains for the quarter and full year. As explained previously, the declines 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. Unrealized losses for the quarter and for the full year were driven by market fluctuations in invested assets, resulting in an unfavorable outcome for the quarter and full year.

In regards to capital deployment, during 2021, the company repurchased approximately 117,000 shares at an aggregate cost of $1.6 million.

For 2022 guidance, we expect a GAAP and non-GAAP adjusted EPS range of $1.80 to $2.20, assuming no extraordinary weather events in 2022 and a return on average equity of between 12.5% to 15%. The guidance assumes no extraordinary weather events in 2022 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] Our first question comes from the line of Tom Shimp from Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

So we've got inflation of building materials and labor, that doesn't seem to be slowing down. So what rate changes do you guys think you need in 2022 to get to rate adequacy? And in addition to that, maybe you can walk us through how we should be thinking about the cadence of the rate increases you've already gotten, how that should earn in over the next year or so?

Stephen Joseph Donaghy
CEO & Director

Yes. Thanks, Tom. Thus far, we had a 14.9% file that was rated and approved in May of 2021. And then we had an additional 3% and change reinsurance special filing in Q4. Those are both active and will be flowing through the book in 2022. So we see that as a considerable enhancement in our effort to become rate adequate in the state of Florida, in particular. We also had additional rate that we took in several other states across the country in the high double digits as well. So we're doing everything we can across the portfolio to increase our position.

I think from a inflation perspective, as we stated in our press release on February 10, we are taking the necessary steps to ensure we have the appropriate reserves going forward, along with the right efforts to continue to focus on what we need. As you know, rate is about a 12-month delay. So our actuaries and actuarial firm are looking at what has transpired since our rate request in 2021. And we are focused on that, and we'll probably file additional rate in May of 2022. So we don't see any signs that it will not be another considerable rate increase in the state of Florida as the market is quite hard, as you're aware.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. Great. So you guys have been increasingly conservative with your loss specs. Maybe you can remind us the history of your underlying loss assumptions in the past few years, and maybe some thoughts on how we should be thinking about those underlying assumptions that are embedded in your guidance for '22?

Stephen Joseph Donaghy
CEO & Director

Yes. I think if you look back 4 or 5 years' time, our rates were in the -- our loss picks were in the 30s. Last year, in 2021, we went out at a 42% rate, and we felt good about it because of all the additional premium. And we expected that -- as you know, we are cautiously optimistic on SB76, and we've seen some benefits from that legislation. We did increase our loss pick in 2021, 2 points during the year, and then the additional inflationary changes at the end of the year. So as we go into 2022, our loss pick will be in the mid-40s, again -- and we see the added premium at the top line growing considerably. So in an effort to become adequate and a healthy organization, we think these are the right things to be doing in 2022.

Thomas Henry Shimp

Piper Sandler & Co., Research Division

Okay. Great. So thinking about the PIF count, it looks like you had an acceleration in decline of Florida PIF. Obviously, not anything new for Florida writers, but does seem to be accelerating for Universal. So maybe you could just give us your thoughts on how you're thinking about Florida in regards to policy count for the next year?

Stephen Joseph Donaghy
CEO & Director

Yes, Tom, we expect -- we are still open in multiple territories and counties across the state of Florida where we feel we are at rate adequacy. Tri-County and other areas, we are reducing our PIF and our TIV, which again, achieves a very good spread of business for us, which in the past, we struggled to do. So I think from a balance perspective, we feel good about it. And we're closed in markets where we have a bad experience and continue to take rate in those markets.

So I think from a Florida perspective, you'll see maybe a 3%, 4% drop in 2022. But again, the premium that we're taking will continue to increase the top line as we like to call that positive premium within our organization so that we see the increase in premium in spite of a reduction in policy count.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. Moving to the expense ratio, that was down sharply. You talked about some of that in the prepared remarks, just decreasing general expenses, but was some of that also a function of variable comp? So any thoughts on how we should think about the sustainable expense ratio going forward?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Tom, yes, you are correct. Both in 2020 and 2021, there was a pullback on the variable compensation, particularly executive compensation. We also experienced lower spend while we work remotely. We do expect some of that to resume in 2022. We're kind of looking at a range of expense ratio somewhere in the 32%-ish, 33% going forward, taking into consideration the possibility for inflation having an influence there. It's much lower.

Inflation is much lower to affect G&A because 2/3 of that spend is acquisition cost-related, which is based upon fixed contracts or fixed statutory rates. And then out of the remaining 2/3 of the remaining is employee-related costs. So that's also much lower to be impacted by inflation when you have third parties who are immediately passing those costs on to you.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. So I noticed total insured value in Florida was up about 5.5% year-over-year. I know PIF count is down, but Florida real estate values are up well into the double digits. So could you walk us through the drivers of the net 5.5% increase year-over-year?

Stephen Joseph Donaghy
CEO & Director

Yes. Tom, the data that we subscribe to in our -- the way we model and price the policies, we have an inflation guard factor in there as well, which, of course, is impacted when you have people at the Fed talking about inflation no longer being transitory and being permanent or stagnant, so to say. Those items affect how we issue a policy renewal. And if the policy renewal goes up by $40,000 or $50,000, it's not a dollar-for-dollar translation into premium, but there is certainly an impact to the premium that we charge in addition to the rate increases as we pass that along to the consumers. Does that make sense?

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Yes. And then lastly, I was hoping we could just go to the reinsurance reform discussion. So it seems like there's a growing political will to pass something more meaningful than what's been passed previously, even though -- like you said, it has positive impacts. But what are your thoughts there? You guys are close to it. And so I really appreciate your thoughts there on -- is this the year where we finally get the reform that's really necessary to write the ship in Florida?

Stephen Joseph Donaghy
CEO & Director

Yes. It's a good question, Tom. And we constantly have conversations with our attorneys and others in Tallahassee. Thus far, the ideas that seemed to have been discussed the most this year are not comprehensive solutions that address the root cause of deterioration in our market. We've written about this in the 10-K. It's been widely discussed elsewhere. The concerns in the Florida market, you can trace back to an imbalance of incentives that have led to a proliferation of represented and litigated claims. To make significant strides in alleviating the current market conditions, we have to address the situation. We haven't seen anything in the current situation that would do that. And we still have 2 weeks left in the legislation period. And we're hopeful that something can happen, but we're not overly optimistic at this point.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Steve Donaghy, Chief Executive Officer, for closing remarks.

Stephen Joseph Donaghy
CEO & Director

In closing, I would like to thank all of our associates, consumers, our agency force and our stakeholders for their continued support of Universal. And I wish you all a great weekend. Thank you.

OperatorThis concludes today's conference call. Thank you for participating. You may now disconnect.