S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

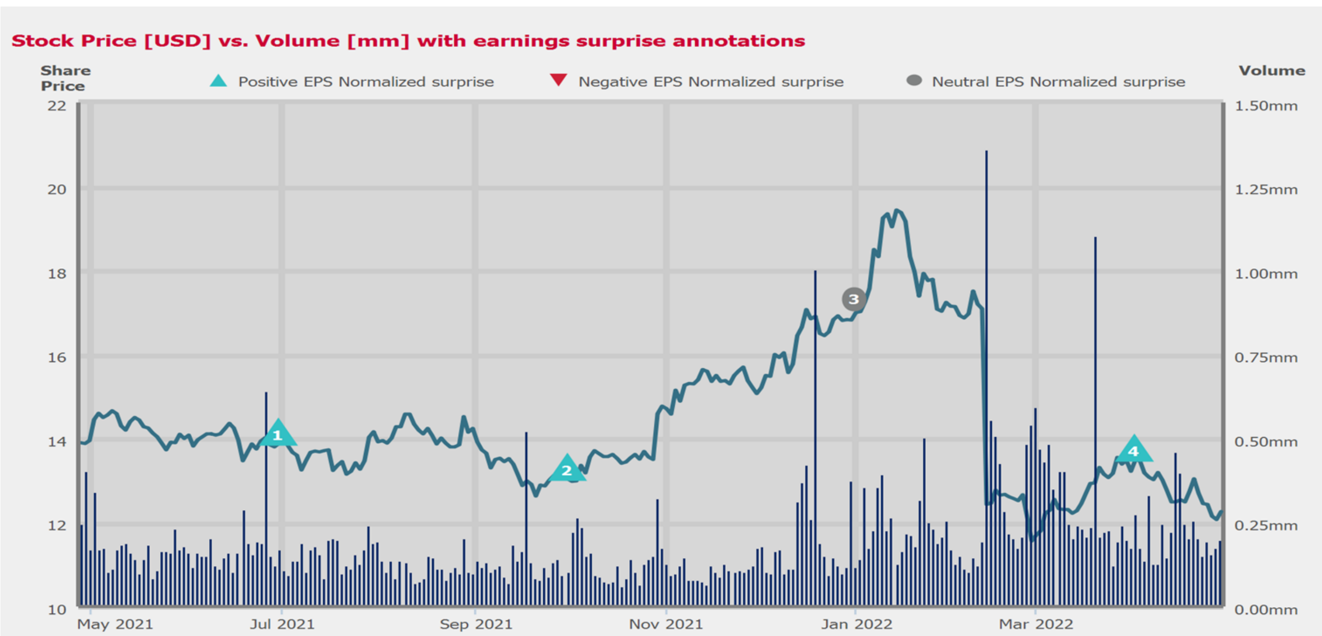
FQ1 2022 Earnings Call Transcripts

Friday, April 29, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.64	▲16.36	0.60	1.55	NA
Revenue (mm)	291.07	287.48	▼(1.23 %)	297.99	1206.08	NA

Currency: USD
Consensus as of Apr-04-2022 8:38 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	0.52	0.65	▲1 25.00 %
FQ3 2021	0.60	0.63	▲2 5.00 %
FQ4 2021	(1.60)	(1.53)	NM
FQ1 2022	0.55	0.64	▲3 16.36 %

Table of Contents

Call Participants

EXECUTIVES

Arash Soleimani
Chief Strategy Officer

Frank Crawford Wilcox
Chief Financial Officer

Stephen Joseph Donaghy
CEO & Director

ANALYSTS

Nicolas Iacoviello

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal's First Quarter 2022 Earnings Conference Call. As a reminder, this conference call is being recorded. I would now like to turn the conference over to Arash Soleimani, Chief Strategy Officer.

Arash Soleimani
Chief Strategy Officer

Good morning. Thank you for joining us today. Welcome to our quarterly earnings call. On the call with me today are 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 from Universal'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 and can also be found on Universal website at universalinsuranceholdings.com.

With that, I'll turn the call over to Steve.

Stephen Joseph Donaghy
CEO & Director

Thanks, Arash. Good morning, everyone. We reported a 16.9% annualized return on equity despite the challenging external environment, which is a testament to the strength and resilience of our business. Direct premiums written were up 8.5% from the prior year quarter, significantly outpacing a 6.1% policies in force decline as meaningful rate increases benefited premium volumes. We are laser-focused on improving underwriting profitability as we prioritize combined ratio improvement over top line growth.

In addition to raising rates across Florida and our broader footprint, we've reduced exposure to less profitable geographies, tightened underwriting criteria, renegotiated commission rates with our agency partners and exercised prudent expense management. Lastly, rising yields are benefiting our investment income results and should continue to serve as a tailwind moving forward.

Given our strong capital position, the profitability of our business and the steps we continue to take to improve results, we believe we stand out favorably as reinsurers increasingly differentiate amongst cedents in the current market. Our team has been hard at work over the last several months meeting face-to-face with our reinsurance partners around the globe, securing our desired capacity for the June 1, 2022 renewal.

We recently released our firm order terms to the global reinsurance market for the capacity needed for our all states first event catastrophe reinsurance tower. With the capacity already locked in via the Florida Hurricane Catastrophe Fund, various multiyear deals that will continue into 2022, including the catastrophe bond we issued in 2021, we already have over 85% of our core Allstate's first event catastrophe reinsurance tower secured. We are pleased with the progress we have made, especially given the current environment.

I'll turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
Chief Financial Officer

Thanks, Steve. Good morning. Adjusted EPS was $0.64, down from $0.84 in the prior year quarter, with the decline mostly attributable to a higher net combined ratio, partially offset by higher revenues and a lower effective tax rate.

Total revenue of $287.5 million was up 9.4% year-over-year with growth primarily stemming from higher direct premiums earned, commission revenues and net investment income, partially offset by higher unrealized losses on equity securities.

Direct premiums written of $396.5 million were up 8.5% from the prior year quarter, including 8.9% growth in Florida and 6.4% growth in other states. Direct premiums earned of $414.6 million were up 10.4% year-over-year. Rate was the main driver of premium growth, particularly given the policies in force decline that Steve mentioned in his remarks.

The net combined ratio was 97.9%, up 4.8 points compared to the prior year quarter. The increase reflects a higher net loss ratio, partially offset by a lower net expense ratio. The 68.8% net loss ratio was up 9.6 points year-over-year, with the increase mostly attributable to a higher initial accident year attritional loss pick associated with the current Florida claims environment. The 29.1% net expense ratio improved by 4.8 points year-over-year, reflecting lower renewal commission rates, lower employee compensation and benefits and economies of scale.

During the first quarter, the company repurchased approximately 321,000 shares at an aggregate cost of $3.9 million. The company's current share repurchase authorization program has $13.9 million remaining as of March 31, '22 and runs through November 3, 2022.

On April 20, 2022, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock payable on May 20, 2022, to shareholders of record as of the close of business on May 13, 2022.

As mentioned in our earnings release yesterday, we're maintaining our guidance for 2022, including a GAAP and non-GAAP adjusted EPS range of $1.80 to $2.20 and a return on average equity of 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 open the line for questions.

Question and Answer

Operator

[Operator Instructions] We have a question from the line of Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I apologize. I should jump on off the call here earlier. But I wanted to get your thoughts just generally about all of this potential reform that seems to be talking about in quarter, there was some sort of announcement about potential -- the state rate [indiscernible] in the back. And I guess, how do you sort of think about that emerging? And are you more or less confident that you might actually get some meaningful in the future?

Stephen Joseph Donaghy
CEO & Director

Paul, this is Steve. We commend the governor for taking the action and calling the special session later this month. And I think it puts a spotlight on the issues facing Floridians from a cost and coverage perspective. And we're hopeful that the legislators take the opportunity to seriously discuss the topics that were covered in the last session and new ideas that are being bubbled up currently. So we don't have a crystal ball, but we feel as though they recognize some of the issues and are hopeful that their constituents get some relief in the future as a result of their actions.

Paul Newsome
Piper Sandler & Co., Research Division

We'll keep our fingers crossed. So what are the sort of big picture question I've got on the Florida market and the Ubers in particular, is concerned that the rate need, in general, is way above what citizens can take every year. And that you have sort of an environment where, on a relative basis, your competitors including [indiscernible] would get sort of relatively more attractive because they may be relatively more underpriced if inflation accelerates. How do you react in that sort of environment? Obviously, eventually, the rate need has to be met by everyone. But what are you doing in between periods where you can -- when the industry is not quite able to get enough weight yet and we still have some focus on new big closes the company extremely well from presence.

Stephen Joseph Donaghy
CEO & Director

Yes. Paul, from our perspective, we are focused on rate adequacy and really the profitability from an underwriting perspective will know our insurance carrier. As we strive for rate adequacy, we look at the market. We understand what's taking place from a competitive nature. And there have been years where the market has been soft, and we've looked at our rates and try to do the right thing in spite of many carriers being less expensive. But we really have to stick to our knitting and ensure that our rates are adequate to generate sustainable profitability going forward.

The Citizens question is a unique one. They were originally the insurer of last resort. And as they become competitively priced, it does bode some issues for them, for the marketplace and should events occur for Floridians from a cost perspective. So -- and I think the legislature did some things in the last session to assist Citizens to take more rate than they traditionally had. So they've got a runway to increase rates. It used to be locked at 10% and that will be increased to 15% over the next several years. So -- and that might be something that's talked about in a special session too. Because they have to be careful with the growth in Citizens because it's meaningful right now.

Operator

Your next question comes from Nicolas Iacoviello

Dowling & Partners.

Nicolas Iacoviello

I'm not sure how much further you want to talk on the legislative session, but maybe just your updated thoughts on SSB76 [indiscernible] may think tangible you're seeing from. And I don't know if you wanted to -- on the upcoming special session, maybe what you guys are most interested in seeing past would be helpful.

Stephen Joseph Donaghy
CEO & Director

Yes. Thanks, Nick. The SB 76, our cautious optimism for that continues. There clearly were some pillars within that legislation that eliminates the window for hurricanes and various events to 2 years instead of 3. And I think what we've seen is the NOI process, or notice of intent to litigate, we've seen some benefits from that in that the plaintiff side needs to generate details in order to file a claim, file a suit. And we use that as an opportunity to pursue closure on files where possible. And we have a team of people dedicated to that process. And I think the plaintiff side was slow to respond to it. But they are now following the rules a little bit better. And I think that will have some impact on case Slide 2 as it goes forward.

Relative to the special session, clearly, and I believe the governor has commented, when you write 7% or 8% of the P&C business in the country and you have 80% of the litigated suits in that same state, something is not right. So they're talking about a lot of important things. But really, the legal fees and the way that is structured would be the primary area I would suggest them to focus. But they're not calling me right now, but we're trying to get as much help as we can. And aside from that, I know they have the best intention. So hopefully, they focus on the points that they have. And we'll see what comes out of it

Nicolas Iacoviello

And just given the close to $4 million on repurchases this quarter, maybe I could just take some time and update us on how you're viewing capital management as it relates to the level of growth going forward?

Frank Crawford Wilcox
Chief Financial Officer

Yes. I mean we're pretty strong as it relates to capital. We still have the vast majority of the proceeds that we raised through the $100 million note issuance. We have infused some capital into the insurance entities, and we continue to monitor their needs. That is the primary objective right now, is to ensure that the insurance companies are adequately capitalized in order to continue to provide the opportunities to the entire holding company system. Share buybacks right now are hard not to look at that and we think it's a great opportunity. So to the extent that we believe that we have some access, we take advantage of that.

Nicolas Iacoviello

Last question, just on the expense ratio. You guys had previously discussed that maybe coming back up to the 32%, 33% range. Still looks to be below that this quarter. Two, are you still talking about the expense ratio in that range? Are you seeing some more efficiencies or some things more permanent post-COVID?

Stephen Joseph Donaghy
CEO & Director

Yes. So that was prior to our reaching the decision to reduce the commission rate on renewals. That plus going into the fourth quarter, and there's still being a lot of unknowns about inflation, kind of thought that we ought to give ourselves a little bit of a wide berth there. I think what you're seeing this quarter is probably more indicative for the rest of the year versus the guidance that we gave at the fourth quarter call.

Operator

And I'm not showing any further questions in the queue. I will turn the call back to Stephen Donaghy for his final remarks.

Stephen Joseph Donaghy
CEO & Director

Thanks, Scott. I would like to thank our associates, consumers, agents and our stakeholders for their continued support of Universal. Thanks for your attendance, and have a great day.

Operator
And with that, ladies and gentlemen, we conclude the program. Thank you for participating. You may now disconnect.