S&P Global
Market Intelligence

# Universal Insurance Holdings, Inc. NYSE:UVE

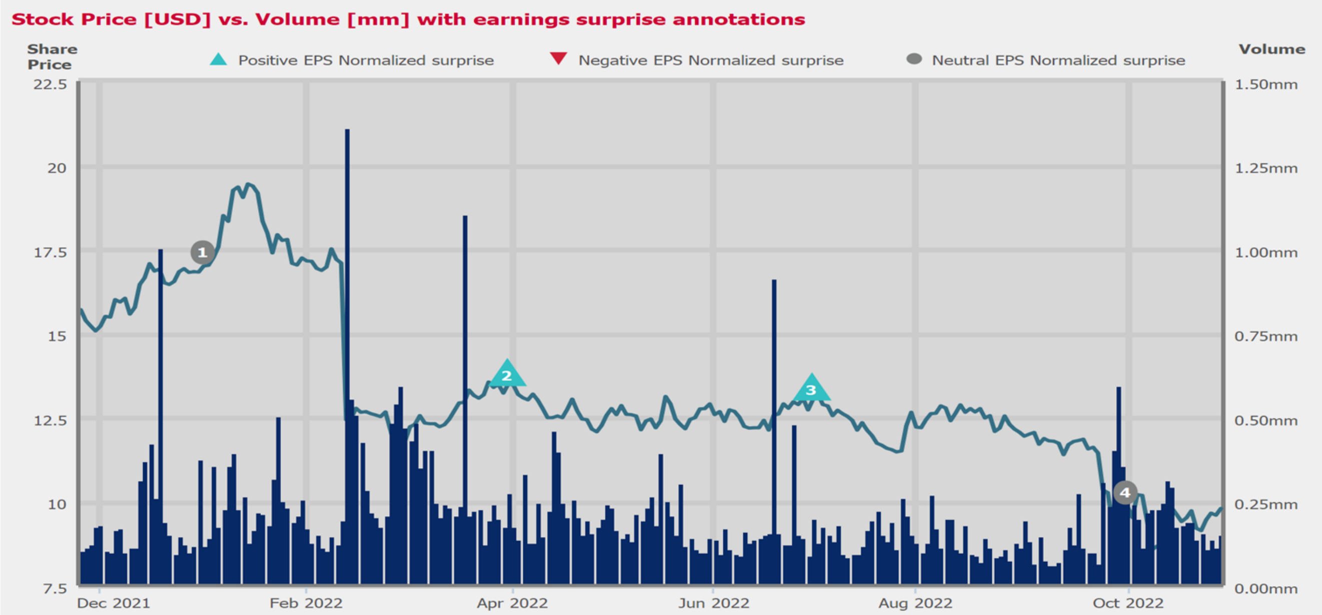
# FQ3 2022 Earnings Call Transcripts

## Friday, October 28, 2022 2:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2022- | | | -FQ4 2022- | -FY 2022- | -FY 2023- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (2.51) | (2.27) | NM | (0.12) | (1.50) | NA |
| **Revenue (mm)** | 307.12 | 312.81 | ▲1.85 | 313.80 | 1200.41 | NA |

Currency: USD
Consensus as of Oct-17-2022 8:31 AM GMT




### - EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2021** | (1.60) | (1.53) | NM |
| **FQ1 2022** | 0.55 | 0.64 | ▲16.36 % |
| **FQ2 2022** | 0.38 | 0.47 | ▲23.68 % |
| **FQ3 2022** | (2.51) | (2.27) | NM |

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# 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 Third Quarter 2022 Earnings Conference Call. [Operator Instructions]

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 Stephen 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 and that could cause actual results to differ materially from those statements. For more information, please see the press release and 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's website at universalinsuranceholdings.com.

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

**Stephen Joseph Donaghy**
*CEO & Director*

Thanks, Arash. Good morning, everyone. Our thoughts continue to be with all those impacted by Hurricane Ian. Since landfall, we've had boots on the ground helping our policyholders in their time of need. As we recently disclosed, our portfolio is underweight in the most impacted regions, and is further cushioned by our high proportion of condo unit and renters policies, which provide interior and content coverage.

To date, claims volume from Hurricane Ian reflects approximately 50% of Irma's volume received at this point. We maintain the largest claims and legal team in the state of Florida providing us with significant resources and capacity to efficiently close Ian-related claims. Despite our $1 billion estimated gross loss from Hurricane Ian, we have a $3 billion reinsurance tower in place for a subsequent event in the 2022 Atlantic hurricane season, and our consolidated retention would be meaningfully lower, highlighting the strength and breadth of our catastrophe reinsurance program. We started the planning process for the 2023 Atlantic hurricane season and are already well underway, as we have almost $400 million of prenegotiated multiyear capacity below the Florida [ Hurricane Catastrophe funds ] attachment point.

Approximately $200 million of estimated cost-free coverage from the reinsurance to assist policyholders program, and a projected $150 million from our catastrophe bond. Coupled with our 90% participation rate, in the Florida Hurricane Catastrophe Fund, we estimate the vast majority of our first event 2023 [ catastrophe reinsurance ] program will be insulated from open-market pricing dynamics. We value our reinsurance partner relationships and appreciate their support. I'll turn it over to Frank to walk through our financial results. Frank?

**Frank Crawford Wilcox**
*Chief Financial Officer*

Thanks, Steve, and good morning. Adjusted diluted loss per common share was $2.27, down from diluted adjusted earnings per common share of $0.63 in the prior year quarter with the decline mostly attributable to a higher net combined ratio associated with Hurricane Ian, partly offset by higher net investment income and commission revenue. Core revenue of $316.7 million was up 10.5% year-over-year, with growth primarily stemming from higher net premiums earned, net investment income and commission revenue. Direct premiums written of $500.7 million were up 15.6% from the prior year quarter, including 16.3% growth in Florida, and 12.7% growth in other states. Overall growth reflects rate increases, partially offset by lower policies in force.

Direct premiums earned of $452.5 million were up 10.2% year-over-year, reflecting rate-driven direct premiums written growth over the last 12 months. The net combined ratio was 139.2%, up 40.7 points compared to the prior year quarter. The increase reflects a higher net loss ratio partially offset by a lower net expense ratio. The 113.7% net loss ratio was up 42.8 points year-over-year with the increase primarily attributable to the retained losses associated with Hurricane Ian and a higher attritional initial accident year loss pick, partially offset by better prior year reserve development. The 25.5% net expense ratio improved by 2.1 points year-over-year, primarily reflecting lower renewal commission rates paid to distribution partners.

During the third quarter, the company repurchased approximately 203,000 shares at an aggregate cost of $2.4 million. The company's current share repurchase authorization program has $8 million remaining as of September 30, 2022, and run through November 3, 2022. On July 19, 2022, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, payable on August 9, 2022, to shareholders of record as of the close of business on August 2, 2022.
With that, I'd like to ask the operator to open the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from Paul Newsome with Piper Sandler.

**Paul Newsome**
*Piper Sandler & Co., Research Division*

I wanted to ask about the expense ratio and the lower comp paid to producers. And if you could give us some sense of maybe how sustainable that is. It looks like a pretty good-sized drop overall. And maybe just your thoughts on how that will trend in June.

**Frank Crawford Wilcox**
*Chief Financial Officer*

Yes. Paul, this is Frank. I appreciate the question. Our expense ratio has been trending down primarily because of that decision to reduce the commission rate, although the distribution partners are receiving the same dollars as we increased primary rates. So that's the principal reason for the overall trend coming down. But in the third quarter, we also dialed back on some accruals that we were building up for the year for performance bonuses and other discretionary accrual. So the [ $25.5 million ] is not indicative of what the run rate would be. I think that if you look at the first 9 months, which is just under 28%, that would be a better barometer of what to expect going forward.

**Paul Newsome**
*Piper Sandler & Co., Research Division*

Do you think that we've sort of hit a new normal in terms of comp for the markets you're in? I've always wondered why we hadn't seen [ kind of ] lower commission to being paid producers give them the difficulty in the home market. But do you think that -- is that -- are you standing out from your peers in terms of top levels? Or are you bought the same? And what do you think how the market is going to react to that?

**Stephen Joseph Donaghy**
*CEO & Director*

Paul, this is Steve. I think as we gauge the market, so to say. In Florida, in particular, we see the rates rising dramatically. And as we reduce the agent's commission, they receive the same amount of dollars. So we are competitive within the marketplace. And we would continue to assess that on an annual basis as we move forward. But as capital is key and the management of capital, it's one of the levers that we control that we work with our agency force as we kind of move forward. So it's something we keep a very close eye on and our relationships with the agents are paramount to our success in how we built the company. So we're very careful about it.

**Paul Newsome**
*Piper Sandler & Co., Research Division*

I guess the other big question is sort of -- hurricane issues aside, is the profitability prospectively on the underlying business. It doesn't seem like we've, in general -- Universal, maybe specifically [ apart ], but in general, have made a ton of progress in trying to get rate higher than claims inflation. Where do you think we are at that? And I guess some of the fears have been that essentially, the rates are getting up -- going up about as fast as it's regulatorily possible to go. And maybe that's not high enough to actually over cover the underlying claim inflation without some market change. So maybe your thoughts on that would be great.

**Stephen Joseph Donaghy**
*CEO & Director*

Yes. We constantly analyze the payouts and the rates that are adjusted on an annual basis. And we've taken advantage of our ability to also assess rate due to our reinsurance cost increasing. I think when you combine those factors, we feel as though we are approaching rate adequacy aggressively. And the hurricanes event, of course, has a dramatic effect on our Q3 results. But as we look forward, we feel as though the model and our ability to assess claims with our own staff and our own legal team will benefit us in the future. So I think all in all, the inflation is a byproduct of the economy. But I think a lot of it has been built in to some extent as we continue to assess rates. And as you know, the rates are always a year in arrears because the justification for the rate increase stems from the past 12 months. The future appears as though rate will continue to be assessed in order to facilitate our claims, and all the things that affect the payouts.

**Operator**

Our next question comes from Nicolas Iacoviello with Dowling.

**Nicolas Iacoviello**

Could we just start with -- so you discussed the claims volume from Ian being about 50% less than Irma at this point. Can you just talk a little bit about what you're seeing on the severity side relative to Irma?

**Stephen Joseph Donaghy**
*CEO & Director*

The severity is less than what we originally had seen in Irma. Again, we have a tremendous amount of resources in the markets affected, and are trying to get to all of the claims as fast as possible. Because as you know, the slower you respond, the more bad things can happen to a claim. And I think we're really well positioned due to the volume of Ian as well as due to the resources that we've deployed at this point to assess the damage. .

**Nicolas Iacoviello**

Got it. And just on the net cat number, look like it was $111 million, which was a bit lower than implied, would have been from a net retention loss at both insurance subs and the captive. Can you just talk about the difference between that $111 million and about $114.5 million?

**Stephen Joseph Donaghy**
*CEO & Director*

Yes. That's a great pickup, Nick. We had an excess loss coverage policy at American Platinum. So that reduced the overall retention. And our partners have been very good about delivering capital to us in our time of need for our insureds. So that was the driver of it.

**Nicolas Iacoviello**

And if I'm just thinking about reinsurance coverage for second events, do you have RPPs on the [ sliver ] layer? Or do we begin to see incremental reinstatement premiums beginning where the cat fund attaches?

**Stephen Joseph Donaghy**
*CEO & Director*

You'll definitely see that effect. Again, the storm hit at the very tail end of December. So there wasn't a dramatic impact to Q3 results. But we will have an offset for those expenses through our adjusting expenses that we deliver. So I think that will all kind of flow through the P&L in future quarters in an orderly fashion. I wouldn't expect anything dramatic.

**Nicolas Iacoviello**

Got it. And that was my follow-on was specific to the internal adjusting operations. Is there any -- can you guys just help us kind of quantify anything or the timing of anything relating to the net benefit from the internal adjusting and the offset to the incremental reinstatement premiums?

**Stephen Joseph Donaghy**
*CEO & Director*

I don't have specifics for you. But although, again, with 800 people in that organization, we are trying to do as much of the adjusting internally as possible. And we end out certain claims to third parties to keep them on our list, so to say, going forward in the event we need those resources. But I think from an overall in and out, you'll see the effects. And again, I think we will offset various expenses incurred as headwinds, and the tailwinds will be our own adjusting and legal organization, doing a lot of our own work.

And that work not only benefits our insureds, it also benefits our reinsurance partners because we monitor the expense and manage the claims, I would say, tighter than anyone in the industry. So there's benefits all around for that.

**Nicolas Iacoviello**

Got it. And then just -- so we've seen the press reports of a special session only before year-end. And I guess if I could get your things that you're most interested in, I guess, the litigation trends, but anything more specific in addressing that? And then also, right, we've had [ reform ] past this year, in recent years as well. And like I know the calendar year litigation trends are -- they're impacted from claims from prior year's hurricanes. But is there any way you could sort of discuss a recent accident quarter or what you're seeing on a monthly basis with the claims that were specifically opened after events that occurred post the legislation?

**Stephen Joseph Donaghy**
*CEO & Director*

Yes. It's a complex question, Nick. I'll do my best to address it. We have seen benefits of recent legislation. The NOI process, the AOB reform 2 years ago, and we've seen them working. We've also seen the plaintiffs bar be very aggressive in trying to file as many cases as possible. The NOI impacts that somewhat because they have to do some work in order to file a case. So we do see benefits of it. And I think on an ongoing basis, I would say the messaging around Hurricane Ian as it was approaching from [ CFO ], Petronas and Governor Sanis, was very positive in educating consumers as to how they should behave. And I think thus far, we've seen very few represented or litigious files come in the door.

I'm not saying they won't adjust in the future. But I think so far, our ability to respond and the messaging from politicians has been very supportive of the industry. And I think from a legislative perspective going forward, again, the politicians are very educated as to the issue. And the issue is clearly one-way attorney fees. When we win cases today, which we do regularly, we cannot recoup our expenses from the plaintiffs [ bar ], and we would like to see that. and we would like to see the mitigation or elimination of that in the state of Florida, which leads to such a high density of litigation in our state in the state of Florida compared to others. So -- sorry, it's a long answer, but there was a lot in there, Nick. Sorry about that.

**Nicolas Iacoviello**

No, that's perfect. I appreciate it. And I guess just one final one. Can [ I have just ] the holding company liquidity number as of Q3 end?

**Frank Crawford Wilcox**
*Chief Financial Officer*

It's not a number that we disclose on an interim basis. That number will come out in Form 10-K when we produce the holding company only financial statements back of the 10-K.

**Operator**

And I'm not showing any further questions at this time. I would now like to turn the call back over to Steve Donaghy for any further remarks.

**Stephen Joseph Donaghy**
*CEO & Director*

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

**Operator**
Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.