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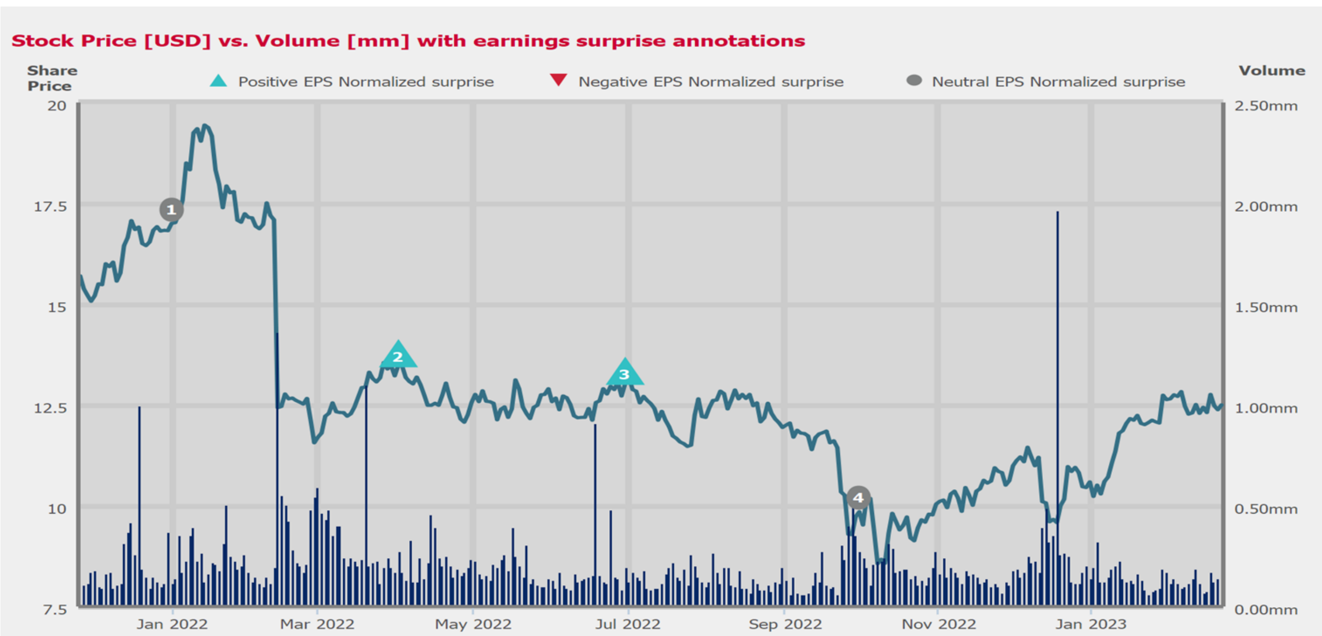
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE
FQ4 2022 Earnings Call Transcripts
Friday, February 24, 2023 2:30 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	(0.28)	(1.40)	NA
Revenue (mm)	307.12	312.81	1.85	319.59	1211.89	NA

Currency: USD
Consensus as of Jan-10-2023 8:43 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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Nicolas Iacoviello
Dowling & Partners Securities, LLC

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal's Fourth 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 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. It was a tough year, but I'm proud of what our team accomplished despite the circumstances. The Florida homeowners insurance market has faced significant challenges, but we remain committed to our home state and continue to write new and renewal business. We are grateful to state officials for passing meaningful reforms at the recent special legislative session, including elimination of one-way attorney fees and assignment of benefits, shortening the claims filing deadline to 1 year and taking steps to reduce the competitiveness of Citizens, among other measures. It will take time for the reforms to benefit results, but we believe the legislature's actions will restore the health of the market over the long term. Given our differentiated business model, solid balance sheet and strong reinsurer relationships, we're uniquely positioned to succeed in the dynamic Florida landscape.

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

Frank Crawford Wilcox
Chief Financial Officer

Thank you, Steve. Adjusted diluted earnings per common share was $0.72, up from diluted adjusted loss per common share of $1.53 in the prior year quarter, with the increase mostly attributable to lower net loss and expense ratios and higher net investment income and commission revenue. Core revenue of $326.4 million was up 11.3% year-over-year with growth primarily stemming from higher net premiums earned, net investment income and commission revenue. Direct premiums written of $416.1 million were up 4.2% from the prior year quarter, including 3.6% growth in Florida and 6.8% growth in other states. Overall growth reflects rate increases, partially offset by lower policies in force.

Direct premiums earned of $463.8 million were up 11% year-over-year, reflecting rate-driven direct premiums written growth over the last 12 months. Net premiums earned were $291.9 million, up 7.6% from the prior year quarter. The increase is primarily attributable to higher direct premiums earned, partially offset by higher ceded premiums earned.

The net combined ratio was 101.4%, down 30 points compared to the prior year quarter. The decrease reflects lower net loss and expense ratios. The 76.3% net loss ratio was down 27 points year-over-year with the decrease primarily attributable to lower current accident year net loss ratio and lower adverse prior year reserve development. The 25.1% net expense ratio improved by 3 points year-over-year, primarily reflecting lower renewal commission rates paid to distribution partners.

During the fourth quarter, the company repurchased approximately 186,000 shares at an aggregate cost of $1.8 million. The company's current share repurchase authorization program has $6.2 million remaining as of December 31, 2022 and runs through

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December 15, 2024. On February 9, 2023, the Board of Directors declared a regular quarterly cash dividend of $0.16 per common share of stock payable March 16, 2023 to shareholders of record as of the close of business on March 9, 2023.
With that, I'd like to ask the operator to open the line for questions.

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Question and Answer

Operator

[Operator Instructions] And our first question comes from Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congratulations in the quarter. Maybe we could start just with a little bit more detail on the sort of year-over-year improvement in the loss ratio. Is there any way to sort of think about how much of it was weather and cat losses versus other components like pricing?

Frank Crawford Wilcox
Chief Financial Officer

Yes. Paul, this is Frank. So as we have disclosed throughout the year, we've been proactive during 2022 increasing the current accident year loss pick each quarter including Q4, ahead of the third-party actuarial analysis. And this was intended to capture emerging weather in '22 rather than reporting weather above plan, which is what we've done in the past. And by being proactive, it resulted in very minor adjustments coming out of that year-end analysis versus what we booked going into it.

In Q4, as you know and included in the call, it also included the effect of winter storms representing the majority of the reserve entries in that period, and that was somewhere around the $30 million range. So if you wanted to look apples-to-apples, that would equate to the $28 million that we had last year. But absent Q4 weather and excluding a margin that was generated by handling claims, we're very close to the current accident year loss pick that we had booked up through the third quarter, which was in the 47% range.

Now certain aspects of our business model and including our in-house claims and legal teams had a significant favorable impact in the fourth quarter. We've invested in these teams, which comprise the majority of our workforce carrying the cost year round so that we're fully prepared to handle claims as efficiently as possible when we're impacted with storms such as Ian and dealing with those claims in the fourth quarter. So we're really pleased with the work that was performed by these teams to mitigate costs associated with handling these claims on behalf of both our insurance entities and our reinsurance partners.

We handle about 90% of these claims, and we've always believed that we can service our business with more care than any other third party. That said, we do maintain important relationships with third-party adjusters when needed. And then we also benefit from the synergies that exist between these 2 groups, which translates into savings that would not exist outside of our consolidated group. And there'll be a little bit more color on the economic benefit generated from those activities in the 10-K.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Any -- obviously, you're optimistic about the tort reform. Have you seen anything in the results yet? Or it's just far too early to see any impact?

Stephen Joseph Donaghy
CEO & Director

Paul, this is Steve. Yes, I think it's -- again, we're optimistic. I'll remove the term cautiously optimistic. We are now optimistic in the future of the legislative reforms, thanks to Governor DeSantis and the new legislators. I would say that it is a little bit early but we are seeing signs of a positive impact early on. So we feel good about it.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. And then I'll ask one more and then maybe see if -- I'll let somebody else ask. The reinsurance costs have gone up broadly by everybody. How are you thinking about that for yourself? And I guess, it's sort of the -- I assume it's the critical June-July renewal, I think is the issue here. But maybe you could talk about what you think may or may not happen for your reinsurance costs in 2023 and 2024?

Stephen Joseph Donaghy
CEO & Director

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Yes. It's definitely a big question, Paul, this time of the year. And just like our reserve analyses, reinsurance now is something we're doing 12 months a year every day, working with our partners and with our team on how do we best place and acquire reinsurance. But as you know, we placed certain portions of our cat reinsurance on a multiyear basis. And as we enter the 2023 buying season, in combination with the estimated Florida Hurricane Cat fund coverage, the RAP program which we deferred participation in both insurance companies from '22 to '23, we sit here with approximately 83% of our desired first event catastrophe tower already secured.

So we feel as though the market will reflect many of the things reinsurers have been forced to deal with in the past. And we are hoping that as reinsurers look for safety in partners, we will stand above majority of the crowd due to our financial strength and reputation. So we feel good. We feel like there's going to be some impact from the past, and we're going to do our best to leverage our anticipated results and really their anticipated results from the legislature reforms going forward. So there's going to be a lot of work to do, Paul. We feel good about it. We feel -- I feel really good that we only have a small percentage needed to acquire in the first event. So -- and that work has already started. So we're well on our way to securing the balance.

Operator

And our next question comes from Nicolas Iacoviello of Dowling.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Just first, what was the gross prior year development in the quarter? And then also what is your current estimated gross loss estimate for Ian?

Frank Crawford Wilcox
Chief Financial Officer

Well, the Ian ultimate remains at $1 billion. We feel confident that, that's adequate. As far as gross development, I don't have those numbers in front of me, but I can tell you that we're very pleased with our year-over-year reduction in net reserve development. We know we're not perfect, obviously. But we continue to drive that down, and we expect it to be driven down.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And just -- I know you guys just touched on it, but I guess, how do we think about weather above plan going forward? Like what should we actually be assuming is incorporated in that plan figure now?

Frank Crawford Wilcox
Chief Financial Officer

Yes. We're sort of reevaluating our view of that. Obviously, the total numbers won't change, but how we present that going forward remains a discussion among us. We see some other insurers do some different type of categorization, and we want to benchmark against that and just be in line. So I'm not so sure that I have a figure for weather above plan. But I think what we're -- and what we've done this year is we've been more proactive to adjust our loss picks for emerging weather. More to come on that.

Stephen Joseph Donaghy
CEO & Director

Yes. Nick, I would add too -- this is Steve. I think between our actuarial staff and various teams around the company, as we've become more proactive in our entire reserve analysis, weather and the impacts to weather are something we're contemplating disclosing on potentially a dollar basis if it exceeds a certain amount. And we'll probably have more information as we get through Q1 regarding that point.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And can you guys quantify what the net benefit from the internal claims adjusting operations was this quarter?

Stephen Joseph Donaghy
CEO & Director

Yes. We don't disclose the exact figures. There will be some details in our 10-K for sure, Nick. I think the real message there is that as we have adjusted claims and protected our reinsurers and ourselves from frivolous lawsuits, we've seen more and more benefit

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between the internal processing of claims, not just from a dollar impact to Universal but from a savings impact to Universal as well as our reinsurance partners.

We don't discuss it too much, Nick, but I'll take the opportunity for a small commercial that the impact of having your own adjusters and your own legal staff on the payroll enables for tremendous communication and prepping of files so that when an adjustor hands something over to a desk examiner and eventually to a paralegal or an assistant of an attorney, they're all looking at the same information. And the more consistent we can be in the preparation of those files, it eliminates a lot of conversation which, again, just enables folks to do their job better than they would be if they had to pick up the phone and ask people constantly, "What do you mean by a gable roof in this section of the home? And what do you mean by this number of cabinets in the bathroom," et cetera. So I think as we continue to execute against our goal of being the best adjusting and legal enterprise, it's one of the things we've continued to leverage and see tremendous benefit. And that helps everybody in our circle, so to say.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. I guess last one from me. Just on your captive. Can you talk about the capital levels in there? Was it fully exhausted from Ian? And will this need to be funded again if it participates in the '23 program?

Frank Crawford Wilcox
Chief Financial Officer

Yes. So the captive was used to fill in the layer of $66 million above our retention. And the answer to your question is, yes, it was fully exhausted with Ian, and we intend to use that vehicle going forward. In what capacity, it remains to be seen in terms of structuring our program going forward.

Stephen Joseph Donaghy
CEO & Director

Yes. And Nick, I would submit too that, that -- your prior question about the adjusting revenue and our legal expertise also gets to serve that we have the ability to replenish that capital after a storm by doing the same work we would pay third parties in the field. So -- and it's kind of an offset to that capital position and I think makes our model kind of stand out across the country for that matter, especially in Florida.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Okay. And I get the $66 million was fully utilized. But was there capital already in the captive prior to, I guess, the '22 program?

Frank Crawford Wilcox
Chief Financial Officer

Yes. It has been fully collateralized. That's correct, yes.

Operator

Thank you. I would now like to turn the conference back to Steve Donaghy, CEO, for closing remarks.

Stephen Joseph Donaghy
CEO & Director

Thank you very much. I'd 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 day. Cheers.

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

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