

Universal Insurance Holdings, Inc. NYSE:UVE

FQ1 2023 Earnings Call Transcripts

Friday, April 28, 2023 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.93	0.79	▼ (15.05 %)	0.80	1.65	NA
Revenue (mm)	324.10	316.51	▼ (2.34 %)	331.97	1332.66	NA

Currency: USD

Consensus as of Apr-04-2023 8:37 AM GMT

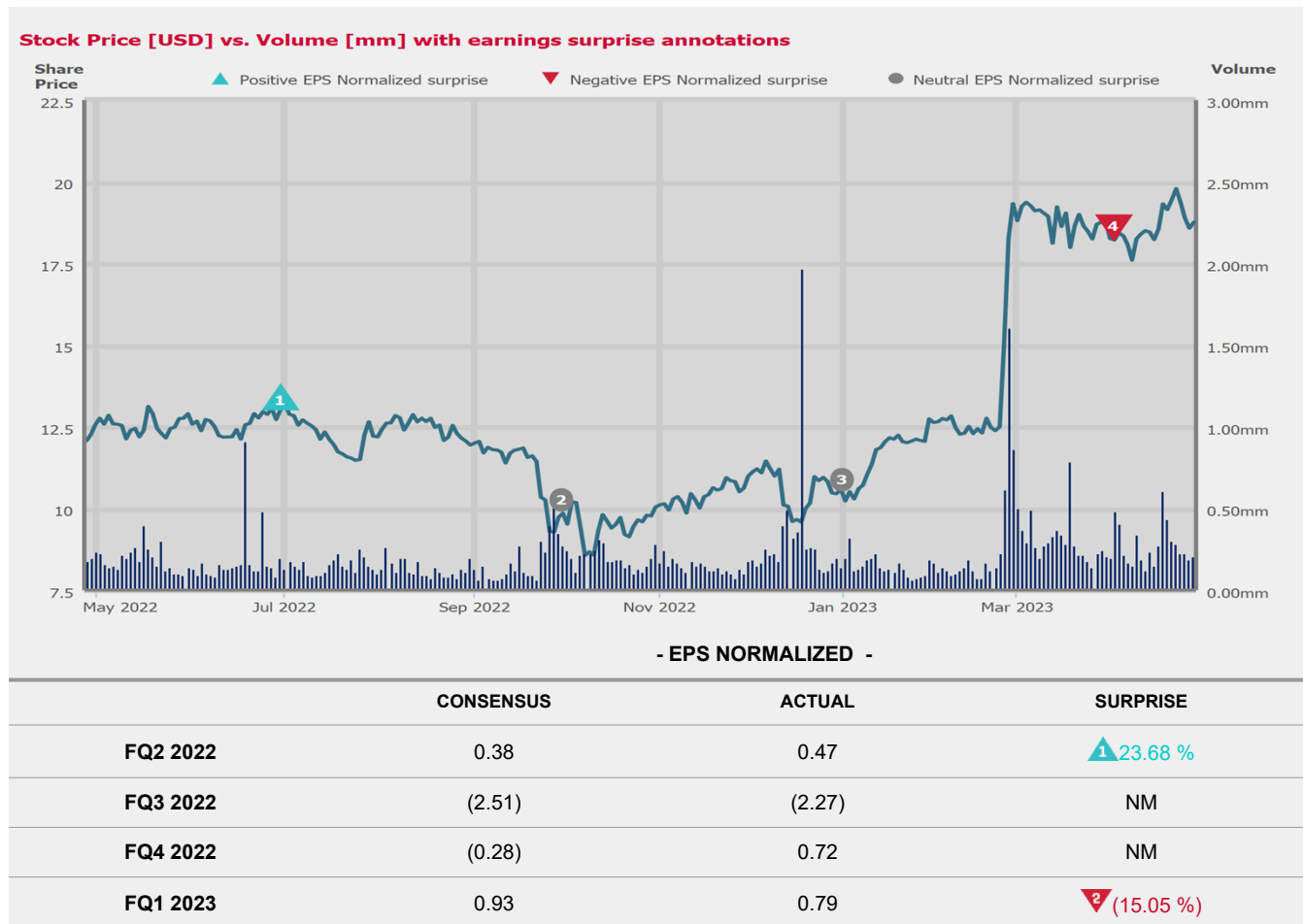


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	6

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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal's First Quarter 2023 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 strong quarter, including a 23.9% annualized adjusted return on common equity and 23.4% adjusted diluted earnings per share growth year-on-year. There are multiple factors benefiting our business, and I'm optimistic as I look towards the future.

The Florida legislature passed meaningful reforms at the December special session, which we believe will improve the long-term stability and profitability of our core business, while rate adequacy improves and higher fixed income yields boost the productivity of our investment portfolio.

Additionally, as we sit here today, we already have our core Allstate property catastrophe reinsurance tower for the 2023-2024 period fully supported and secured with no material changes to our historical reinsurance partners or our terms and conditions, while the costs are well within our budget parameters. We are very pleased with the progress we have made in the current environment, which is a testament to the strength of our business model and our associates.

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 earnings per share was \$0.79, up from \$0.64 in the prior year quarter. The increase mostly stems from higher net premiums earned, net investment income and commission revenue, and lower net expense ratio, partially offset by a higher net loss ratio. Core revenue of \$316.3 million was up 8.8% year-over-year, with growth primarily stemming from higher net premiums earned, net investment income and commission revenue.

Direct premiums written were \$410.1 million, up 3.4% from the prior year quarter, including 0.9% growth in Florida and 17.2% growth in other states. Growth reflects rate increases, partially offset by lower policies in force. Direct premiums earned were \$455.4 million up 9.8% from the prior year quarter, reflecting rate driven direct premiums written growth over the last 12 months.

Net premiums earned were \$282.2 million, up 4.9% from the prior year quarter. The increase is primarily attributable to higher direct premiums earned, partially offset by higher ceded premium ratio.

The net combined ratio was 100%, up 2.1 points compared to the prior year quarter. The increase reflects a higher net loss ratio, partially offset by a lower net expense ratio. The 73.1% net loss ratio was up 4.3 points compared to the prior year quarter, with the increase primarily attributable to a higher attritional initial accident year loss pick and higher prior year reserve development as a percentage of net premiums earned, partially offset by lower weather losses as a percentage of net premiums earned.

The 26.9% net expense ratio improved by 2.2 points compared to the prior year quarter, primarily reflecting lower renewal commission rates paid to distribution partners.

On April 12, 2023, the Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock payable on May 19, 2023, to shareholders of record as of the close of business on May 12, 2023.

With that, I'd like to ask the operator to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome

Piper Sandler & Co., Research Division

Congrats on the quarter. Just a couple of questions. First on the reinsurance tower. Good to hear it's been secured. When you say no changes in the terms and conditions, is that included in the intercompany reinsurance provided by the company's reinsurance operation? And I assume that we are talking about some increase in rate online, just not the retentions and limits of the tower. Is that fair?

Stephen Joseph Donaghy

CEO & Director

Paul, thanks for the question. Yes, I think that is fair. I think year-over-year, we will see 2023 have a very similar percentage of reinsurance cost to the company against premiums earned as we did in '22. And we're very fortunate to have it completed, as you mentioned, and very fortunate to have the partners that we do in the reinsurance industry. And I don't see any changes to the retention from an intercompany perspective as well. So we kind of hit all of them there.

Jon Paul Newsome

Piper Sandler & Co., Research Division

Did you use the state's offer of reinsurance this time around?

Stephen Joseph Donaghy

CEO & Director

We did not use the RAP program in 2022. We like to use that this year. So that's the program that we are utilizing. And as you know, that's below the FHCF level. So we're very fortunate to have that instrument available to us, and that is part of the equation.

Jon Paul Newsome

Piper Sandler & Co., Research Division

Yes. And then maybe turning to the tort reform, it is obviously the big question. Any sort of early reads on what we're seeing really from a pure claim perspective on -- any changes -- if you could give us some thoughts on, we saw the surge in lawsuits in general in Florida from the tort reform, not sure if that had any impact on your business at all, but just any thoughts on what you're actually seeing from a claim -- pure claim perspective during the quarter relating to the tort reform.

Stephen Joseph Donaghy

CEO & Director

Yes. I believe, Paul, again, as we changed our terminology from cautiously optimistic to optimistic, I would say, at the end of Q1, we feel very good about that statement from the end of 2022. We have seen considerable reductions in litigation, representations, et cetera, and we feel very optimistic about the future of the impact of that on our business.

I also would say that even some of the changes from prior legislative sessions such as the NOI process are working well and our staff is executing against trying to get as many settlements as possible before anything would land in a litigious environment. So I think all in all, very favorable signs.

Jon Paul Newsome

Piper Sandler & Co., Research Division

Do you have any thoughts about how that might work its way through the year in the financial results? Is it something we'll see quite quickly? Or do you think it will be something that impacts the loss ratio over time?

Stephen Joseph Donaghy

CEO & Director

I think it's going to take some time for the legislation to earn in. As you know, many of the changes are substitutive. So they'll take effect as policies renew and new business comes on board. So it will probably take some period of time as we look into the future for it to earn fully in, but I think there'll be some benefits on a go-forward basis, obviously.

Operator

Our next question comes from the line of Nic Iacoviello from Dowling.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

I guess I just want to make sure I'm understanding, not seeing changes to the intercompany retention. Just -- so on a stat basis and a GAAP basis, do you expect the retentions to be similar as they were last year's program?

Stephen Joseph Donaghy
CEO & Director

Nic, yes, we do. We looked at a lot of different options on various levels of what we were offered in the reinsurance market, and we feel good about our capital position and our ability to handle similar retentions, both on the net retention as well as the [catastrophe] program that we incorporate.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And then just the cost being a similar percentage of earned. And I guess we'll get more details with the 8-K as usual. But was there a meaningful difference in the amount of private market limit you purchased? And I get the wrap later this year, not there last year. And I guess also I'm thinking in terms of the first and second event coverage, is this comment that the program was secured. That relates to both of those? And if so, how does the prepaid reinstatements compare versus last year?

Stephen Joseph Donaghy
CEO & Director

Yes, Nic, great question. And we will have a detailed 8-K as we have prior years, and we'll have a press release out separate sometime in May, late May most likely, but we feel very good about the entire program across the board. So from a ceiling perspective, it will be very close to where we were in 2022. As you know, policy count is down. So TIV is down a little bit, but it won't be a meaningful difference whatsoever.

And I think your further questions about coverages and others, they'll be consistent with where we were last year. So we -- as we exit that -- the reinsurance market for '23, we feel really good. The visits in Bermuda, the visits in London went very well. And I think we were -- again, we separated a little bit from some of our peers relative to ability to secure. And that's always our goal is to kind of stand tall and be different within the space. So that's what we're trying to do.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Okay. I guess just if we could go elsewhere. I know last quarter, you guys had mentioned you were reevaluating your view of weather above plan. So I'm just wondering if you had a determination there. And just trying to look at your results like-for-like with the year-ago quarter, was there anything this quarter you would classify as weather above plan?

Frank Crawford Wilcox
Chief Financial Officer

Yes, Nic, this is Frank. So weather cooperated in the first quarter for us. So to answer your question, we are still evaluating how we're going to report weather going forward. But that being said, under the old standard, there were no weather events. So everything for the current accident year was contained within what our loss picks were.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And last one, do you see any movement in your gross loss estimate for Ian or it's still around \$1 billion?

Stephen Joseph Donaghy

CEO & Director

Yes, it's still around \$1 billion, Nic, and we're pretty confident that we don't expect it to move north.

Operator

I'm not showing any further questions at this time. I'd like to turn the call back over to our speakers 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. I wish you all a great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2023 S&P Global Market Intelligence.