S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

FQ3 2023 Earnings Call Transcripts

Friday, October 27, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.28)	(0.16)	NM	0.62	2.00	NA
Revenue (mm)	322.48	360.05	11.65	324.39	1302.95	NA

Currency: USD
Consensus as of Oct-27-2023 3:03 AM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2022	(0.28)	0.72	NM
FQ1 2023	0.93	0.79	(15.05 %)
FQ2 2023	0.78	0.87	11.54 %
FQ3 2023	(0.28)	(0.16)	NM

Table of Contents

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 Third 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 filing, 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. The third quarter benefited from strong and improving underlying trends, and I'm optimistic as I look forward.

During the quarter, Hurricane Idalia made Florida landfall, and, as always, we were there immediately to assist our policyholders in their time of need. The storm severity appears considerably smaller than initially anticipated and is comfortably absorbed within our retention.

We continue to enhance our best-in-class claims and structure, which, together with our reinsurance capabilities, serves to differentiate us from our peers. As we look forward, we are more confident in the Florida market, which is our largest geography, and have started to slowly increase new business in additional territories.

In the third quarter, we completed the commutation of Hurricane Irma with the Florida Hurricane Catastrophe Fund, among partial commutations with private reinsurers for other storms as well. We're pleased to have these transactions behind us, and as we look ahead, we expect future storms to be more predictable and efficient, given the benefits of recent legislation.

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 loss per common share was $0.16 compared to an adjusted loss per common share of $2.27 in the prior year quarter. The improvement mostly stems from higher underwriting income and net investment income. Core revenue of $361.8 million was up 14.2% year-over-year, with growth primarily stemming from higher net premiums earned and net investment income.

Direct premiums written were $532 million, up 6.3% from the prior year quarter, including 4.4% growth in Florida and 14.7% growth in Other States. Overall growth reflects rate increases, partially offset by lower policies in force. Direct premiums earned were $474.3 million, up 4.8% from the prior year quarter, reflecting rate-driven direct premiums written growth over the last 12 months.

Net premiums earned were $331 million, up 13.9% from the prior year quarter. The increase is primarily attributable to higher direct premiums earned and a lower ceded premium ratio. The net combined ratio was 110.7%, down 28.5 points compared to the prior year quarter. The decrease reflects lower net loss and expense ratios.

The 87% net loss ratio was down 26.7 points compared to the prior year quarter, with the decrease attributable to a lower consolidated current accident year net loss ratio, primarily stemming from lower weather-related losses. The 23.7% net expense ratio improved by 1.8 points compared to the prior year quarter, primarily reflecting lower renewal commission rates paid to distribution partners.

During the third quarter, the company repurchased approximately 894,000 shares at an aggregate cost of $12.3 million. The company currently has $7.8 million of share repurchase authorization remaining. On July 20, 2023, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock payable on August 11, 2023, to shareholders of record as of the close of business on August 4, 2023.
With that said, I'd like to ask the operator to open the line for questions.

Question and Answer

Operator

[Operator Instructions] One moment for our first question, please. And it comes from the line of Nick Iacoviello with Dowling & Partners.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Just first off, what were the net losses from Idalia in the quarter?

Stephen Joseph Donaghy
CEO & Director

Nick, yes, we set Idalia at a $45 million loss at this point, which is well within the company's net retention. And we do not expect to hit our [specialty] coverage above [ex $45 million].

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And would that be the only -- that $45 million, would that be what you classify as weather above plan? Or are there other events they that you saw as well?

Stephen Joseph Donaghy
CEO & Director

There were other events in the quarter. And none of them were of a magnitude that we would have reported separately. But consolidated, they're probably in the area of like another $10 million or $15 million.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. And then just maybe a comment on the commutations. I guess could you quantify the gross and net prior year development incurred in the quarter and how much of that are related to these commutations?

Stephen Joseph Donaghy
CEO & Director

Yes. Sure, Nick. Great question. We knew that we were going to be commuting Irma and other storms in Q3 of this year just based on the schedule laid out by the state of Florida. So at the end of '22, we created an accrual at Alder, which of course, is the -- our organization that handles all our adjusting and benefits directly from that adjusting.

So we created an accrual that we took into account. And as we logically got to the run-up of the commutation, particularly on Irma, we released that accrual to kind of reimburse UPCIC for the funds in that computation. And as you are aware, Nick, in 2017, the LAE reimbursement by the state was 5%. And as you know, the reimbursement for LAE is typically in the area 15% to 25% on average.

So we knew we had some funds we were going to need. We put up a certain amount for the commutation of Irma, which was around $15 million, and about another $2.8 million -- $2.7 million for Sally. So those were the total that would have hit, had we not been prepared for them through the accrual at the end of '22.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Okay. And sorry, just to make sure I'm understanding that. So on a fully consolidated basement -- or basis, excuse me, just what was the net adverse event from that, right? Because that's just between subsidiary and claims adjustment?

Frank Crawford Wilcox
Chief Financial Officer

Yes. So at the end of last year, as Steve pointed out, we put up an accrual at Alder in anticipation of participating in the ultimate outcome of these commutations. So as UPCIC [reported] the prior development in the current year, it will receive a refund from Alder, which in effect will replenish reserves from which those payments could be made.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Okay. Got it. All right. I guess I just had one more macro, I guess. And specific to Hurricane Ian, right, it seems like the reinsurers and the cat modeling firms are still holding on to that $50 billion industry loss figure. But it looks like ground-up losses from the primaries are implying a lower amount than that. I'm wondering what you guys have seen in terms of claims development, if you had a similar view in losses trending lower than that $50 billion at the industry level?

Stephen Joseph Donaghy
CEO & Director

Nick, there's so much involved in the industry level that I'm going to leave that to those experts. We pegged Ian at $1 billion event. And through the development thus far and the benefits of the timing, we're sticking with the $1 billion estimate that we released at the time of the hurricane. And we feel good about that number as we sit here, even taking into account IBNR and other things in the future.

Operator

One moment for our next question, please. It comes from the line of Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Sorry, I got myself a little confused here, but could you talk a little bit more about the reserve impacts in the quarter, positive, negative? Start with there, just to straighten that.

Frank Crawford Wilcox
Chief Financial Officer

Yes. So the biggest difference year-over-year when you look at the net ratio which was, I think, $113.7 million for the 3 months ended '22 versus 87% this year, the biggest difference would be, the difference between the impact from Ian last year, which on a consolidated basis was $111 million versus the $45 million. So the net loss ratio changed by 26 points. That difference in the impact from the storms was about 25 points of that.

And then comparatively speaking, prior year development of the $17.7 million that Steve highlighted compares to $2.7 million last year, so that's $15 million. And then, of course, Alder continues to adjust claims for the Ian storm, they generated profits of about $18.7 million versus $5 million. So that's a little bit of an offset there. But when you kind of flush that away, the biggest impact would be the difference in the storms year-over-year.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Right. So are we looking at sort of ex cat, ex reserve development improvements? Or if we adjust all that and -- maybe talking about prospectively from that perspective as well?

Frank Crawford Wilcox
Chief Financial Officer

Well, right now, I mean we see a lot of favorable trends from an operational standpoint -- number of claims coming in, number of represented claims, litigated claims, the benefit of which will manifest in the future and that's all coming from the favorable legislation. But as we stand here today, we're being conservative in our current accident year loss pick. So when you're looking at the larger of the 2 insurance entities, we're booking to a higher pick this year so far for the first 9 months than we are -- than we were first 9 months of last year.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Could we maybe explore that a little bit more why the loss pick is up, not down? You're pushing through an enormous amount of rate, you've had obviously -- I guess, there's some peg of claims inflation in there. But then, I guess, with no benefit from potential tort reform in that peg as well, is that kind of the way to think about it? Or is there something more to be thought of there?

Stephen Joseph Donaghy
CEO & Director

Well, I think, Paul, we need to -- we look at it from a conservative perspective. And as we've talked about, the legislation still hasn't impacted our entire book of business. So as that flows through the book of business and as we look to the future, we see a lot of very positive developments that I believe -- that I think will be reflected in future years.

And again, when we look into the future, we look at potential rate reductions in Florida as a result of the legislation. We see a lot of positive impacts. And as you know, the repurchase decision in the quarter reflects our optimism as we look forward, as a result of a whole lot of things impacting our business.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I think that's very fair. I guess the actual question is why have a higher peg if you're pushing for, I guess, like 20%-ish price increases? That would imply that the underlying claims inflation is even higher than that 20%. Is that just to overly simplified way to look at it? Or putting aside the impact of tort reform?

Stephen Joseph Donaghy
CEO & Director

Well, I think, again, the rate reductions are always run 12 months in arrears, right? So this year, we had a rate indication which was almost double the rate that we took, which reflected our optimism from the legislative changes going into the future. So we put that aside. And then I think we build conservatism into our reserves to ensure that we have plenty of funds moving forward to adjudicate our business and keep the company in the most healthy position in the future.

Operator

Thank you. And I don't see any further questions in the queue. I will turn the call back to Stephen Donaghy for final comments.

Stephen Joseph Donaghy
CEO & Director

Thank you, Carmen. Appreciate it. I'd like to thank all of our associates, consumers, our agency force and our stakeholders for their continued support of Universal. Have a great weekend.

Operator
And with that, we thank you for your participation. And you may now disconnect.