S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

FQ4 2023 Earnings Call Transcripts

Friday, February 23, 2024 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.23	0.43	▲86.96	1.03	1.76	1.95	▲10.80	2.30
Revenue (mm)	328.12	375.46	▲14.43	335.20	1344.25	1391.58	▲3.52	1342.34

Currency: USD
Consensus as of Dec-19-2023 8:38 AM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.93	0.79	▼1 (15.05 %)
FQ2 2023	0.78	0.87	▲2 11.54 %
FQ3 2023	(0.28)	(0.16)	NM
FQ4 2023	0.23	0.43	▲3 86.96 %

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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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal's Fourth 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. Please go ahead.

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 on 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. We closed out both the fourth quarter and full year with double-digit adjusted returns on common equity, and I believe that even stronger results are firmly in our future. 2023 was a transformative year for us, and our significant efforts position us for meaningful success in the new legislative environment. We've added a buffer to our loss picks and bolstered reserves for years that predate elimination of one-way attorney fees and assignment of benefits to what I view as the most conservative level in our history.

Importantly, we did this because we wanted to place the past in the rearview mirror and shift our focus to the future. In 2023, we took yet another step toward the future by commuting Hurricane Irma, the largest and most significant storm in our history with the Florida Hurricane Catastrophe Fund. Now that we're past the 1-year anniversary date of the 2022 special legislative session and all new and renewal policies are subject to the new legislation, the impact of the reforms is becoming clear. Claims trends across the board are improving, including reductions in total claims, represented claims, assigned claims, and daily claims.

Our first event 2024-2025 reinsurance tower is already 90% secured, and we've negotiated additional multiyear capacity for the future. Given our size, scale, independent agency and reinsurer relationships and the recent steps we've taken, we are particularly well positioned to succeed in the revamped Florida 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 diluted earnings per common share was $0.43, down from adjusted diluted earnings per common share of $0.72 in the prior year quarter. The decrease mostly stems from a higher net loss ratio and lower commission revenue, partially offset by a lower net expense ratio and higher net investment income. Core revenue of $365.7 million was up 12.1% year-over-year, with growth primarily stemming from higher net premiums earned and net investment income, partially offset by lower commission revenue.

Direct premiums written were $432.6 million, up 4% from the prior year quarter, including 0.6% growth in Florida and 18.6% growth in Other States. Overall, growth reflects rate increases partially offset by lower policies in force. Direct premiums earned of $482.1 million were up 3.9% year-over-year, reflecting rate-driven premium's written growth over the last 12 months. Net premiums earned were $335.4 million, up 14.9% 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 103.7%, up 2.3 points compared to the prior year quarter. The increase reflects a higher net loss ratio and a lower net expense ratio. The 81.9% net loss ratio was up 5.6 points year-over-year, with the increase primarily attributable to a higher calendar year loss pick. The 21.8% net expense ratio improved by 3.3 points year-over-year, primarily reflecting lower renewal commission rates paid to distribution partners.

During the fourth quarter, the company repurchased approximately 223,000 shares at an aggregate cost of $3.6 million. The company's current share repurchase authorization program has $4.1 million remaining. On February 8, 2024, the Board of Directors declared a regular quarterly cash dividend of $0.16 per share of common stock payable March 15, 2024, to shareholders of record as of the close of business on March 8, 2024. 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.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could maybe take a step back or maybe step forward and talk about the outlook for premium growth perspective. You've got a number of sort of cross currents in my mind with obviously rate still a positive effect. But I don't know if at some point you expect to stop effectively shrinking in some areas to offset that rate. And other factors, obviously, the mix changes will affect premium growth. Can you kind of just talk about those major factors and how we should think of them as we're thinking about the company over the next couple of years?

Stephen Joseph Donaghy
CEO & Director

Yes. Paul, thanks for the question. As we analyze and look at the successful legislation changes that went into effect at the end of '22, that has an impact on a lot of things we analyze and we do. So in '23, we had a premium indication of approximately 15%, and we implemented a 7.2% increase across our book. That's had several positive impacts to Floridians and to the company in that our retention has improved and the book of business is more stable.

As we look to the future, those rate increases are predicated on the prior 12 months experience. So we'll take all those factors into account sometime around May and in future years as well and continue to make the best decisions possible for the company and our insurers and our agents. But I would -- if you're looking for an indication, I would say we'll continue to take some rate. It won't be the extremes we've taken in the past, like '19 through '22. But I think the indications are still positive. And hopefully, at some point in the future, we'll see rate reductions flowing through the book as a result of what was passed in the end of '22.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Are you at the point where you are growing on a PIF count or want to grow on a PIF count in both in and outside of Florida?

Stephen Joseph Donaghy
CEO & Director

Yes, Paul. As you saw in the release, we grew last year outside of Florida. And beginning in December, we began adding policies to our Florida book of business as well. So again, we are laser-focused on profitability and where the business is coming from. Not all counties or territories in the state are behaving identically, so we are being very careful as we kind of head into the future in this new environment.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then maybe turning to the Baxter margin of conservatism and the loss pick. Could we kind of talk about the components of that? Obviously, you would expect it to go the other direction with the impact of tort reform, but there must have been some justification for that extra higher asset pick from other factors and maybe you could talk about those factors.

Stephen Joseph Donaghy
CEO & Director

Yes. I think, Paul, as I run the company and all the various influencers that affect our business, and in particular, the Florida book of business, we felt it was very prudent to be extremely cautious or cautious as we went through 2023 because the legislation didn't affect all policies until the renewal point of each. And we wanted to make sure that we had enough dry powder to handle the business as well as be positioned going forward to be very secure as we look to begin to grow the business once again.

Frank Crawford Wilcox
Chief Financial Officer

Yes. And just to follow up on that, Paul. When you look at our reserves in multiple respects, whether or not it's just absolute dollars on a net basis, whether it's on an average for the claim counts, which by the way, are lower than they've been quite some time, they're higher than they've ever been or higher relative to our insured value. They're higher relative to our premium in force. So we feel that our balance sheet is stronger going forward than it's ever been.

Operator

Our next question comes from Nicolas Iacoviello with Dowling & Partners.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

First question just was there any net adverse development in the quarter and if so, from what events?

Stephen Joseph Donaghy
CEO & Director

Yes, Nick. As we went through 2023, we had considerable redundancy into our loss pick. So after working with our actuaries, both internal and external, we decided to take a look at the claims and the files and add dry powder to any of those that were in place prior to the new legislation affecting that particular policy.

So we added -- due to the redundancy and the way it resulted, we added 4 points to prior years. But again, primarily, that is dry powder that will be used as we kind of put them in the rearview mirror going forward. So all in all, it was 4 points of the loss pick that we took out of '23 and spread across prior years.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. Just curious as well, was there a claims handling benefit booked in the quarter?

Frank Crawford Wilcox
Chief Financial Officer

Yes. That was negligible for the quarter. I believe it was under $1 million.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

I was just curious on the comment in the press release on 90% of the first event tower being secured. Can you talk about maybe the current expectation for the captive utilization?

Stephen Joseph Donaghy
CEO & Director

Nick, can you repeat that last part of the question? I'm sorry.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

No problem. Just like the current expectation for the captive participation in the '24 and '25 tower?

Stephen Joseph Donaghy
CEO & Director

Yes. We -- again, sitting at 90% accomplished for the first tower, Nick, we are very pleased with how our teams performed in the market. The reinsurer now is a year-round effort for myself and our reinsurance team, Matt Palmieri in particular. And we feel really good about where we're at. I don't think that we will change our philosophy on how we have used the captive in the past.

We haven't completed it at this point. And if the open market comes in at a competitive rate, we would consider that in lieu of. But as I sit here today, I think we would continue and it worked out very well for the company last year.

Frank Crawford Wilcox
Chief Financial Officer

It's proven to be very effective.

Stephen Joseph Donaghy
CEO & Director

Yes.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Steve Donaghy, CEO, for closing remarks.

Stephen Joseph Donaghy
CEO & Director

Thank you. I'd like to thank all of our associates, our insurers, our agency force, our reinsurance partners, and our stakeholders for their continued support of Universal. Have a great day.

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