

Tiptree Inc. NasdaqCM:TIPT

FY 2018 Earnings Call Transcripts

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EXECUTIVES

Michael Gene Barnes

Executive Chairman of the Board

Sandra E. Bell

Chief Financial Officer

Presentation

Operator

Greetings, and welcome to the Tiptree Fourth Quarter and Full Year 2018 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the conference over to your host, Sandra Bell, Chief Financial Officer. Thank you. You may begin.

Sandra E. Bell

Chief Financial Officer

Good morning, and welcome to our Fourth Quarter 2018 Earnings Call. We are joined today by: our Executive Chairman, Michael Barnes; and our CEO, Jonathan Ilany. We have posted the earnings release and presentation on our website at tiptreeinc.com.

Our remarks today are qualified in their entirety by the disclaimers on Page 1 of the presentation. This presentation supplements our SEC filings and is provided solely for information purposes. Throughout the presentation, we make forward-looking statements. Our businesses are subject to risks and uncertainties, which are outlined in our SEC filings and which could impact our expectations of future results. Except as required by securities law, we undertake no obligation to update any forward-looking statement.

In addition, we use non-GAAP measures, which we believe provide supplemental information about our business and are useful to investors. As these measures are not GAAP, they should not be used as a substitute for GAAP disclosures. The appendix in the presentation provides a reconciliation of each of these measures to their GAAP equivalent.

With that, we will turn the call over to Michael.

Michael Gene Barnes

Executive Chairman of the Board

Thank you, Sandra, and good morning, everyone. I'll begin the call today by going through our 2018 accomplishments relative to our original goals for the year. We started 2018 with 3 key objectives: grow the insurance business organically and through acquisition, while maintaining our focus on strong underwriting performance; grow and refine the investment within Tiptree Capital; and generate enhanced risk-adjusted, long-term returns for our shareholders.

Beginning with the first of these objectives, our Specialty Insurance business grew significantly in 2018. Gross written premiums were up 13%, while our net written premiums were up 11.7%, both driven by organic growth in credit protection and other specialty product lines. Strong consumer demand for credit and warranties on products ranging from autos to furniture continue to support our growth. Our combined ratio remains steady in the low 90s, demonstrating our continued ability to underwrite profitably while increasing written premium. Both factors contributed to strong growth in operating EBITDA in our insurance business, which was up 21% over the prior year. As we move into 2019, we believe our expansion into Europe will support additional organic growth throughout the year and complement our U.S. business.

Although we made no acquisitions in 2018, we continue to look for the right platforms at the right price. We use a disciplined approach to evaluating potential acquisitions, focusing on opportunities that build on our current offering or add adjacent products that complement our strengths.

Our second objective was to grow and refine the investments within Tiptree Capital. As we mentioned in the first quarter, the sale of our seniors housing business to Invesque was the first of those steps and was completed in February of 2018.

In the fourth quarter, our gain increased as Invesque sold certain properties previously owned by us, resulting in a total gain, including the fourth quarter sale, of \$1.16 per share. Although the ownership of our shares in Invesque are mark-to-market and thus may impact earnings from quarter-to-quarter, we continue to believe in the long-term prospects for their business.

In the second half of 2018, we invested \$50 million in 3 dry bulk vessel at what we believe is an attractive point in the cycle. As we recently announced in February, we have taken steps to enhance Tiptree's asset management capabilities by allocating \$75 million of capital to seed new investment funds in exchange for management control and a profit participation in Tricadia. We expect these funds to be reallocated from existing investments into broader credit strategies, including the potential increasing opportunities in distressed credit.

Our third objective was to generate enhanced risk-adjusted returns for our shareholders. Our total return over the year was 9.6%, as measured by growth in book value per share plus dividends paid. In 2018, we repurchased almost 2.2 million shares for \$14.2 million. Since year-end, we repurchased an additional 1.5 million shares for \$9.1 million. These share repurchases were at an average 40% discount to book value.

Last year, we also increased our cash dividends paid by 12.5% to \$0.135 per share.

Lastly, consistent with our goal of simplifying our corporate structure, we eliminated our dual class structure in April of 2018.

With that, I'll pass it to Sandra, who will take you through the 2018 financial results in more detail. At the end of the call, I will review our objectives for 2019.

Sandra E. Bell
Chief Financial Officer

Thank you, Michael. On Page 4, we highlight the company's key metrics for 2018. Net income was \$29.9 million, an increase of \$24.7 million from the prior year period.

Pretax income, including continuing and discontinued operations, was \$37.7 million, also up significantly from 2017. The increase in both metrics was primarily driven by improvement in income at our insurance business and the gain on sale of our senior living business. Partially offsetting those factors was \$34.8 million of pretax unrealized losses on investments, \$20.7 million was related to mark-to-market declines on our Invesque shares, and \$6.9 million on our corporate loan portfolio.

Operating EBITDA for the year was \$54.9 million, down just under 10%. The year was positively impacted by growth in our insurance operations, but that positive performance was more than offset by lower distribution as a result of the prior sale of credit-related investments, combined with the fact that capital was not yet fully redeployed until late 2018.

On the bottom of the page, we show a walk from operating EBITDA to total pretax income, highlighting the key differences between the 2 metrics.

Book value per share increased to \$10.79, up \$0.82 from the prior year-end as the gain on sale of our seniors housing business, improvement in insurance results and share buybacks overcame any negative factors.

Turning to Page 5, we highlight our capital allocated between Specialty Insurance and Tiptree Capital, along with the respective returns on that capital in order to assist investors in understanding Tiptree's value. When considering capital allocation decisions, we look at total capital, which includes corporate debt held at the holding company and at our insurance subsidiary. We evaluate our return on capital using trailing 12-month operating EBITDA, which for the most recent period was \$54.9 million.

Our total return of approximately 8.4% is composed of a 14.4% return in Specialty Insurance and an 8% return in Tiptree Capital. These returns were slightly lower than we would expect for 2 reasons. Just over \$28 million of excess liquidity sits at the corporate level and has not yet been reinvested. In addition, the capital invested into shipping occurred in the second half of the year.

Corporate expenses remain stable as investments in infrastructure continue to provide opportunities to achieve scalable efficiencies.

Now let's turn to our Specialty Insurance results. On Page 7, we highlight our insurance underwriting performance, and then on the following page, returns from the insurance investment portfolio. We continued to see positive top line growth across our product line. In 2018, gross written premiums grew \$100 million year-over-year, up 13.0%. Retention of written premiums was stable at approximately 54%. As we continue to expand product offerings, we expect that retention rate may expand slightly over time.

Of our net written premiums, 24% was warranty and other specialty programs, up approximately 3 percentage points over the prior year, driven primarily by other specialty programs.

Underwriting margin grew \$14.4 million, leading to growth in operating EBITDA of \$11.2 million, driven by strong performance in all our product lines.

The 20.5% year-over-year growth in unearned premium reserves and deferred revenue on our balance sheet continues to demonstrate future revenue potential.

Our combined ratio for the year was 92.5%, a modest improvement from last year, demonstrating our ability to continue to grow profitably in our insurance business.

Turning to the insurance investment portfolio, our net investments grew by almost \$66.8 million, up 16.9%, driven by our growth in net written premium.

Net investment income was \$19.2 million, up 17.8%, driven by growth in the portfolio and rising interest income on our floating rate assets. Just over 20% of the \$463 million portfolio is currently floating rate tied to LIBOR.

Net portfolio income was \$2.4 million, up approximately \$9.2 million versus the prior year loss. The improved performance was driven by the same positive factors that drove net investment income plus lower unrealized losses and lower asset-based interest expense.

On Page 10, we present the results of Tiptree Capital, which consists today of asset management operations, mortgage operations, our investment in ships and our Invesque shares. Over time, we would expect that our investments could shift as we recognize returns in 1 asset class or business and reinvest in others. Our senior living results, now a discontinued operation, are presented here to facilitate period-over-period comparison.

As of year-end 2018, our investment in Invesque represents \$113.1 million, of which \$93.6 million is held in Tiptree Capital. The remainder is in our insurance portfolio.

50% of our Invesque shares are subject to transfer restrictions that extend through August 1, 2019. Given those restrictions, under GAAP as of the end of the year, our valuation represents an approximate \$5.5 million discount to the market value of Invesque shares, most of which will accrete into our income statement over the remaining period.

For 2018, the dividend income, unrealized loss on the shares and the Care gain are included in real assets. Real assets also include operating EBITDA related to our ships for the part of the year they were included in our operations.

Asset management and credit investment operating EBITDA was \$2.9 million, down \$7.5 million from 2017, driven by the shift away from levered credit investments mentioned earlier.

Mortgage operations were impacted by lower volumes and margins as mortgage interest rates have risen substantially over the past 12 months, providing near-term headwinds for this business.

Now, we will turn the call back to Michael to conclude our prepared remarks.

Michael Gene Barnes
Executive Chairman of the Board

Thanks, Sandra. Throughout 2018, we executed on several strategic objectives to expand our insurance business, to realign our investments in Tiptree Capital and to simplify our corporate structure. Our total return, as measured by growth in book value and dividends paid, was 9.6%, despite the headwind from mark-to-market on our Invesque shares and credit investment.

In 2019, we expect to see continued growth in our insurance business, both organically and selectively through acquisition, should we find the right one. We will also look to grow our insurance investment portfolio in line with the business and to enhance its total return over the long term.

Within Tiptree Capital, we expect to continue to realign our capital where we believe the most attractive long-term opportunities exist, including the continued repositioning of our asset management business and investing in the shipping sector, which we believe is at an attractive point in the cycle.

With that, we will open the line for questions.

Operator

[Operator Instructions] If there are no further questions, I'd like to turn the floor back to Ms. Bell for any closing comments.

Sandra E. Bell

Chief Financial Officer

Thank you, Matt, and thanks, everyone, for joining us today. If you have any questions, please feel free to reach out to me directly. This concludes our fourth quarter conference call.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you, again, for your participation.

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