

Tiptree Inc. NasdaqCM:TIPT

FQ1 2020 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates



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# Call Participants

## EXECUTIVES

**Michael Gene Barnes**

*Executive Chairman of the Board*

**Sandra E. Bell**

*Chief Financial Officer*

# Presentation

## Operator

Greetings. Welcome to Tiptree's First Quarter 2020 Earnings Conference Call.

[Operator Instructions] Please note this conference is being recorded.

I would 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 first quarter 2020 earnings call.

We are joined today by our Executive Chairman, Michael Barnes; and CEO, Jonathan Ilany.

You can find the slides that accompany this review on our investor relations website.

Please note that some of our comments today will contain forward-looking statements based on our current view of our business, and actual future results may differ materially. Please see our most recent SEC filings, which identify the principal risks and uncertainties that could affect future performance. Before I turn the call over to Michael, just a few additional housekeeping items: Today, we will discuss certain adjusted or non-GAAP financial measures, which are described in more detail in this morning's presentation. Reconciliations of non-GAAP financial measures and other associated disclosures are contained in our SEC filings, the appendix to our presentation; and posted on our website.

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

## **Michael Gene Barnes**

*Executive Chairman of the Board*

Thank you, Sandra. And good morning to everyone.

We are entering the second quarter of 2020 at an extraordinary time, as social distancing measures to combat COVID-19 are significantly impacting global economies and financial markets. While financial market volatility and the resulting unrealized mark-to-market losses drove a 15.2% decline in our book value, we believe our underlying business fundamentals and capital base are well positioned to get the company through these uncertain times. Throughout our company, our management teams and all of our employees continue to show remarkable resiliency and remained focused on serving our customers and business partners.

Despite the uncertainties surrounding global social distancing measures that began in February and reached the United States in mid-March, we continued to see positive sales growth across our businesses in the first quarter. Operating EBITDA was up 25%, reflecting the solid underlying operating fundamentals of our businesses. In Tiptree Insurance, gross written premiums of \$277 million were up 40% over the prior year first quarter, while net written premiums grew 10%. We continued to maintain this growth without compromising our underwriting profitability, as our combined ratio remained consistent with prior quarters at 93%. In January 2020, we acquired Smart AutoCare, which we expect to accelerate our growth in auto warranty as social activity gradually returns to more normal conditions.

Our insurance portfolio ended the quarter at \$529 million, up 14% year-over-year, in line with our underlying premium growth. While equities and some other investments were impacted by unrealized mark-to-market losses, we believe our capital position remains strong relative to our claims liabilities. We were fortunate that our reduction in corporate credit exposure and increased allocation into agency securities had a positive effect for the quarter. More than 76% of the portfolio is currently held in highly liquid securities with an average rating of AA.

While operating EBITDA was positive, profits within Tiptree Capital were meaningfully impacted by unrealized mark-to-market losses on our investment in Invesque. Like many companies operating in the skilled nursing and senior living sectors, Invesque has taken steps to conserve liquidity and in April suspended its dividend until the effects of their operations are fully known. Within shipping, the reduction in demand has affected charter rates for dry bulk commodities,

with a notable exception of grain. However, the oversupply in oil markets has led to significant demand in floating storage, significantly increasing charter rates for product tankers.

Overall to date, we have seen a modest impact to our business operations from the economic lockdown. As the U.S. and Europe begin the reopening process, we feel we are well positioned to absorb the changing outlooks for consumer demand, global trade and financial markets. In short, we believe we are well positioned to ride out this storm. The balance of 2020 will no doubt continue to have many challenges, but our commitment to our objectives of growing our insurance business, enhancing our results in Tiptree Capital and delivering superior long-term risk-adjusted returns for our shareholders will remain.

With that, I'll pass it to Sandra, who will take you through the financial results in more detail.

**Sandra E. Bell**  
*Chief Financial Officer*

Thank you, Michael.

On Page 4, we have presented the company's key metrics for the first quarter 2020 compared to the prior year period.

Net loss before noncontrolling interests for the quarter was \$60.6 million, a decrease of \$64.9 million over the prior year. The decrease was primarily driven by unrealized losses on our investment in Invesque as well as other equities, reflecting the disruption in global markets as a result of the COVID-19 pandemic. Excluding investment gains and losses, revenues were up 18.7%, driven by improvements in Tiptree Insurance top line results, including the addition of Smart AutoCare. Operating EBITDA for the quarter was \$15.8 million, up 25% from the prior year due to growth in insurance operations as well as positive contributions from Tiptree Capital driven primarily by a full quarter of shipping operations with all 5 vessels under management.

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 decreased to \$9.73, driven by the net loss mentioned earlier. Despite the decline in book value, we believe that we maintained sufficient capital and liquidity to support our business. At quarter end, cash and cash equivalents were \$108.8 million, \$84 million of which is held outside the statutory insurance entities.

Turning to Page 5, we highlight our capital allocated between Tiptree Insurance and Tiptree Capital, along with their respective returns, to insist -- to assist investors in understanding Tiptree's enterprise value. When considering capital allocation decisions, we look at total capital, which includes corporate debt held at both the holding company and at our insurance subsidiaries. In February, we extended the maturity and upsized our corporate credit facility with a new \$125 million 5-year borrowing.

We evaluate our return on capital using operating EBITDA, to which the latest 12-month period was \$66.9 million, up 14.2% from the latest 12-month period ending Q1 2019. Our total return of approximately 9.7% is driven by a 13.2% return in Tiptree Insurance and a 13.4% return in Tiptree Capital. The key drivers for the period were growth in insurance underwriting income and fee revenues across all product lines, including contributions from Smart AutoCare for the first quarter of 2020; positive contributions from shipping and mortgage operations in Tiptree Capital; and relatively stable corporate expenses. The most recent 12-month period included approximately \$12 million of dividends from our holdings of Invesque. Our earnings from Tiptree Capital [ will leave ] the benefit of approximately \$2.5 million of earnings per quarter, while Invesque dividend is suspend.

With that, let's turn to Tiptree Insurance results for the quarter. On Page 7, we highlight our underwriting performance and then, on the following page, returns from the investment portfolio.

We continue to see positive top line growth across our product lines. Gross written premiums were \$277 million, up 40%. Net written premiums grew by \$11.5 million, driven by growth in warranty and specialty programs. Underwriting margin was up \$9.6 million or 29.5%. And our combined ratio held steady at 93.3%, demonstrating our ability to continue to grow profitably in our insurance business. Unearned premiums and deferred revenue on the balance sheet stand at over \$1 billion at the end of the quarter, up 55.5% from this time last year, including \$158 million from Smart AutoCare. While we expect to see a slowing in this growth trajectory in Q2 as the economies reopen in the U.S. and Europe, we expect to slowly return to normalized growth rates in the second half of the year.

Turning to the investment portfolio on Page 8. Our net investments grew by \$67 million year-over-year, up 14.4%, driven by growth in net written premiums. \$407 million of the portfolio or 76% is held in liquid, highly rated fixed income securities. The average rating on that portion of the portfolio is AA, which we believe should continue to provide sufficient support to our claims paying ability despite the current volatile market. Net investment income for the quarter was \$3.5 million, down \$0.8 million, as we reduced our exposure to levered corporate credit, combined with an overall decline in interest rates. Despite decline -- the decline in income, we believe that the portfolio benefits created by the stability in our fixed income portfolio as a result of these moves more than offsets the short-term loss of income. We ended the quarter with \$19 million of cash available for reinvestment in the portfolio.

Net portfolio loss was \$29.7 million, down approximately \$39 million versus the prior year period, driven by unrealized and realized losses of \$33.6 million on equities and other securities in the portfolio, \$10.2 million of which was related to Invesque. The unrealized losses were primarily driven by the financial market disruptions related to the economic impacts from COVID-19.

On Page 10, we present the results of Tiptree Capital, which today consists of our Invesque shares, shipping and mortgage operations. Over time, we would expect that our investments could shift as we recognize returns in one asset class or business and reinvest in others. For the quarter, the pretax loss was the result of unrealized losses on our Invesque shares. At the end of the quarter, our Invesque investment held in Tiptree Capital was \$45 million. The remaining \$9 million is held in our insurance portfolio.

For the quarter, operating EBITDA in Tiptree Capital increased to \$6.1 million, primarily driven by a full quarter of operations from the vessels purchased in 2019 in our maritime shipping business.

Now let me return the call back to Michael to conclude our prepared remarks.

**Michael Gene Barnes**  
*Executive Chairman of the Board*

Thanks, Sandra.

As Tiptree continues to navigate this challenging time, I want to thank our talented group of over 1,000 employees for their disciplined focus on serving our customers and keeping our operations running smoothly. While the economic disruption of the pandemic has impacted our financial performance for this quarter, we believe we are well positioned to weather the current challenges and continue our focus on the long term.

With that, we will open the line for questions.

**Operator**

[Operator Instructions] As there are no questions at this time. I would like to turn the call back over to Sandra Bell for any closing remarks.

**Sandra E. Bell**  
*Chief Financial Officer*

Thank you, Devin. And thanks, everyone, for joining us today. If you have any questions, please feel free to reach out to me directly.

This concludes our conference call.

**Operator**

This concludes today's conference call. You may now disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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