S&P Capital IQ

CONTENTS

Universal Insurance Holdings, Inc. NYSE:UVE

FQ2 2015 Earnings Call Transcripts

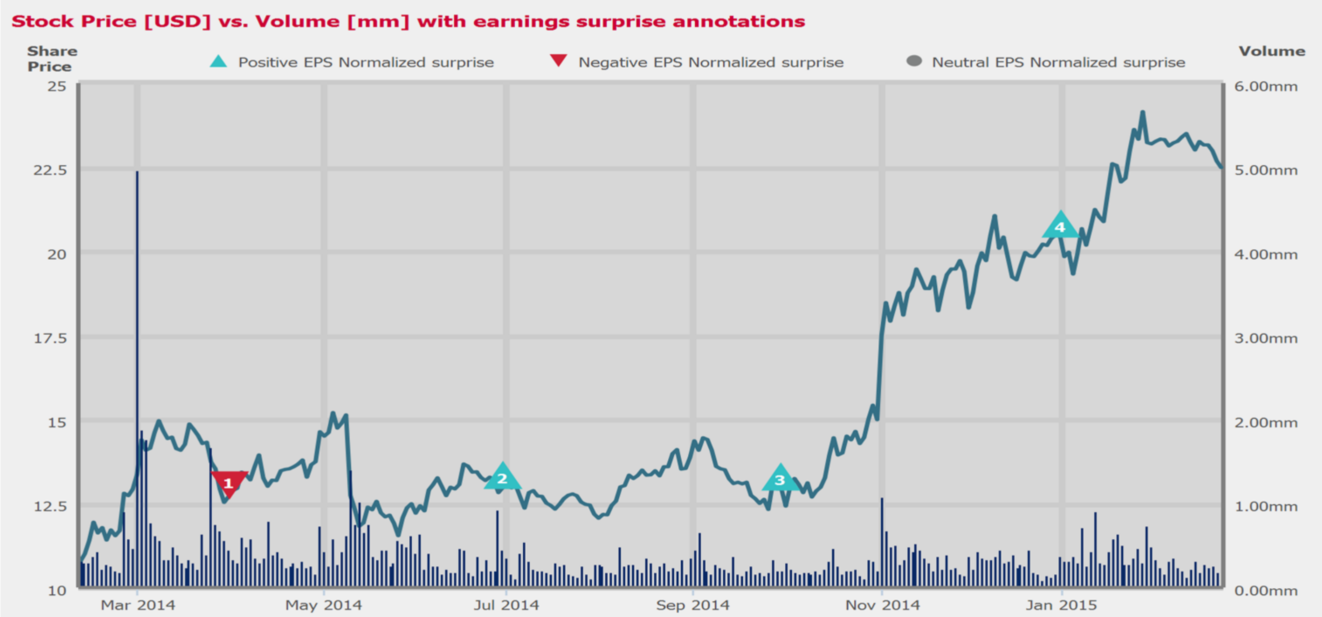
Tuesday, August 04, 2015 12:00 AM GMT

S&P Capital IQ Estimates

	-FQ1 2015-	-FQ2 2015-		-FY 2015-	-FY 2016-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.52	0.55	▲25.45	2.38	2.65
Revenue (mm)	106.13	121.07	▲2.08	525.56	-

Currency: USD

Consensus as of Jul-12-2015 11:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.43	0.38	▼1 (11.63 %)
FQ2 2014	0.37	0.49	▲2 32.43 %
FQ3 2014	0.39	0.61	▲3 56.41 %
FQ4 2014	0.53	0.59	▲4 11.32 %

Call Participants

EXECUTIVES

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Jon W. Springer
President, Chief Risk Officer and Director

Sean P. Downes
Chairman and Chief Executive Officer

Presentation

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Hello, and welcome to the second quarter 2015 earnings presentation for Universal Insurance Holdings Inc. I'm Frank Wilcox, Chief Financial Officer.

Making the presentation with me today are Sean Downes, Chairman, President and Chief Executive Officer; and Jon Springer, the Director, Executive Vice President and Chief Operating Officer.

Earlier today, we filed our Form 10-Q with the Securities and Exchange Commission and issued our earnings release. To find copies of these documents, please visit the Financial Information and Press Releases sections of our website at www.universalinsuranceholdings.com. Our SEC filings can also be found on the SEC's website.

In addition, an audio recording of this presentation will be available on the homepage of our website until September 4, 2015.

Before we begin, please note that this presentation may contain forward-looking statements about our business and financial results. Forward-looking statements reflect our current views regarding future events and are typically associated with the use of words such as believe, expect, anticipate and similar expressions. We caution those listening, including investors, not to rely on forward-looking statements as they imply risks and uncertainties, some of which cannot be predicted or quantified, and future results could differ materially from our expectations. We encourage you to carefully consider the risks described in our SEC filings with the SEC, which are available on the SEC's website or the SEC Filings section of our website. We do not undertake any obligation to update or correct any forward-looking statements.

With that said, I'd like to turn the presentation over to Sean Downes.

Sean P. Downes
Chairman and Chief Executive Officer

Thank you, Frank. As usual, I would like to provide some highlights from the quarter. Jon will then discuss our operational highlights, and then Frank will conclude by discussing our financial results for the period.

I am very pleased to report another record quarter, including the highest quarterly net income and diluted EPS in company history. Our performance was driven by steady and consistent execution across our organization, together with our focus on generating profitable, organically grown rate-adequate business. We've delivered on a number of key strategic and operational initiatives in recent months, which positively impacted our results for the quarter and which we believe will continue to drive future returns.

One of our key recent key achievements was a successful completion of our 2015-'16 reinsurance programs, which in addition to providing significant cost savings, included the elimination of our quota share agreement. As a result, we are retaining 100% of our business for the first time in company history. In short, we are confident in the quality and rate adequacy of our business and have the capital to support it. Importantly, our second quarter results include only one month of our quota share elimination, and we therefore expect to realize additional value from this important strategic step in the following quarters.

As a result of both the elimination of the quota share as well as an increase in policies in force, we delivered net earned premium growth of nearly 54% year-over-year. We've also continued to make positive headway on our strategy to expand outside of Florida and diversify our portfolio from an exposure perspective. We recently announced continued progress on this initiative, receiving certificates of authority from Michigan, Minnesota and Virginia.

Our success is evident in the numbers as our expansion in states outside of Florida is yielding growth and policy count of 21.4% since December 31, 2014, and 41.4% since June 30, 2014.

Our strong results have allowed us to continue returning value to shareholders both through our dividend and through the previously announced repurchase of over $5 million of common stock through a privately negotiated transaction with Nephila Capital, one of our shareholders and leaders in the reinsurance space.

We continuously evaluate our capital needs, and we'll remain focused on deploying our excess cash to deliver additional value to our shareholders.

In conclusion, we are executing well on all aspects of our business and remain confident in our future prospects. Our priorities remain clear. We will continue to focus on increasing our market share by targeting profitable, rate-adequate business from our growing distribution channels, improve our financial condition and continue our geographic expansion efforts. Universal stands well positioned to capitalize on the many opportunities for profitable growth in our markets while driving increasing value to our shareholders.

With that, let me turn it over to Jon. Jon?

Jon W. Springer
President, Chief Risk Officer and Director

Thank you, Sean. I would like to comment further on 2 items you briefly mentioned: the recent exposure changes in UPCIC and its June 1, 2015 reinsurance program. First, regarding exposure changes in 2Q 2015, I'm pleased to also report that not only did we make positive headway overall, we realized policy count and premium growth in each and every one of our 10 active states. In total, policy count grew by 3.7% and in-force premium grew by 4% during the 3-month period. As Sean mentioned, our business outside of Florida continues to grow at an accelerated rate and now represents nearly 14% of our total insured value. Lastly, the UPCIC reinsurance program was completed with an effective date of June 1, 2015.

As previously announced, our primary focus this year was to successfully eliminate quota share, reassume the unearned premium and protect the company with the necessary additional catastrophe excess coverage. We were pleased to be able to accomplish our reinsurance goals and now be in a position of retaining 100% of our business.

In addition to the successful elimination of the quota share, other highlights of this year's UPCIC reinsurance program include the following: 50% of the catastrophe excess capacity purchased below the FHCF attachment being placed on a 3-year basis to provide additional long-term catastrophe reinsurance pricing certainty. All of UPCIC's exposures now being covered in one reinsurance tower, with a 168-hour loss occurrence definition, affording maximum protection for a catastrophe loss both inside and outside of Florida. Top end coverage exceeding $2 billion for a first event in Florida, which represents coverage in excess of the 100- and 200-year PML level modeled using UPCIC actual exposures as of June 30, 2015.

Program retention, as a percent of retained earned premium, remaining constant year-over-year and the overall lowest cost as a percentage of retained earned premium in recent company history.

With that, I'll now turn the discussion over to Frank Wilcox for our financial highlights.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Thank you, Jon. I'd like to provide a little bit more detail around the financial results for the quarter, their drivers and briefly touch upon the results for the first 6 months, which ended June 30, 2015.

Net income for the second quarter of 2015 totaled $24.7 million, which is an increase of 44.2% compared to $17.1 million in 2014. This is a reflection of our efforts to build a higher quality and more rate-adequate portfolio of policies that led to favorable changes in the structure of our reinsurance programs. It also reflects several measures taken to streamline the claims process, leading to improved losses and loss adjustment expense ratios.

Diluted EPS for the second quarter was $0.69, which is up $0.20, which equates to a 40.9% increase from the same quarter in 2014. This reflects the increase in net income, which was partially offset by a modest increase in weighted average diluted shares outstanding. An increase in net earned premiums of $39.5 million or 53.9% for the second quarter compared to the same period in 2014 reflects a decrease in ceded earned premiums of $26.8 million and an increase in direct earned premiums of $12.7 million. The increase in direct earned premiums is due primarily to an increase in the number of policies in force. The success of reductions in the session rate of our quota share reinsurance contracts was a significant factor behind the increase in net earned premiums. We also had a significant improvement in the loss and loss adjustment expense ratio and effective tax rate.

Net investment income increased by $795,000 or 193% for the second quarter of 2015 to $1.2 million. This reflects an increase in our investments and actions taken to rebalance our portfolio to increase yield. We generated net realized gains on investments of $110,000 during the second quarter of 2015 compared to $4 million for the same period in 2014.

Commission revenue of $3.5 million for the quarter was down by $196,000 or 5.3% as a results of both a decrease in the cost of certain reinsurance contracts and differences in the structure of our reinsurance programs.

Policy fees of $4.4 million for the quarter were up $453,000 or 11.6% as a result of the increase in policy count. Other revenue of $1.6 million for the quarter was down by $136,000 or 8% as a result of a decrease in financing fees and charges. While our policy count is up, fewer homeowners are financing policies.

Losses and loss adjustment expenses of $39.7 million for the quarter were $12 million or 43.4% higher than the second quarter of 2014, which was the result of a decrease in the amount of losses and loss adjustment expenses ceded to reinsurers under our quota share reinsurance contracts. However, losses and loss adjustment expenses as a percentage of net earned premiums decreased to 35.2% for the second quarter of 2015 compared to 37.7% for the same period in 2014. This decrease reflects both lower losses and loss adjustment expenses as a percentage of earned premiums as a result of operational improvements to expedite claims, combined with the benefit of lower reinsurance costs relative to the increase in net earned premiums. The operational improvements include those realized as a result of the acquisition of Aplin Peer & Associates in the first quarter of 2015.

General and administrative expenses were $42.7 million for the second quarter of 2015 compared to $28.9 million for the same quarter in 2014. The majority of the increase of $13.8 million or 47.6% is due to $11.3 million of additional amortization of net deferred acquisition costs, resulting mostly from the changes in the rate of ceded premiums from 45% to 30% and our quota share contracts effective from June 1, 2014, through May 31, 2015, and the elimination of quota share reinsurance effective June 1, 2015.

There were also increases in stock-based compensation of $1.2 million, which reflected an appreciation of the market price of our common shares, and performance bonus accruals of $1.6 million resulting from the increase in income before income taxes.

The effective income tax rate decreased to 40.1% for the second quarter of 2015 from 43.7% for the same quarter in 2014 and reflects an increase in the amount of taxable income relative to nondeductible expenses and a reduction in the amount of nondeductible executive compensation.

Now let me turn briefly to our year-to-date results for 2015. Net income increased by $16.4 million or 53.3% for the first 6 months of 2015 compared to the same period in 2014. This reflects an increase in net earned premiums, net investment income and policy fees, which were partially offset by decreases in commission revenue, net realized gains on investments and other revenues and increases in operating expenses.

Stockholder's equity reached an all-time high of $255.3 million as of June 30, 2015, compared to pro forma stockholders' equity of $218.9 million as of December 31, 2014.

In closing, we believe our results for the quarter and the strength of our balance sheet reflects the strategic and operational initiatives we have made to improve our long-term financial position.

I'll now turn it back to Sean for closing comments.

Sean P. Downes
Chairman and Chief Executive Officer
Before I conclude, as always, I would like to thank all of our agents, policyholders and our employees. I would also like to thank all of our directors and shareholders, as well as our management team for their loyalty and dedication to the company. Thank you.