Tiptree Inc. NasdaqCM:TIPT

FQ2 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, and welcome to the Tiptree Inc. Second Quarter 2020 Earnings Conference Call.

[Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Sandra Bell. Thank you, Ms. Bell. You may begin.

Sandra E. Bell
Chief Financial Officer

Good morning, and welcome to our second 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 continue to live through extraordinary times as the social distancing measures to combat COVID-19 are continuing to significantly impact global economies and financial markets. While financial market volatility and the resulting unrealized mark-to-market losses drove an 11.7% year-over-year decline in our book value, we are encouraged by our underlying business fundamentals and believe we are well positioned to move the company forward through these uncertain times. Our underlying operations remained quite resilient. And excluding mark to market, first half revenues were up 17%, and operating EBITDA was $38 million, an increase of 50% from prior year. As Sandra will further detail, our capital and liquidity position remain strong. And our businesses and management teams have adapted well to the new environment, staying dedicated to serving our customers as well as looking for new opportunities.

In Tiptree Insurance, gross written premiums and equivalents of $694 million were up 23% over the prior year first half, driven by growth in our warranty and specialty programs. As expected, credit protection products experienced softness in the second quarter, driven by COVID-19 stimulus payments and the related reduction in consumer installment lending. This was offset by positive contributions from our warranty products, both from our recent acquisition and as volumes recovered from their April lows; and growth in specialty products from a combination of our continued focus on the market and the current hardening cycle.

Insurance margins have held stable, with our year-to-date combined ratio consistent with prior periods at 92.6%. Our insurance products have very limited exposure to lines of business impacted by COVID-19, such as business interruption or other similar coverages. Hence, we experience relative consistency through cycles. Within our insurance investment portfolio, we take a long-term view. Therefore, variability and the timing of investment gains and losses is to be expected. We continued to see volatility in the debt and equity markets in the second quarter related to the economic uncertainty associated with the COVID-19 pandemic. Following the significant declines in the fair value of our investments during the first quarter, we saw partial recoveries in the second quarter.

Our insurance portfolio ended the quarter at $546 million, up 12% year-over-year, in line with our underlying premium growth. We continue to maintain over 80% of our portfolio in cash and high-credit-quality and liquid investment-grade securities with an average rating of AA.

In Tiptree Capital, operating EBITDA was $17.9 million, up substantially from prior year, driven by strong performance in our mortgage operations. First half mortgage volumes were up 72% year-over-year, with notable improvements in gain on sale margins driven by the low interest rate environment. Our shipping operations held steady, generating stable cash returns over the past year. The reduction in second quarter demand impacted charter rates for dry bulk commodities. However, short-term oversupply in oil markets led to demand for floating storage, increasing charter rates for product tankers. While operations were quite positive, profits within Tiptree Capital were meaningfully impacted by unrealized mark-to-market losses on our investments -- on our investment in Invesque.

Like many companies operating in skilled nursing, senior living and medical office sectors, Invesque has taken steps to conserve liquidity, including suspending their dividend in April. In the second quarter of 2020, Invesque has publicly reported underlying rental revenue collections of 90% of contractual amounts owed in April and 94% in May. Overall to date, we have seen modest impact to our business operations from the economic lockdown. During these uncertain times, we believe our diverse set of businesses are well positioned to take advantage of opportunities in the second half of the year.

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 remain -- 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 present the company's key metrics for the second quarter 2020 compared to the prior year period.

Net income before noncontrolling interest for the quarter was $4.4 million, a decrease of $7.8 million over the prior year, which was primarily driven by unrealized losses on our investment in Invesque. Excluding investment gains and losses, revenues for the quarter were up 15%, driven by improvement in Tiptree Insurance top line results, including revenues from our warranty acquisition.

Operating EBITDA for the quarter was $22.2 million, up 75% from the prior year due to growth in Tiptree Insurance operations as well as positive contributions from Tiptree Capital, driven primarily by growth in volumes and margins in our mortgage business. Operating EBITDA for the year-to-date period was $38 million, up 50% from the prior year period. 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 $9.97 year-over-year, driven primarily by unrealized mark-to-market losses and dividends paid, partially offset by share repurchases.

We are comfortable with our capital position and believe we have sufficient liquidity to support our businesses. At quarter end, cash and cash equivalents were $80.6 million, $70 million of which is held outside the statutory insurance entities. In addition, subsequent to quarter end, we refinanced our revolving credit facility in our insurance business, extending the maturity for 3 years and upsizing the amount to $200 million. We expect to use the added capacity to support continued organic growth as well as bolt-on acquisitions.

On Page 5, we have added a slide highlighting certain KPI trends. Operating EBITDA in the first half of 2020 was up 50% over the prior year, reflecting the stability of Tiptree Insurance and growth in volumes and margins in our mortgage operations in Tiptree Capital. First half 2020 premiums and premium equivalents, despite the second quarter softness in credit protection, were up 23%, led by the acquisition of Smart AutoCare and the growth in light commercial and other specialty programs. And lastly, deferred revenues and unearned premiums, which represent future earnings potential, topped $1 billion for the first time in 2020.

Turning to Page 6. We highlight our capital allocated between Tiptree Insurance and Tiptree Capital, along with their respective returns, 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 subsidiary. We evaluate our return on capital using operating EBITDA, which for the latest 12-month period was $76.3 million, up 35.5% from the latest 12-month period ending Q2 2019. Our total return of approximately 11% is driven by 12.9% return in Tiptree Insurance and an 18.6% return in Tiptree Capital. The key drivers for the period were growth in underwriting income and fee revenue in warranty service contracts and in light commercial specialty programs, including contributions from Smart AutoCare for the first half of 2020; positive contributions from mortgage and shipping operations in Tiptree Capital and reduced corporate expenses, driven primarily by lower incentive compensation.

The most recent 12-month period included approximately $9 million of dividends from our holdings on Invesque. Our earnings from Tiptree Capital will lose the benefit of approximately $2.5 million per quarter while Invesque's dividend is suspended. For the first half, mortgage contributions more than offset the loss of the Invesque dividend, highlighting some of the benefits that diverse business operations can bring to Tiptree Capital.

With that, let's turn to Tiptree Insurance's results for the second quarter. On Page 8, we highlight our underwriting performance and then, on the following page, returns from the investment portfolio. For the first half of 2020, we saw growth in sales volumes, driven by our warranty acquisition and growth in light commercial and other specialty programs.

For the first half of 2020, gross written premiums were $490 million, up 6%. Net written premiums decreased by $42 million, primarily driven by the softness in volumes in credit protection and the reinsurance transaction we executed at the end of 2019. Credit protection premiums were down in the second quarter, driven by lower consumer credit growth, which also resulted in increased payoffs and cancellations. Stimulus payments and enhanced unemployment as part of the CARES Act contributed to both factors. Should growth in consumer credit continue to slow, we would expect credit protection volumes to remain relatively soft through the balance of 2020.

For the 6 months, underwriting margin was up $14.7 million or 21.7% and our combined ratio held steady at 92.6%, demonstrating our ability to continue to grow profitably in our insurance business despite the economic headwinds. Unearned premiums and deferred revenue on the balance sheet stand at over $1 billion at the end of the quarter, up 42.2% from this time last year, including $173 million from Smart AutoCare. As the economies gradually reopen in the U.S. and Europe, we'd expect to slowly return to normalized growth rates.

Turning to the investment portfolio on Page 9. Our net investments grew by $57 million year-over-year, up 11.7%, driven by growth in net written premiums. $448 million of the portfolio or 82% 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 portfolio loss was $16.9 million, down approximately $35 million versus the prior year period, driven by unrealized and realized losses of $28 million on equities and other securities in the portfolio, $12.2 million of which was related to Invesque. For the quarter, net portfolio income was $12.8 million, representing a 2.4% return. While we saw recoveries in certain of our portfolio securities in the second quarter, we expect markets to continue to remain volatile.

On Page 11, we present the results of Tiptree Capital, which today consists of our Invesque shares, shipping and mortgage operations. For the first half of the year, the pretax loss was the result of unrealized losses on our Invesque shares. Year-to-date, operating EBITDA in Tiptree Capital increased to $17.9 million, primarily driven by increased mortgage volumes and margins and a full quarter of operations from the vessels purchased in 2019 in our maritime shipping business.

We recognize the importance of liquidity and a strong balance sheet during periods of uncertainty like we are currently experiencing. In the insurance investment portfolio, we continued to maintain a high proportion of the portfolio in liquid, highly rated securities and cash for just this reason. Also, we have continued improving our overall liquidity profile by upsizing and extending the maturity of corporate facilities at the operating company in February and at Tiptree Insurance in early August, providing the assurance of operating liquidity and extending our earliest maturities on our corporate debt facilities out to 2023.

Now we will turn 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 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 in the first half of 2020, 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] There are no questions at this time. I'd like to turn the floor back over to management for any closing remarks you may have.

Sandra E. Bell
Chief Financial Officer
Thank you, Victor, and thank you, everyone, for joining us today. Obviously, if you have any questions, please feel free to reach out to me directly. This concludes our conference call for the second quarter 2020.