S&P Capital IQ

CONTENTS

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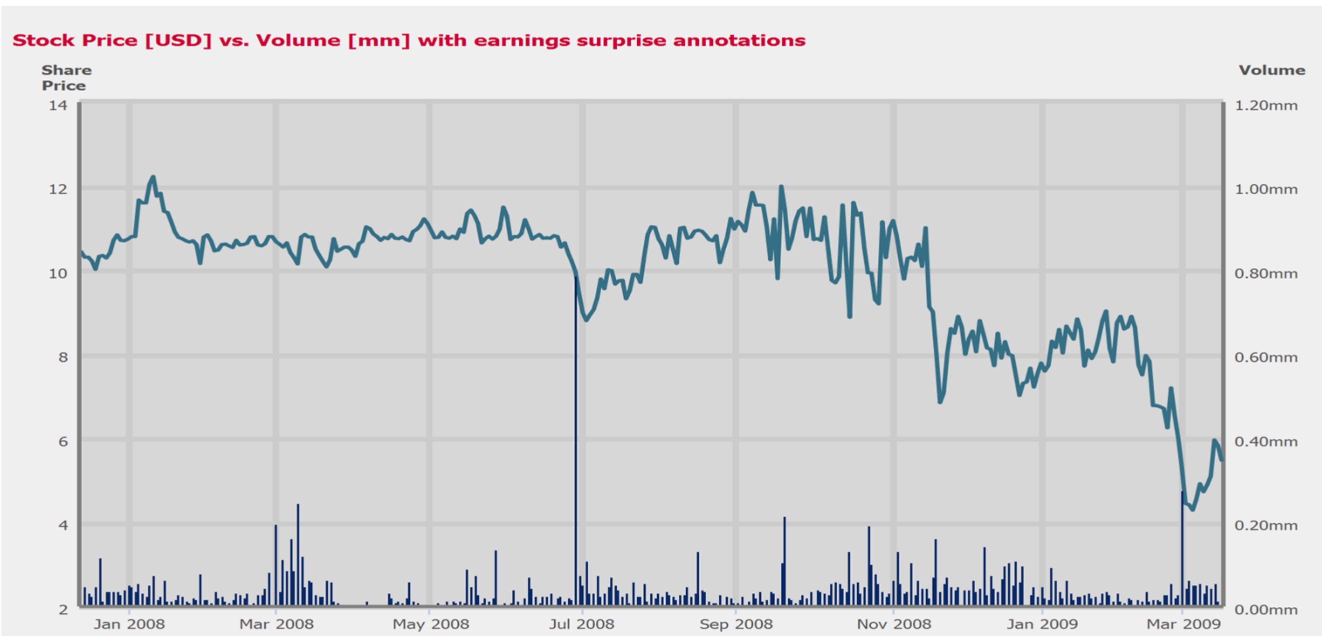

Call Participants

EXECUTIVES

Michael Gene Barnes
Executive Chairman of the Board

Sandra E. Bell
Chief Financial Officer

ANALYSTS

Andrew J. Cowen
Community Capital Management, Inc.

Presentation

Operator

Thank you for standing by. This is the conference operator. Welcome to the Tiptree First Quarter 2018 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Sandra Bell, Chief Financial Officer. Please go ahead.

Sandra E. Bell
Chief Financial Officer

Good morning, and welcome to our First Quarter 2018 Earnings Call. We are joined today by our Executive Chairman, Michael Barnes; and 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.

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 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. Through the first 4 months of 2018, we have executed on several of our strategic objectives. We closed the sale of Care to Invesque, resulting in a $0.91 per share increase to book value. Consistent with our goal of simplifying our story and our corporate structure, we eliminated our dual-class structure in April. And effective May 4, we refinanced our corporate loan facility, which, combined with cash on the balance sheet, gives us close to $100 million of capital available to invest in support of our growth initiatives.

As we announced in March, we are executing on a share buyback plan of up to $20 million. These buybacks reflect our confidence in the underlying businesses. Buying our own stock at deep discounts to both book value and intrinsic value will remain a lever for creating long-term value for shareholders.

Given the consistent cash flows generated at our companies and our growth in book value per share, we have announced a 16.7% increase in our dividend to $0.035 beginning this quarter.

From an operating perspective, our first quarter results were dominated by 3 key factors: Growth in our specialty insurance business, the sale of our Care business and continued volatility in our assets held at fair value, including equity investments.

We are beginning to see significant traction from our strategy to grow our specialty insurance business. Gross written premiums were up 21% from a year ago while net return premiums were up 27%, driven by improvements in all product lines. We are continuing to expand on multiple fronts through product offerings with distribution partners, and geographically, with the establishment of our European subsidiary. All of these positive results occurred while maintaining our combined ratio in the low 90s.

As premiums grow, so does our investment portfolio, which grew 15% from first quarter 2017. Excluding the volatility in equities, our investment income improved over last year, primarily as a result of the growth in the portfolio.

Having closed the sale of Care, we now own 16.4 million Invesque shares. We remain excited about the long-term prospects for the senior living business and in the capabilities of Invesque's management team. In the last 6 months, Invesque has executed multiple accretive transactions, which also further diversifies their senior care investment base. While we may experience some mark-to-market volatility from time to time on the shares, we expect to continue to receive steady dividends in line with Invesque's growth.

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

Sandra E. Bell
Chief Financial Officer

Thank you, Michael. On Page 4, we highlight the company's key metrics for the first quarter of 2018. Net income was $29 million, including an approximate $34 million after-tax gain on our sale of Care. This gain is recorded in discontinued operations and is the largest contributor to our year-over-year increase in net income.

Our earnings from continuing operations were positively impacted by growth in our specialty insurance underwriting operations. We are beginning to see the impact of our strategic decision to extend duration of the contacts -- contracts, both on the balance sheet and now in the income statement.

Within the quarter, we received our first 2 months of dividends from Invesque, which we expect to be approximately $3 million per quarter going forward. Offsetting these positive contributions were year-over-year reductions in cash distributions from the sale of CLO subnotes and unrealized losses on equities, including our Invesque shares.

Book value per share increased to $10.59, up $0.44 from the prior year and $0.62 from year-end 2017, as the gain on sale of Care and improvements in specialty insurance underwriting results overcame any negative factors.

The effective tax rate for the quarter was 27.1%, a reduction from prior year given the new tax laws. This was slightly higher than our expected normalized rate for the year of approximately 20%, primarily driven by state tax associated with the Care gain.

On the bottom left, you can see how our total capital is currently allocated across our businesses, with approximately 70% concentrated in the insurance sector. Trailing 12 months normalized EBITDA was $57.4 million, down $4.6 million, while insurance normalized EBITDA was up over 7.3% from growth in both credit and warranty products and our corporate expenses were down $6.8 million. The impact of the sale of the CLO subnotes more than offset these benefits on a year-over-year basis. With almost a $100 million of cash on our corporate balance sheet ready to invest, we expect that future investments will contribute to earnings.

Before returning to more detail on our businesses, I want to spend just a moment on the impact of the recent corporate structure changes. On April 10, we completed a reorganization that eliminates Tiptree's dual-class structure. This will not impact our book value per share or EBITDA metrics that we share with investors as we have historically presented those figures on an as-exchanged or total company basis. The biggest change, which will be visible in the second quarter, is a simplified balance sheet and equity statement. Also in connection with the transaction, we canceled nearly all of our treasury shares, which will be reflected in the second quarter filings as well. We believe these are positive steps in continuing to provide a simpler financial picture of our company to investors.

Moving to Page 6. We provide further details regarding our specialty insurance performance. On this page, we focus on insurance operation; and then on the next page, performance from the insurance investment portfolio.

We continue to see positive top line growth from all of our product lines. For the first quarter 2018, gross written premiums grew $35.3 million, up 21% year-over-year. Retention of written premiums was 54% compared with 52% in the first quarter of 2017. As we continue to expand product offerings, we expect that the retention rate will expand slightly over time.

Of our net written premiums, 30% was warranty and other specialty programs compared to 25% in the prior year period. This is consistent with our strategy to grow those product lines. Fee-based revenues represented approximately 20% of total insurance company revenues for the quarter. Underwriting margin also grew $3.3 million, driven by strong performance in our core credit protection products. The 23.4% year-over-year growth in unearned premium reserves and deferred revenue on our balance sheet also gives you a sense of our anticipated growth in future revenues.

Adjusted EBITDA from insurance operations was up $3 million year-over-year, primarily driven by the improvements in underwriting margin. Our combined ratio for the quarter was 93.9%, a modest improvement from this time last year and well within our targeted range.

Turning to the insurance investment portfolio. Our net investments group 15%, driven by our growth in net written premiums. Excluding the impact on earnings from unrealized items, net portfolio income for the quarter was $8.1 million, up $4.2 million, driven by realized gains on equities, loans and fixed income assets. Approximately 25% of the $400 million portfolio is floating rate tied to LIBOR. So as rates increase, we should expect to see increased yields on that portion of the portfolio.

On Page 9, we present the results of Tiptree Capital, where we allocate our capital across a broad spectrum of investments. Today, Tiptree Capital consists of asset management operations, mortgage operations and our ownership of Invesque shares. Our senior living results, now discontinued operations, are presented here to facilitate period-over-period comparison.

As of March 31, 2018, our Invesque shares represent $128 million, $106 million of which is held in Tiptree Capital. The remainder sits in the insurance portfolio. The Invesque shares are subject to transfer restriction that extend through 18 months with a weighted average of 12 months. Given those restrictions under GAAP, our valuation represents an approximate $15 million discount to the market value of Invesque shares, most of which will accrete into our income statement over the period. In the first quarter of 2018, the dividend income and any fair value, unrealized gains and losses on the shares, is included in other investments.

Asset management and credit investment pretax income for the quarter was $0.9 million, down $4.7 million over the first quarter 2017, driven by the declines in subnote earnings mentioned earlier.

Mortgage operations were impacted by lower volumes and margins as mortgage interest rates have risen substantially since first quarter 2017.

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

Michael Gene Barnes
Executive Chairman of the Board

Thanks, Sandra. So to provide a quick summary, in the first 4 months of 2018, we executed on several strategic objectives to expand our insurance business and simplify our corporate structure. We also raised additional capital at lower cost to supplement our balance sheet cash to support our long-term growth objectives. We expect to continue to grow our insurance investment portfolio in line with the business and to leverage Tiptree's investment expertise to increase the total return of the insurance portfolio over the long term.

Within Tiptree Capital, we expect to reinvest capital as opportunities arise. We believe our strategic efforts to better position the company for growth and stable operating performance should ultimately allow us to deliver Tiptree's intrinsic value for investors.
With that, we can open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Andrew Cowen with Community Capital.

Andrew J. Cowen
Community Capital Management, Inc.

Really nice quarter. It's nice to see the simplification. Just to go through it. So is it right to read that the investment portfolio for the insurance, the float is averaging around a 4% yield or so?

Sandra E. Bell
Chief Financial Officer

Yes.

Andrew J. Cowen
Community Capital Management, Inc.

Okay.

Michael Gene Barnes
Executive Chairman of the Board

That's about right, Andrew. That's exactly right.

Andrew J. Cowen
Community Capital Management, Inc.

Great. Okay. And the EBITDA number you're giving now of the adjusted EBITDA of $5.3 million, so that is not including -- so that below that line would be the dividends you received from Invesque?

Sandra E. Bell
Chief Financial Officer

No. Adjusted EBITDA, it would include the dividends from Invesque, but it also includes the mark-to-market and stock-based compensation. Normalized EBITDA, which we show on the second page of the presentation, it excludes unrealized mark-to-market and it excludes stock-based compensation. So that's the higher number.

Andrew J. Cowen
Community Capital Management, Inc.

Is that on Page 2? I see there's no Page 2. Page 3, you mean?

Michael Gene Barnes
Executive Chairman of the Board

Page 3. Correct, yes.

Sandra E. Bell
Chief Financial Officer

Page 3. Yes, sorry.

Andrew J. Cowen
Community Capital Management, Inc.

So the higher number.

Michael Gene Barnes

Executive Chairman of the Board

So Andrew, one of the questions, and I know this, something that we've had discussions on, is kind of the normalized EBITDA or the earnings sort of ability. If you look at page -- I'm sorry, I apologize. It's Page 5 of the investor presentation. You'll see at the bottom of that, where we show return on total capital, normalized EBITDA, broken down by segment. And you'll see there is what we see as kind of now a consistent earnings capability of our businesses.

Andrew J. Cowen
Community Capital Management, Inc.

That's very helpful. Okay.

Michael Gene Barnes
Executive Chairman of the Board

So I think that's what you should be focused on in terms of our -- sort of the continuing, ongoing sort of earnings of this business.

Andrew J. Cowen
Community Capital Management, Inc.

So that's the $8.6 million. Hold on. That's the insurance. I might be looking at the wrong figure here.

Sandra E. Bell
Chief Financial Officer

Andrew, it's Page 4...

Michael Gene Barnes
Executive Chairman of the Board

I apologize for that.

Sandra E. Bell
Chief Financial Officer

Sorry, I apologize. It's $8.9 million for the quarter and $57.4 million for the trailing 12 months.

Michael Gene Barnes
Executive Chairman of the Board

There you go.

Andrew J. Cowen
Community Capital Management, Inc.

That's extremely helpful. Okay. So then you throw in a -- like, a 27% tax rate. Do you anticipate that tax rate going down?

Sandra E. Bell
Chief Financial Officer

Yes. It'll be about 20% because of the dividends received deduction on the Invesque dividends.

Andrew J. Cowen
Community Capital Management, Inc.

Okay. Right. So we're looking at, then, over $1 a share of cash earnings, somewhere around there, if you tax that EBITDA rate, somewhere around there. Okay.

Michael Gene Barnes
Executive Chairman of the Board

That would be accurate.

Andrew J. Cowen
Community Capital Management, Inc.

Okay. One other question. What's the new share count after the Tiptree, the conversion of the Class B shares?

Sandra E. Bell
Chief Financial Officer

37.9 million.

Andrew J. Cowen
Community Capital Management, Inc.

That's fully diluted?

Sandra E. Bell
Chief Financial Officer

That is outstanding.

Operator

[Operator Instructions] There are no further question's registered at this time. I would like to turn the conference back over at Sandra Bell for any closing remarks.

Sandra E. Bell
Chief Financial Officer

Thank you, Claudia, and thanks, everyone, for joining us today. If you have any questions, please feel free to reach out to me directly. This concludes our First Quarter Conference Call.

Operator
This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.