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Tiptree Inc. NasdaqCM:TIPT

Earnings Call

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Call Participants

EXECUTIVES

Michael Gene Barnes

Executive Chairman of the Board

Scott T. McKinney

Chief Financial Officer

Presentation

Operator

Greetings, and welcome to the Tiptree Inc.'s First Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Scott McKinney, Chief Financial Officer for Tiptree. Thank you. Scott, you may begin.

Scott T. McKinney
Chief Financial Officer

Good morning, and welcome to our first quarter 2024 earnings call. Joining me today are Michael Barnes, our Executive Chairman; and Jonathan Ilany, CEO.

Some of our comments today will contain forward-looking statements, 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.

In today's call, we will discuss non-GAAP financial metrics, which are described in more detail in our presentation. Reconciliations of these metrics and additional disclosures can be found in our SEC filings, the appendix to our presentation and on our website.

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

Michael Gene Barnes
Executive Chairman of the Board

Thank you, Scott, and good morning to everyone. As you may have seen through our earnings release yesterday evening, Tiptree had a great quarter and is off to an excellent start to the year. Revenues increased by 31%, and our collective businesses produced a 19.5% annualized adjusted return on equity.

Fortegra continued to deliver with \$663 million of gross written premiums and equivalents while growing adjusted net income by 49% versus the first quarter of 2023. The combined ratio improved to 90%, demonstrating the consistent underwriting performance and continued efficiencies as the business grows.

At the end of the quarter, Tiptree and Warburg Pincus contributed just under \$40 million of capital to Fortegra to fund future growth. The pipeline of opportunities remains very attractive, and we plan to continue to support the business in executing its growth plan.

Tiptree Capital finished the quarter with \$123 million of capital deployed across our mortgage origination and servicing business, our liquid investment portfolio, and cash.

At Reliance, the team has been resilient in weathering the impact of higher mortgage rates. In the first quarter, volumes increased modestly compared to 2023. And the income and sustained market value of our retained servicing book led the business to profitability. We maintain a positive outlook for the business, with greater potential for future profit as mortgage rates stabilize.

At Tiptree, our focus remains on identifying opportunities that will generate long-term absolute return. With a strong start to 2024, we are in a good position to sustain our growth and have a positive outlook for the future of the company.

With that, I'll turn the call over to Scott to discuss our financial results.

Scott T. McKinney
Chief Financial Officer

Thank you, Michael. As you highlighted, we're off to a great start to the year. For the quarter, Tiptree's revenues were up 27%, excluding unrealized gains and losses, driven by growth in earned premiums, fee-based service revenues and improvement in net investment income.

Consolidated net income of \$9.1 million was driven by growth in our insurance operations and gains on the company's investment holdings.

Impacting the first quarter of 2024 and 2023 was \$4.5 million and \$2.3 million, respectively, of deferred tax expense related to the deconsolidation of Fortegra for tax purposes. This deferred tax liability would only be crystallized upon a sale of Fortegra.

Adjusted net income for the quarter was \$20.5 million, representing an increase of 63% compared to prior year period.

Our balance sheet remains well positioned. We ended the quarter with a highly-rated liquid investment portfolio, substantial cash balances, and we continue to maintain a conservative position with respect to our loss reserves at the insurance company.

An aggregate \$39 million of capital was contributed to Fortegra in the quarter to support growth, with just over \$29 million coming from Tiptree.

Turning to our insurance results for the quarter. Gross written premiums and equivalents increased 7% year-over-year to \$663 million driven by growth in specialty E&S insurance lines. Excess and surplus lines represented 34% or just below \$230 million of total premiums and grew at a 15% rate in the quarter. Partially offsetting that growth was the cancellation of certain contractual liability and alternative risk programs.

Net written premiums were \$318 million, an increase of 13%, driven by E&S lines, along with increased retention on our whole account quota share agreement from 30% to 40%, which went into effect on April 1, 2023.

Record revenues grew by 30% to \$479 million. And the combined ratio improved by 1.3% to 90.3% driven by improvements in both the underwriting and expense ratios.

Annualized adjusted return on equity for the quarter was 28% driven by growth, profitable underwriting, and the scalability of our technology-enabled platform. We continue to see robust submission activity and a healthy pipeline of new underwriting opportunities across our specialty lines.

The pricing environment remains favorable with rate increases in both property and casualty lines in excess of anticipated loss cost trending.

Flipping to the investment portfolio results. For the quarter, net investment income, when combined with interest on cash and cash equivalents, yielded \$11 million or roughly a 45% increase over prior year. The portfolio ended the quarter at \$1.3 billion with 89% invested in the combination of high credit quality, liquid securities and cash, with an average S&P rating of AA.

Our embedded book yield was 3.7% at quarter end, up approximately 70 basis points from the prior year, driven by improving yields on short-duration fixed income securities and money market funds. With a duration of 2.7 years and 33% of the total portfolio in cash and equivalents, we believe we are well positioned to continue to drive the overall portfolio yield higher over the course of 2024.

Each quarter, we include the next set of charts to display Fortegra's results over time. Gross written premiums and equivalents have grown 25% annually since 2019 primarily driven by organic growth.

The combined ratio remains consistent in the low 90s, improving 3.6% over the past 5 years. As the business mix increasingly trends towards specialty P&C lines, you'll notice a rise in the loss ratio, which is more than offset by decreases in our acquisition ratio and operating expense ratio.

Adjusted net income climbed to a record \$34 million for the quarter, delivering nearly 50% growth year-over-year.

Looking ahead, we anticipate the continued hard market environment, in tandem with adding new agents and distribution partners, will continue to extend Fortegra's growth profile.

Turning to Tiptree Capital. Pretax income for the quarter was \$3.7 million, driven by positive contributions from our mortgage operations and gains on other investments, partially offset by losses on Invesque. Mortgage originations for the quarter were \$210 million, up 4% from the prior year.

As Michael mentioned, the servicing side of the business and active cost management over the past year has kept the business profitable in the current interest rate environment.

In April 2024, we sold our Invesque shares, crystallizing the capital loss for tax purposes, representing approximately \$108 million that can be used to offset any future taxable gains.

Finally, we have provided investors the information to calculate Tiptree sum-of-the-parts value, which takes into account a range of values for Fortegra based on the multiple implied by Warburg's investment as well as earnings multiples of relevant peers. We continue to believe there is significant value in Fortegra as evidenced by the \$127 million of trailing 12-month adjusted net income, which increased 48% versus the first quarter of 2023.

With that, I'll pass the call back to Michael to wrap up our prepared remarks.

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott. Once again, our specialty insurance business, Fortegra, delivered exceptional growth in the first quarter. The pipeline of new opportunities continues to build and specialty market conditions remain favorable. We began 2024 well positioned financially, and we could not be more excited about Tiptree's future. And as always, we at Tiptree continue to look for opportunities to allocate capital for long-term value creation.

I'd now like to turn the call back over to the operator for Q&A. Operator?

Operator

[Operator Instructions] Thank you. There are no questions at this time.

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

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