

# Heritage Insurance Holdings, Inc. NYSE:HRTG

## FQ1 2021 Earnings Call Transcripts

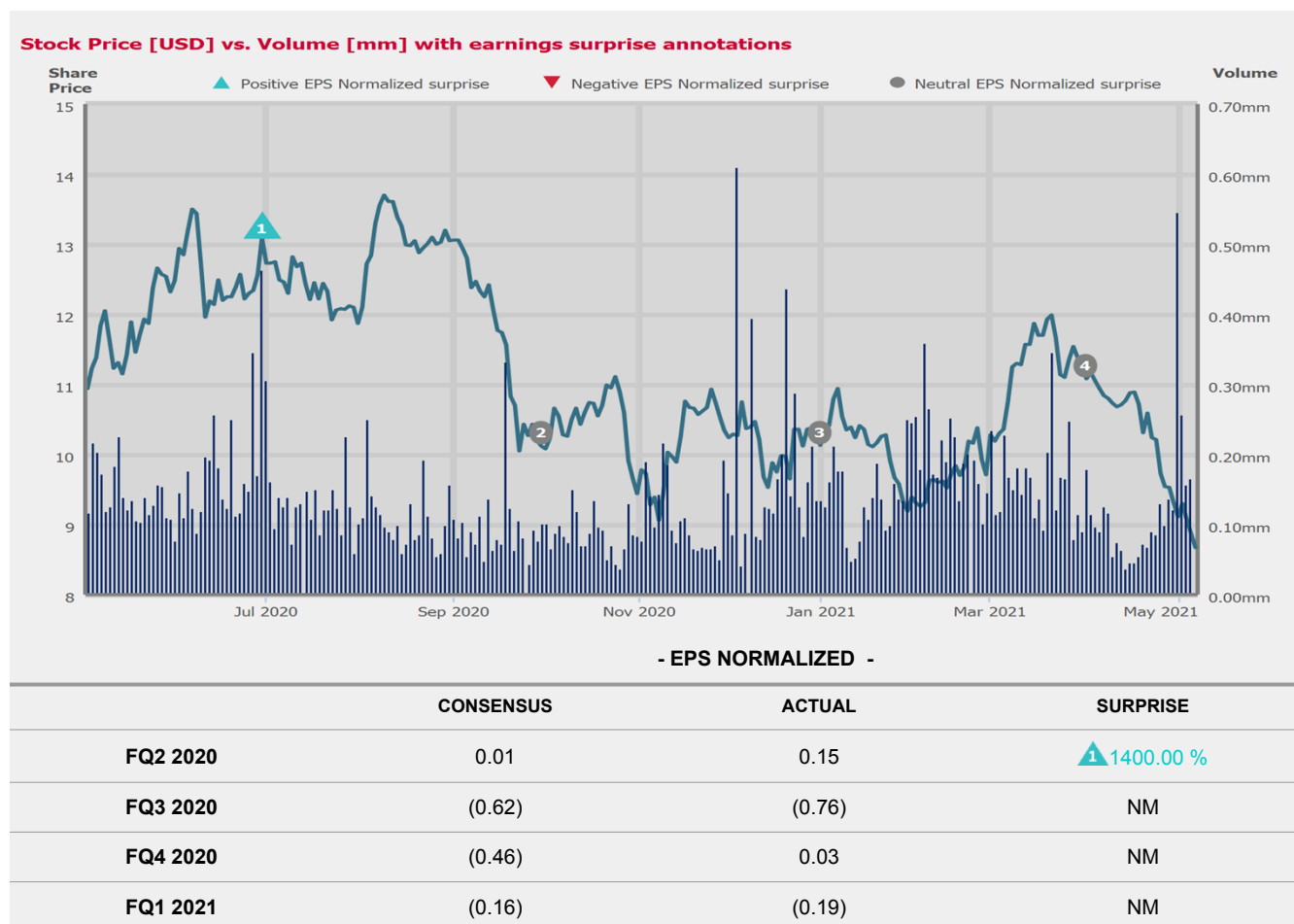
**Thursday, May 06, 2021 1:30 PM GMT**

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.16)	(0.19)	NM	0.18	0.98	NA
Revenue (mm)	142.82	147.24	<span style="color: green;">▲ 3.09</span>	141.73	603.41	NA

Currency: USD

Consensus as of May-06-2021 9:25 PM GMT



# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	6

# Call Participants

## EXECUTIVES

**Arash Soleimani**  
*Executive Vice President*

**Ernesto Jose Garateix**  
*CEO & Director*

**Kirk Howard Lusk**  
*Chief Financial Officer*

## ANALYSTS

**Marla Susan Backer**  
*Sidoti & Company, LLC*

**Matthew John Carletti**  
*JMP Securities LLC, Research Division*

# Presentation

## Operator

Good morning, and welcome to Heritage Insurance Holdings First Quarter 2021 Financial Results Conference Call. My name is Karen, and I'll be the operator today. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Arash Soleimani, Executive Vice President at Heritage. Please go ahead.

## **Arash Soleimani** *Executive Vice President*

Good morning, and thanks for joining us today. We invite you to visit the Investors section of our website, [investors.heritagepci.com](https://investors.heritagepci.com), where the earnings release and our earnings call will be archived. These materials are available for replay or review at your convenience.

Today's call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainties and changes in circumstances. In our earnings press release and in our SEC filings, we detail material risks that may cause our future results to differ from our expectations. Our statements are as of today, and we have no obligation to update any forward-looking statements we may make. For a description of the forward-looking statements and risks that could cause our results to differ materially from those described in the forward-looking statements, please refer to our annual report on Form 10-K, earnings release and other SEC filings.

With us on the call today are Ernie Garateix, our Chief Executive Officer; and Kirk Lusk, our Chief Financial Officer. I will now turn the call over to Ernie.

## **Ernesto Jose Garateix** *CEO & Director*

Thank you, Arash. Good morning, everyone. Thank you for joining us today. We have been very fortunate that COVID-19 has had virtually no impact on our business, and much of that has to do with our employees. Productivity remains high, and we continue to provide our policyholders and distribution partners with the service they have come to expect from Heritage. I would like to thank our employees for their dedication to the organization.

We were disappointed with the quarter's results, which included weather losses that were up over \$10 million year-over-year. The uptick in weather losses stemmed in large part from a high number of small events, which precluded us from receiving any reinsurance recoveries as gross and net weather losses in the quarter were identical at \$31.4 million. With that said, we see light at the end of the tunnel and are aggressively raising rates and taking underwriting actions to improve our profitability and get us to a double-digit ROE profile over a long-term underwriting cycle. While it's difficult to see our measured progress over 1 or 2 quarters, given the inherent lag of rate increases, we expect to see some improvement emerge by the end of the year with more meaningful improvement in 2022.

I will now turn the call over to Kirk to provide more details on our financials.

## **Kirk Howard Lusk** *Chief Financial Officer*

Thank you, Ernie. Good morning. Overall, our focus is on margin expansion. Year-over-year, our in-force premiums grew by 17.5%, while policies in-force for the same time frame grew by 10%. As rate increases and underwriting actions are implemented, we would expect the growth to slow throughout 2021. We believe that the rate and the underwriting changes being implemented will have an impact on this year but will have a more pronounced impact on '22 and beyond, as volatility of loss costs are reduced and produce meaningful improvement in the bottom line. We think that the litigated claims environment has made the Florida market very difficult, and we are taking rating and underwriting actions that we believe will position the company to return to double-digit ROEs in the future. This could impact our future growth in the Florida market.

The ceded premium ratio was 47.4% in the first quarter, up 1.1% from the first quarter of 2020 of 46.1%. The increase is driven by an increase in the 2020 to 2021 cat XOL reinsurance program and also the purchase of a severe convective

storm cover that is effective from 1/1/21 through 5/31/21. As we have mentioned, the first quarter weather losses were \$31.4 million, which is approximately \$10.3 million higher than the first quarter of last year. Additionally, our attritional losses were also higher than the first quarter of 2020. The net loss ratio of 68.9% is higher than the prior year quarter loss -- net loss ratio of 54.1% and was significantly impacted by the Q1 weather events and the attritional losses just mentioned.

We continue to focus on rate adequacy and have over a 14% rate increase effective 1/1/21, impacting our Florida voluntary HO3 portfolio as well as rate increases in Massachusetts, Rhode Island and California during the first quarter. During the remainder of the year, we expect rate increases in all our licensed states.

Our net expense ratio decreased by 2.3%, reflecting senior management restructuring completed in the fourth quarter of 2020. The net combined ratio for the first quarter of 2021 was 107.6%, which is up from 95.3% in the prior year period, reflecting a higher net loss ratio, partially offset by a lower expense ratio.

Over the past 2 years, we have improved our capital structure, continued to refine our exposures in Florida, expanded our footprint into other states and saw a fairly rapid growth in 2020. We are now focused on increasing our margins. We are now available to take your questions.

# Question and Answer

## Operator

[Operator Instructions] And our first question actually comes from Marla Backer from Sidoti.

**Marla Susan Backer**  
*Sidoti & Company, LLC*

So given the focus on margin expansion now, does that mean that you might forgo entering new markets in the near-term or in 2021?

**Ernesto Jose Garateix**  
*CEO & Director*

Thank you for the question, Marla. So what we would be looking at new markets is only if there was profitability that would add to the bottom line of those markets. Obviously, we're in 16 states right now. And as Kirk mentioned, our focus is the bottom line and profitability. So it won't be that we won't consider them, but we will do a hard due diligence on it. And it would have to be accretive to the bottom line.

**Marla Susan Backer**  
*Sidoti & Company, LLC*

Okay. And then also, how does this impact the potential for picking up some -- selectively some of the policies from Citizens that you've been talking about?

**Ernesto Jose Garateix**  
*CEO & Director*

Referring to the takeout program, the Citizens takeout?

**Marla Susan Backer**  
*Sidoti & Company, LLC*

Yes.

**Ernesto Jose Garateix**  
*CEO & Director*

So our Citizens takeout program has always been in place. We continue to monitor what is going on in Citizens and the number of policies that increase there. So we will continue to monitor that, take a look at that. And if the timing is right and it, again, adds to our profitability, we would take a look at that, doing another takeout into the future.

**Kirk Howard Lusk**  
*Chief Financial Officer*

And Marla, I would just add to that, Citizens right now has about 570,000 policies. If you go to their website, that's the latest figure they have up. But they're estimating that it's going to go up probably about another 20% this year. So the comments we've made in the past are just if Citizens continues to grow, then there could be an opportunity there.

**Ernesto Jose Garateix**  
*CEO & Director*

Right. Yes, to very selectively take out policies, and it would be very selective.

## Operator

And our next question comes from Mark Carletti from JMP.

**Matthew John Carletti**  
*JMP Securities LLC, Research Division*

Matt Carletti. Yes, I was hoping to get your thoughts on the recent legislation passed in Florida and what impact you think that will have both on the environment and your book, in particular. And specifically, if it goes far enough to kind of correct the situation or if it's just a smaller step in the right direction?

**Ernesto Jose Garateix**

*CEO & Director*

Okay. Thanks, Matt, for the question. So any legislation that passes that helps the market, we're very appreciative of. However, we're also cautiously optimistic to the impact that would have on the book. There are some things there we're glad to see such as the reporting period being taken down from 3 years to 2 years. I'm sure folks in the reinsurance market are happy to see that. We are as well.

But as we kind of look at the legislation and go through it, which we're doing currently at this point in time, we're seeing what the impact may be to the book. We're always, again, appreciative of any legislation that helps the overall Florida insurance market, but we have yet to kind of determine how far that goes into our book.

**Matthew John Carletti**

*JMP Securities LLC, Research Division*

Okay. Great. And then my other question just centers around capital. Clearly, across a lot of your peers, there's been capital struggles. Can you speak a little bit to your view of Heritage's capital position and how that situates you for both continued growth and/or what capital management options might be at your disposal?

**Ernesto Jose Garateix**

*CEO & Director*

Yes. Well, we do have a fairly flexible capital structure. We do have a group of syndicate banks, and we recapitalized the company and the debt structure in 2018. We do focus on capital and maintaining a very strong position going forward. With the -- some of the market dynamics, we are focusing, again, on being very profitable and focusing on margin. So therefore, that could impact the top line growth, which then puts us even a little bit better capital position.

**Operator**

[Operator Instructions] And there appear to be no further questions at this time. [Operator Instructions]

**Ernesto Jose Garateix**

*CEO & Director*

Well, if there are no questions, on behalf of everyone at Heritage, thank you for your time. Thank you for joining the call today.

**Operator**

Thank you. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time, and have a great day.

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