

Tiptree Inc. NasdaqCM:TIPT

FQ4 2019 Earnings Call Transcripts

Thursday, March 12, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-
	ACTUAL
EPS Normalized	0.00

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- EPS NORMALIZED -

	ACTUAL
FQ3 2018	0.00

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Call Participants

EXECUTIVES

Michael Gene Barnes

Executive Chairman of the Board

Sandra E. Bell

Chief Financial Officer

Presentation

Operator

Greetings. Welcome to Tiptree, Inc. Fourth Quarter and Full Year 2019 Earnings Conference Call. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Sandra Bell, Chief Financial Officer for Tiptree. Thank you. You may begin.

Sandra E. Bell
Chief Financial Officer

Good morning, and welcome to our 2019 earnings call. We are joined today by our Executive Chairman, Michael Barnes. 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 identified the principal risks and uncertainties that could affect future performance.

Before I turn the call over to Michael, just a few housekeeping items to review. Today, we will discuss certain adjusted or non-GAAP financial measures, which are described in more detail in this morning's earnings materials. Reconciliation of non-GAAP financial measures and other associated disclosures are contained in our earnings materials 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 are pleased with the performance of our business in 2019. We started the year with several key objectives and ended the year having successfully accomplished what we set out to do.

Our first 2019 objective was to grow Tiptree Insurance profitably, both organically and through acquisition. Our gross written premiums grew to over \$1 billion, up 17% year-over-year, while net written premiums grew 15.1%. We have continued to maintain this growth without compromising our profitability, as our combined ratio remained steady in the low 90s. Unearned premiums and deferred revenues, the future profitability of our business, continued at double-digit growth rate, increasing by almost 26%.

On January 3, 2020, we completed the acquisition of Smart AutoCare, which we believe will significantly accelerate our growth in auto warranty. We also expanded in Europe by acquiring a majority interest in Defend, a specialty insurance administrator. Both were acquired at attractive valuation and are expected to provide the opportunity for revenue and cost synergies over time.

Our second objective was to grow our insurance investment portfolio and improved total return. Our insurance portfolio ended the year at approximately \$540 million, up 16.5%. Our total return on the portfolio of 5.4% also improved driven by investment gains on equities and fixed income security.

Our third objective was to continue our efforts to reposition our Tiptree capital investment to drive long-term total returns. We increased our capital allocated to shipping in the second half of the year by purchasing 2 product tankers, further broadening our exposure to another class of vessel and diversifying our exposure through cyclical factors in the industry over the long term. Our mortgage origination volumes have been strong as interest rates remain historically low, leading to improved profitability in 2019.

Our last objective was to continue to grow book value per share and to deliver returns to shareholders through a combination of share buybacks and dividends. Our book value per share increased 6.8% to \$11.52. And when added with dividends, we delivered a year-to-date total return to shareholders of 8.2%.

Since our inception in June 2007, our annualized total return is 9.5%, as represented by growth in book value per share plus dividends paid compared to 8.6% for the S&P 500 and 7.3% for the Russell 2000 over the same period. More recently, as investors struggle to fully understand the coronavirus' impact on different business sectors, we have seen and expect to continue to see extraordinary market price volatility. However, we currently see a limited impact to our own businesses and feel we are well positioned to absorb the changing outlook for interest rates, commodity prices, global trade and consumer demand. In short, we believe we are well positioned to ride out the storm as it evolves.

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 have presented the company's key metrics for the fourth quarter and total year 2019. Net income before noncontrolling interest for the quarter was \$4.6 million, an increase of \$4.1 million over the prior year. This increase was primarily driven by unrealized gains on investments in the insurance portfolio versus unrealized losses in the prior period. Net income before noncontrolling interest for the total year 2019 was \$20.1 million, down from the prior year, given the gain on sale of our senior living operations in 2018.

Excluding that gain and income from discontinued operations, net income from continuing operations was up \$34 million. The primary drivers of this increase was continued improvement in operating results at our insurance business, the realized gain on sale of our CLO manager and investment gains in our insurance investment portfolio.

Operating EBITDA for the quarter was \$21 million, up from the prior year due to growth in Tiptree Insurance results as well as full year contributions from our shipping operation and improved volumes in our mortgage business.

Operating EBITDA for the year was \$63.6 million, up 15.8% from 2018.

While net investment income in the insurance portfolio was down, primarily as a result of higher cash balances from the realignment of its investment mix, the results for the year were more than offset by insurance underwriting growth and contributions from shipping and mortgage operations.

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 increased to \$11.52, up \$0.73 from year-end 2018 driven by earnings and share buybacks at an average 40% discount to book.

Turning to Page 5. We highlight our capital allocated between Tiptree Insurance and Tiptree Capital, along with the respective return 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.

Our total return is driven by a 13.4% return in specialty insurance and a 12.2% return in Tiptree Capital. The key drivers for the period were growth in insurance, operating EBITDA across all product lines, consistent and stable dividends from our Invesque shares, positive contributions from shipping and mortgage operations and Tiptree Capital and relatively stable corporate expenses.

Since year-end 2019, we executed 2 material transactions that will impact our results moving forward. In January 2020, we acquired Smart AutoCare, a growing provider of vehicle service contracts. We valued the business at \$160 million, which represented an 8.3 multiple of adjusted cash EBITDA. In connection, we upsized our outstanding corporate debt through a new \$125 million 5-year borrowing facility.

With that, let's turn to Tiptree Insurance's results. On Page 7, we highlight our underwriting performance. And then on the following page, returns from the investment portfolio. We continue to see positive top line growth across our product lines, including our European warranty program. We hit an important milestone

in 2019, with gross written premiums crossing the \$1 billion mark. This was up \$147 million or 17% over the prior year, while net written premiums grew 15%.

Underwriting margin was up 14%, and our combined ratio held steady at 92.6%, demonstrating our ability to continue to grow profitably in our insurance business.

Unearned premiums and deferred revenue on the balance sheet stands at \$850 million as of the end of the fourth quarter, up 25.8% from this time last year. Unearned premiums and deferred revenue are recognized into revenue over the life of the underlying contract. This growth is key to our future earnings, both from underwriting profits as well as contributions from the growing investment portfolio of paid in premium.

Turning to the investment portfolio on Page 8. Our net investments grew by \$77 million year-over-year, up 16.5% driven by our growth in net written premium.

Net investment income was \$14 million, down \$5.2 million, as we reduced our exposure to corporate loans. However, when combined with the reduction in asset-based interest, this metric was relatively flat. We ended the year with \$89 million of insurance company cash, which is available for reinvestment.

Net portfolio income was \$26.4 million, up approximately \$25 million versus the prior year period. The improved performance was driven by unrealized gains in 2019 versus unrealized losses in the prior year period.

On the next page, we've outlined some of the key strategic benefits of our acquisition of Smart AutoCare. This acquisition accelerates our growth and add significant scale to our auto warranty platform, providing additional diversification to the auto dealerships with whom we partner.

Smart AutoCare's written premiums and premium equivalent, on a pro forma combined basis, increases our volume in warranty by approximately 70% and by 17% overall.

On Page 11, we present the results of Tiptree Capital, which today consists of our Invesque shares, shipping and mortgage operations. Over time, we would expect that our investments could shift, as we recognize returns in one asset class or business and reinvest in others.

Our senior living operations are included in our 2018 results to facilitate period-over-period comparison. As of the end of the year, our Invesque position represents \$111.9 million, of which \$92.6 million is held in Tiptree Capital. The remainder is in our insurance company portfolio.

For the year, operating EBITDA increased to \$22.8 million driven by a combination of stability and dividends on our Invesque shares, a full year of operations in our shipping business and improvement in mortgage volumes as the result of the drop in interest rates.

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

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Sandra. We are pleased with our results for the year, having executed on our major objectives and delivered results in line with our expectations. The capital we have allocated this year to dividends and share buyback, continues to reflect our positive view of the cash flow generating capacity of our businesses.

As we look forward to 2020, we will continue to drive organic growth and to look to find new acquisitions, which we believe would add to that success. In spite of the dramatic market volatility, which has resulted from the spreading coronavirus, we see a limited impact on our current businesses and feel well positioned to ride out the storm.

With that, we will open up the line for questions.

Operator

[Operator Instructions] We've not received any questions. I'd like to turn the call back to Sandra Bell for closing remarks.

Sandra E. Bell

Chief Financial Officer

[Thank you] for joining us today. If you have any questions, please feel free to reach out to me directly. This concludes our 2019 conference call.

Operator

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

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