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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. Welcome to Tiptree Inc.'s Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to Scott McKinney, Chief Financial Officer. Thank you. You may begin.

Scott T. McKinney

Chief Financial Officer

Good morning, and welcome to our fourth quarter 2023 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

Thanks, Scott, and good morning to everyone.

2023 proved to be a year of exceptional performance for Tiptree. Our operating businesses continued to build upon a track record of growth and profitability, resulting in an 18% increase in revenues to \$1.6 billion for the year, alongside an adjusted return on equity of 15%.

In light of our continuing positive performance, we are pleased to have increased our quarterly dividend by 20% to \$0.06 per share.

Fortegra, our specialty insurance business, achieved record results for the year, with premium and premium equivalent growth of 21% and an adjusted return on equity of 29%. Underwriting results remain consistent, posting a combined ratio of 90%, underscoring the company's tradition of disciplined, specialized underwriting.

Although the recent market environment has been un conducive for a public offering, we firmly believe Fortegra is strategically well positioned to maintain the trajectory of consistent growth and sustained underwriting profitability over the long term. Tiptree Capital finished the year with \$178 million of capital deployed across our mortgage origination and servicing business, our liquid investment portfolio and cash.

At Reliance, continued high mortgage rates kept origination volumes muted, although the income and sustained market value of our retained servicing book allowed the business to remain stable for the year. This result significantly outperformed the broader mortgage industry for 2023. We maintain a positive outlook for the business, with greater potential for future profit as mortgage rates stabilize.

For Tiptree, we remain focused on seeking opportunities to achieve long-term absolute returns. Our balance sheet remains well capitalized, with no holding company debt and cash for future deployment. With strong performance in 2023, we are well positioned for growth, and we maintain a positive outlook for 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. For the quarter, Tiptree's revenues were up 24%, excluding unrealized gains and losses, driven by growth in insurance underwriting and fee-based service revenues. Consolidated net income of \$6.9 million was driven by growth in our insurance operations and unrealized investment gains, partially offset by the sale of our 5 vessels in 2022.

Impacting the fourth quarters of 2023 and 2022 was a \$9 million deferred tax expense related to the deconsolidation of Fortegra for tax purposes. This deferred tax liability is only crystallized on a sale of Fortegra. Adjusted net income for the quarter was \$13.9 million, representing an increase of 43% compared to the prior year period.

As Michael mentioned, 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.

Turning to our insurance results for the quarter. Gross written premiums and equivalents increased 38% year-over-year to \$724 million, driven by robust growth in specialty E&S and admitted insurance lines, along with the benefits from a book-roll transaction with one of our commercial MGA partners.

Operationally, there continues to be a robust submission activity and a healthy pipeline of new underwriting opportunities across our specialty lines. Net written premiums were \$384 million for the quarter, an increase of 57%, in line with the growth in gross written premiums, along with increased retention on our whole account quota share agreement from 30% to 40%, which went effective April 1, 2023.

Revenues grew by 25% to \$433 million, and the combined ratio remained consistent at 89.8%. Underwriting improvements were offset by an increased expense ratio as we continue to invest in data science initiatives, bolster our excess and surplus lines capabilities and continue to expand in Europe. Adjusted return on equity for the year was 29%, driven by growth, profitable underwriting and the scalability of our technology-enabled platform.

Flipping to the investment results. For the year, net investment income, when combined with interest on cash and cash equivalents, yielded \$38 million compared to \$15 million in the prior year. With the decline in rates, we also experienced a \$19 million recovery that impacted comprehensive income in 2023.

The portfolio ended the year at \$1.3 billion, with 90% 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 3.3% at year-end, up nearly 60 basis points from the prior year, driven by improving yields on short-duration fixed income securities and money market funds. The duration of our fixed income portfolio was approximately 2.5 years, which positions us well as maturities roll and the portfolio grows to reinvest at higher yields.

Each quarter, we include the next set of charts to display a snapshot of Fortegra's results over time. Gross written premium and equivalents have grown 26% annually since 2019, primarily driven by organic growth. For the year, the team delivered \$2.7 billion of premiums, an increase of 21% over prior year. Excess and surplus lines represented 30% or just over \$800 million of our 2023 written premiums and equivalents. The combined ratio remains consistent in the low 90s, improving 2 points 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 compensated for by decreases in our acquisition expenses and operational efficiencies. Adjusted net income crossed the \$100 million mark this year, ultimately delivering \$116 million or 38% 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. The pretax loss for the quarter was \$2.1 million, driven primarily by losses on Invesque, in our mortgage servicing asset, partially offset by gains on other investments. Mortgage originations for the year were \$877 million, down 23% from the prior year as elevated mortgage rates impacted volumes across the industry. As Michael mentioned, with expectations of lower mortgage rates

ahead, we expect origination volumes and margins to normalize throughout 2024. Tiptree Capital ended the quarter with \$178 million of book value, with 2/3 allocated to highly liquid investments.

Now I'll pass the call back to Michael to wrap up our prepared remarks.

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott. Our fourth quarter was a great finish to the year, and a true testament to the hard work and expertise of Tiptree's team of professionals and those of our related companies. We began 2024 well positioned financially, and we could not be more excited about Tiptree's future.

Fortegra, once again, posted record results. The pipeline of new opportunities continues to build and specialty market conditions remain favorable. We, at Tiptree, will 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] There are no questions at this time. We will conclude today's conference. Thank you for your participation. You may now disconnect.

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