

Tiptree Inc. NasdaqCM:TIPT

FQ1 2019 Earnings Call Transcripts

Tuesday, May 07, 2019 1:00 PM GMT

S&P Global Market Intelligence Estimates

Unable to generate Chart: There is no row at position 0.

- EPS NORMALIZED -	
	ACTUAL
FQ3 2018	0.00

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	8

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

Greetings, and welcome to the Tiptree Inc. First Quarter 2019 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Sandra Bell, Chief Financial Officer. Thank you. You may begin.

Sandra E. Bell

Chief Financial Officer

Good morning, and welcome to our first quarter 2019 earnings call. We're joined today by our Executive Chairman, Michael Barnes; and our CEO, Jonathan Alani. 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 it's 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 statements.

In addition, we use non-GAAP measures, which we believe provide supplemental information about our business and are useful to our investors.

As these measures are not GAAP, they should not be used as a substitute for GAAP disclosures. The appendix in the presentation 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 to everyone. In the first quarter, we continued to execute on our strategic objectives to grow our insurance business with a focus on profitability and to refine and grow our investments in Tiptree Capital with an outlook of long-term value creation.

As highlighted in our recent annual shareholder letter, we speak to achieve this through a combination of acquisition, investments in our existing businesses and opportunistic share repurchases, but also maintaining a consistent and growing dividend.

First quarter return to shareholders was 3.1% as determined by change in book value and dividend paid.

In addition, as noted in our first quarter earnings release, we announced a \$0.04 dividend for the first quarter payable on May 27, which represents a 14.3% increase from higher dividends.

This is our third consecutive year increasing the dividend and speaks the Tiptree's consistent and increasing per-share earnings power.

Also, in the first quarter, we continued our practice of opportunistically buying back share, repurchasing almost 1.5 million shares at an average 40% discount to book.

In the past 4 years, we have repurchased nearly 30% of the company shares that were outstanding at the end of 2014.

When considering buying back shares, we always evaluate the onetime after-tax gain versus using that capital for new acquisitions that may benefit us well into the future. Given the steep discount and which our shares have treated relative to intrinsic value, which we believe is greater than GAAP book value, it is hard to pass up buying shares in our own business.

Before I discuss our business segments, I thought I'd say a few words regarding our current macro outlook. We remain generally positive on U.S. economy and constructive on the outlook for global trade.

However, we have a cautionary view on the corporate credit markets, as we feel we may be closer to the end than the beginning of the current credit cycle.

Turning to our specialty insurance operations. We are off to a solid start to the year.

Gross written premiums were essentially flat year-over-year while net written premiums were up 10.8% driven by organic growth and credit -- in credit protection warranty products.

In the investment portfolio, consistent with our cautionary outlook, we took actions to downsize our exposure to levered corporate loans, and reduced asset base leverage by \$80 million.

We continue to look for the right acquisition opportunities at the right price. We take a disciplined approach to evaluating potential acquisitions, looking for strong cash flow in businesses, which will build on our current offerings or add adjacent products that complement our strength.

Although throughout 2018, we looked at a number of acquisitions, with investors flushed with capital and debt financing still easy to access, we are generally finding the businesses or trading hands at levels at which we would rather not participate.

As part of our objective to refine the investments in Tiptree Capital and enhance its long-term returns. During the first quarter, we entered into the strategic combination with Corvid Peak, formerly known as Tricadia. And agreed to see new investment funds with \$75 million of capital in exchange for a long-term economic participation in the management company.

We expect this investment to occur over 2019 as we exit other investment strategies. In addition, after much consideration and an extensive process, we sold our CLO management business, Telos, as part of our continued repositioning of capital allocation and a desired reduction in our exposure to corporate loans.

Last, although we made no new investments in the Shipping sector during the first quarter, we continue to look at many opportunities and continue to be excited for the long-term prospects of this business.

With that, I'll pass it to Sandra, who will take you through the first quarter 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 first quarter of 2019.

Net income for the quarter was \$4.3 million, down significantly from the prior period, given the gain on sale of our senior living operations in 2018.

Excluding that gain and income from discontinued operations, net income before noncontrolling interest was up \$9.8 million. The primary driver of this increase was \$4 million of pretax mark-to-market gains on investments in the current period versus \$7.7 million of mark-to-market losses in the first quarter of 2018.

Operating EBITDA for the quarter was \$12.6 million, up 42%. The significant improvement in this metric was driven by growth in the insurance business and lower corporate costs.

On the bottom of the page, we shall walk from operating EBITDA to total pretax income highlighting the key differences between the 2 metric.

Book value per share increased to \$11.12, up \$0.33 from year-end 2018, driven by improved earnings from continuing operations, in addition to share buybacks at steep discounts to book value.

Turning to Page 5. We highlight our capital allocated between specialty insurance and Tiptree Capital, along with the respective returns 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 the holding company at our -- and at our insurance subsidiary.

We evaluate our return on capital using trailing 12-month operating EBITDA, which for the most recent period was \$58.6 million.

Our total return of approximately 8.9% is composed of a 14.3% return in specialty insurance and a 9% return in Tiptree Capital.

The key drivers of our returns for the period were growth in insurance operating EBITDA across all product lines, consistent and stable dividends from our investment in Invesque, positive contributions from both mortgage and shipping operations in Tiptree Capital and stable corporate expenses.

Now let's turn to our specialty insurance results. On Page 7, we highlight our insurance underwriting performance, and then on the following page, returns from the insurance investment portfolio.

We continue to see positive top line growth across our product lines. In the first quarter of 2019, gross written premiums were down slightly while net written premiums grew 10.8% driven by growth in credit and warranty programs.

Unearned premiums and deferred revenue on the balance sheet continued the positive growth trajectory we have seen in previous quarters, increasing 14.7% over the prior-year period.

Underwriting margins was up 8.7%, and our combined ratio improved slightly to 93.5%, demonstrating our ability to continue to grow profitably in our insurance business.

Turning to the insurance investment portfolio. Our net investments grew by \$63 million year-over-year, up 15.7% driven by our growth in net written premiums.

Net investment income was \$4.3 million, as rising interest income on our floating rate assets continue to support improvements in earnings from this portion of the portfolio.

Net portfolio income was \$5.8 million, up approximately \$6.2 million versus the prior year loss.

The improved performance was driven by realized and unrealized gains on the portfolio versus losses in the prior-year period, combined with lower asset-based interest expense.

On Page 10, we present the results of Tiptree Capital, which primarily consists of our dividends from our Invesque shares and our mortgage and shipping operations.

Over time, we would expect that our investments could shift as we recognize returns in 1 asset class or business and reinvest in others.

We have categorized our invested capital and related performance into 3 categories: asset management, real assets and specialty finance/other.

Our senior living results are included in our 2018 results to facilitate period-over-period comparison.

As of the end of the first quarter, our investment in Invesque represents \$115.6 million, of which \$95.6 million is held in Tiptree Capital. The remainder is in our insurance portfolio.

25% of our Invesque shares are subject to transfer restrictions that extend through August 1, 2019. Given those restrictions, under GAAP, our valuation represents an approximate \$3 million discount to the market value of Invesque shares, which will accrete into income over the remainder of 2019.

Real assets operating EBITDA was \$3.6 million, which includes the dividends on our Invesque shares and the results from our shipping operations for the current quarter.

Specialty financed operating EBITDA was \$0.5 million, versus \$0.1 million in the prior-year period, as stable interest rates had a positive impact on volumes and margins in our mortgage operations.

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

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Sandra. The first quarter was a solid start to the year. Our book value increased plus dividends produced a return of 3.1%, and operating EBITDA improved substantially over the prior year.

Our announced dividends increase and share buybacks in the first quarter reflect our positive view of the cash flow that our businesses can generate.

For the remainder of 2019, we expect to see continued growth in our insurance business, both organically and selectively through acquisitions should we find the right ones.

We will also look to grow our insurance investment portfolio in line with the business and to enhance its total return over the long term.

And within Tiptree Capital, we will continue to seek out opportunistic capital allocation that presents attractive long-term returns. With that, we'll open the line for questions.

Question and Answer

Operator

[Operator Instructions] Thank you. Our first question comes from the line of Andrew Cowen with Community Capital.

Andrew J. Cowen

Community Capital Management, Inc.

2 quick questions. The -- what is the yield or annual yield right now on the float -- on the investment portfolio? And I did see an announcement for the Telos transaction, are you disclosing what you got for that?

Michael Gene Barnes

Executive Chairman of the Board

We viewed it as nonmaterial, so there was not an 8-K on there. And -- no, we are not going to be disclosing the terms of that, but it would deem nonmaterial. And going back to your first question. Sandra, do you have for first quarter, what the yield on our portfolio was, simply that's in the investor presentation, but do you have it on top of your head?

Sandra E. Bell

Chief Financial Officer

Yes.

Andrew J. Cowen

Community Capital Management, Inc.

Sort of back of the envelope, it looks around 4%, but I'm just wondering.

Sandra E. Bell

Chief Financial Officer

Yes. Ex the gains, that's correct, Andrew. It's about 4%, and there were a little bit of gains, unrealized gains this quarter, really got it to 5%.

Operator

[Operator Instructions] Ms. Bell, it appears we have no further questions at this time. I would now like to turn the floor back over to you for closing comments.

Sandra E. Bell

Chief Financial Officer

Thank you, Christine. And thank you, everyone, for joining us today. If you have any questions, please feel free to reach out to me directly. This concludes our first quarter 2019 conference call.

Operator

Ladies and gentlemen, this concludes our teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2019 S&P Global Market Intelligence.