

Universal Insurance Holdings, Inc. NYSE:UVE

FQ3 2015 Pre Recorded Earnings Call Transcripts

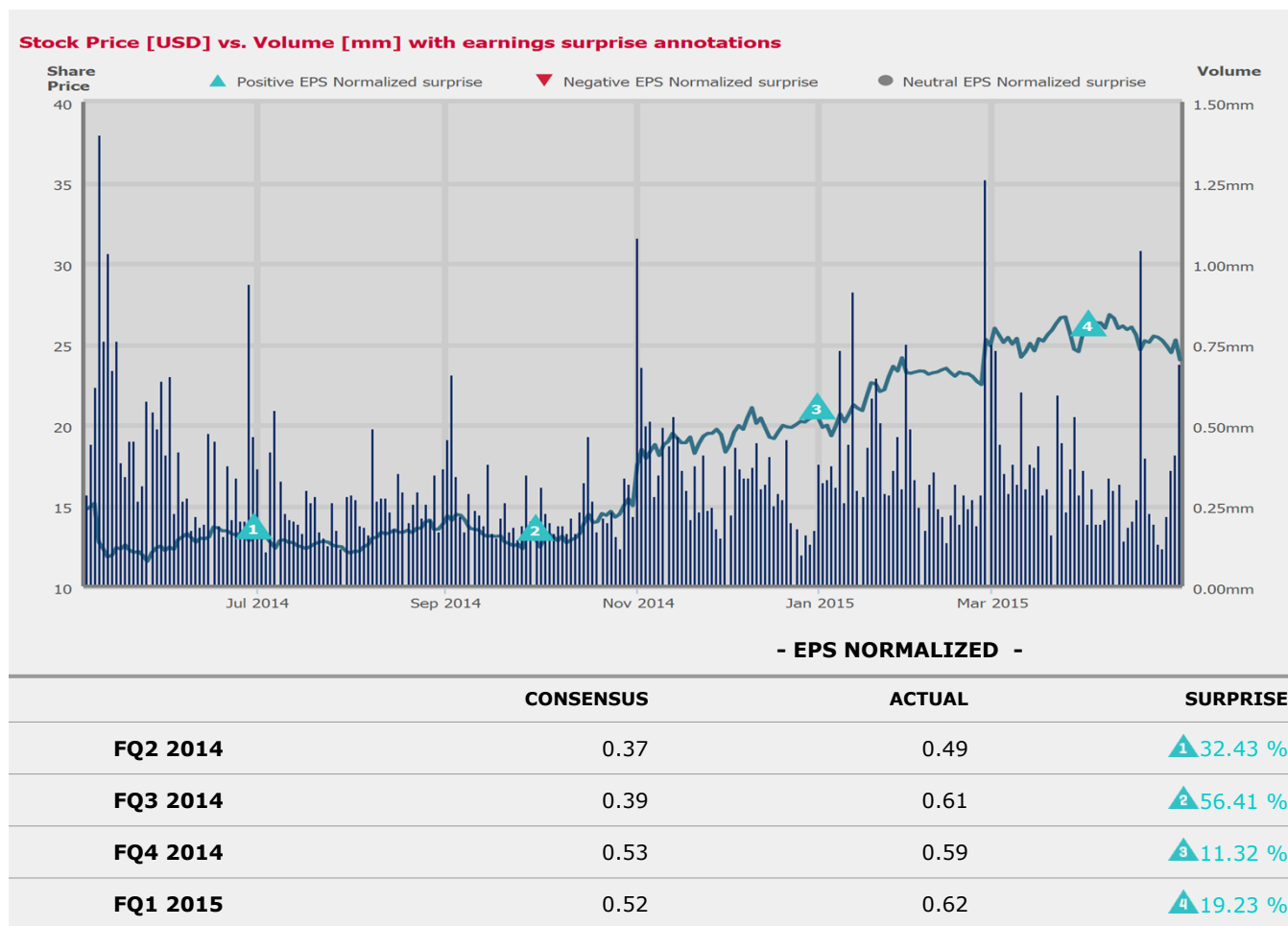
Thursday, October 29, 2015 12:00 AM GMT

S&P Capital IQ Estimates

	-FQ2 2015-	-FQ3 2015-		-FY 2015-	-FY 2016-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.67	▲ 25.37	2.66	2.98
Revenue (mm)	121.07	-	-	-	-

Currency: USD

Consensus as of Oct-11-2015 10:05 PM GMT



Call Participants

EXECUTIVES

Frank C. Wilcox

*Chief Financial Officer and Principal
Accounting Officer*

Jon W. Springer

*President, Chief Risk Officer and
Director*

Sean P. Downes

*Chairman and Chief Executive
Officer*

Presentation

Frank C. Wilcox

Chief Financial Officer and Principal Accounting Officer

Hello, and welcome to the third quarter 2015 earnings presentation for Universal Insurance Holdings, Inc. I'm Frank Wilcox, Chief Financial Officer.

Making the presentation with me today are Sean Downes, Chairman, President and Chief Executive Officer; and Jon Springer, the Director, Executive Vice President and Chief Operating Officer.

Earlier today, we filed our Form 10-Q with the Securities and Exchange Commission and issued our earnings release. To find copies of these documents, please visit the Financial Information and Press Releases sections of our website at www.universalinsuranceholdings.com. Our SEC filings can also be found on the SEC's website. In addition, an audio recording of this presentation will be available on the home page of our website until November 27, 2015.

Before we begin, please note that this presentation may contain forward-looking statements about our business and financial results.

Forward-looking statements reflect our current views regarding future events and are typically associated with the use of words such as believe, expect, anticipate and similar expressions. We caution those listening, including investors, not to rely on forward-looking statements as they imply risks and uncertainties, some of which cannot be predicted or quantified, and future results could differ materially from our expectations we encourage you to carefully consider the risks described in our SEC filings with the SEC, which are available on the SEC's website or the SEC Filings section of our website. We do not undertake any obligation to update or correct any forward-looking statements.

With that said, I'd like to turn the presentation over to Sean Downes.

Sean P. Downes

Chairman and Chief Executive Officer

Thank you, Frank. As usual, I would like to provide some highlights from our quarter. Jon will then discuss our operational highlights, and then Frank will conclude by discussing our financial results.

I am very pleased to report another positive quarter for Universal Insurance Holdings, as we delivered the highest quarterly net income for the third consecutive quarter. Our results reflect the strong operational and financial momentum we have built across our platform as we continue to successfully execute on our strategy to drive profitable organic growth, create high-quality rate-adequate business and expand our geographic footprint.

For the third quarter, we delivered improvements across multiple financial measures with our strong bottom line results continuing to benefit from the elimination of our quota share agreement and continued top line growth. Our continued geographic expansion outside of Florida has led to an increase of policy count of 35.6% for the first 9 months of the year. In short, we are building a more broadly diversified portfolio of business and doing so on an entirely organic platform.

As a result of our continued strong performance, solid financial position and confident outlook, in September, our board authorized a new \$10 million share repurchase program. As of the end of the third quarter, we had repurchased 100,000 shares at an average price of \$25.84, with the \$7.4 million remaining to be deployed. This share repurchase coupled with our quarterly dividend payments, highlighted our continuing track record of deploying capital prudently.

As we look ahead, we remain focused on executing on our key priorities and maintaining our operational initiatives. We will continue to seek opportunities to drive organic rate-adequate business from our growing distribution channels and continue our geographic expansion efforts. With that, let me turn it over to Jon.

Jon W. Springer*President, Chief Risk Officer and Director*

Thank you, Sean. I would like to comment further on 2 items you mentioned briefly: the elimination of the quota share agreement and continued top line growth. First, regarding the elimination of the quota share agreement, we are, as stated previously, now retaining 100% of our business. Third quarter 2015 represents the first opportunity to report results that fully reflect the impact of this change. It continues to be important to reiterate that this change results in quality, true organic growth by retaining a greater percentage of policies that we already have on our books.

This business has been underwritten by our staff, and in most cases, these policies have been with us for many years. By eliminating the quota share, we are simply assuming more of a well-known commodity. Lastly, regarding continued top line growth, as Sean mentioned, our policy count outside of Florida has increased by over 35% through the first 9 months of 2015. To expand a little, the strong growth outside of Florida continues to diversify our spread of business, as we again, this quarter, realize policy count and premium growth in each and every one of our active states. In addition to growth outside of Florida, we've also realized top line growth in Florida as well with policy count increasing by 7.6% through the first 9 months of 2015. It is also probably worth mentioning that all of this top line growth continues to be produced 1 policy at a time through our independent agent partners.

With that, I'll now turn the discussion over to Frank Wilcox for our financial highlights.

Frank C. Wilcox*Chief Financial Officer and Principal Accounting Officer*

Thank you, Jon. I'd like to provide a little more detail around the financial results for the quarter, their drivers and briefly touch upon the results for the first 9 months, which ended September 30, 2015. Net income for the quarter of 2015 totaled \$30.3 million, which is an increase of 42% compared to \$21.3 million in 2014, which is the result of our efforts to build a higher quality and more rate-adequate portfolio of policies, organic growth and favorable changes in the structure of our reinsurance programs including the reduction and ultimate elimination of quota share reinsurance.

Diluted EPS for the third quarter was \$0.84, which is up \$0.23, a 37.7% increase from the same quarter in 2014. This reflects the increase in net income, which was partially offset by an increase in weighted average diluted shares outstanding. An increase in net earned premiums of \$51.9 million or 55% for the third quarter compared to the same period in 2014 is due to both an increase in direct earned premiums of \$18.5 million and a decrease in ceded earned premiums of \$33.3 [sic] [\$32.3] million. The increase in direct earned premiums is due primarily to an increase in the number of policies written during the third quarter of 2015 compared to 2014. The elimination of quota share reinsurance contracts was the driver behind the decrease in ceded earned premiums.

Net investment income increased by \$663,000 or 103% for the third quarter of 2015 to \$1.3 million. This reflects an increase in our investments and actions taken to rebalance our portfolio to increase yield. Commission revenue of \$4.1 million for the quarter was up by \$992,000 or 31.8% as a result of overall changes in the structure of our reinsurance programs, including the amount of premiums paid for reinsurance and the types of reinsurance contracts used in each program. Policy fees of \$3.8 million for the quarter were up \$404,000 or 11.8% as a result of the increase in policy count.

Losses and loss adjustment expenses of \$53.9 million for the quarter were \$19.7 million or 57.6% higher than the third quarter of 2014, which was primarily the result of the elimination of our quota share reinsurance contracts. Our losses and loss adjustment expense ratios did not change significantly for the 3 months ended September 30, 2015, compared to the same quarter in 2014. Although there wasn't a significant change in our loss ratios, the ratios for both periods have improved from historical ratios. This improvement reflects changes made to expedite claims resulting in a reduction in both losses and the loss adjustment expenses.

In addition, our acquisition of Aplin Peer & Associates has produced increased efficiency while reducing costs associated with third-party adjusting services. The net ratios have also benefited from lower

reinsurance costs relative to growth in premiums. General and administrative expenses were \$55.3 million for the third quarter of 2015 compared to \$32.2 million for the same quarter in 2014. The majority of the increase of \$23.1 million or 71.9% is due to \$19.4 million of additional amortization of net deferred acquisition costs resulting mostly from the elimination of quota share reinsurance effective June 1, 2015. There were also increases in stock-based compensation of \$1.4 million, which reflected an appreciation in the market price of our common shares and performance bonus accruals of \$0.9 million resulting from the increase in income before income taxes.

The effective income tax rate decreased 36.7% for the third quarter of 2015 from 42.6% for the same quarter in 2014. This decrease reflects a reduction in the amount of nondeductible executive compensation, a discrete adjustment recorded based on the completion of our 2014 state income tax returns during the third quarter of 2015 and changes to the current state effective income tax rate.

Now let me turn briefly to our year-to-date results for 2015. Net income increased by \$25.3 million or 48.7% for the first 9 months of 2015 compared to the same period in 2014. This reflects an increase in net earned premiums, net investment income and policy fees, which were partially offset by decreases in commission revenue, net realized gains on investments and other revenues, and increases in operating expenses. Stockholder's equity reached an all-time high of \$283 million as of September 30, 2015, compared to pro forma stockholders' equity of \$218.9 million as of December 31, 2014.

In closing, we believe our results for the quarter and strength of our balance sheet reflects the strategic and operational initiatives we have made to improve our long-term financial position.

Now I'll turn it back to Sean for his closing comments.

Sean P. Downes

Chairman and Chief Executive Officer

Thank you, Frank. Our continued top line growth and overall company improvements would not be possible without the hard work and dedication of our peer-leading agency force across the country and our tremendous employees. I would like to personally thank all of them as well as our Board of Directors and my management team. Thank you.

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