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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, and welcome to the Tiptree Third Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Scott McKinney, Chief Financial Officer. Please go ahead.

Scott T. McKinney

Chief Financial Officer

Good morning, and welcome to our third quarter 2023 earnings call. Joining me today are Michael Barnes, our Executive Chairman; and Jonathan Ilany, CEO. A copy of our earnings release, investor presentation and 10-Q are on our website, tiptreeinc.com.

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. During the call this morning, we will discuss non-GAAP financial measures, which are described in more detail in our presentation. Reconciliation of these measures and other associated disclosures are contained in our SEC filings, the appendix to our presentation and posted on our website.

One final note. Given our announcement yesterday evening, we will not be holding a question-and-answer session after our prepared remarks this morning. Until the Fortegra registration statement is filed, there are limitations on what we can say about the potential offering.

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.

Yesterday after market, we announced that we intend to take our specialty insurance subsidiary, the Fortegra Group, public. We expect the Fortegra IPO to be a primary offering, with the proceeds used to support Fortegra's growth. We also expect to maintain a majority ownership of Fortegra, and believe the IPO will create a platform to serve the future capital needs of the business.

Turning to our operational results. We had a strong quarter led by Fortegra, which, once again, posted record growth and financial results. Tiptree's revenues year-to-date increased to \$1.2 billion, up 17% from the prior year, while contributing adjusted net income of \$65 million.

Fortegra's gross written premiums and equivalents grew 25% to \$2.4 billion. The combined ratio improved to 90.5%. And when paired with higher investment yields, the adjusted return on equity of the business up 30%. These results continue to demonstrate the company's strategy of disciplined, specialty underwriting, while maintaining a lean, yet scalable infrastructure.

Excess and surplus lines and services offerings were the largest growth contributor, and the pipeline of future opportunities remain strong in those sectors of the insurance market. The markets for specialty P&C risk remain healthy, as we continue to see a hard pricing environment as well as favorable terms and conditions on renewal business. We anticipate this continued hard market environment, in tandem with adding new agents and distribution partners, will continue to extend Fortegra's growth profile.

As stated in the past, we take a conservative approach with a \$1.2 billion insurance-related investment portfolio or flow. At quarter end, the fixed income portfolio was AA-rated, with a 2.4-year duration, and notably, over 1/3 was held in cash or money market funds. We believe there will be near-term opportunities to deploy a significant amount of this cash into higher-yielding investments, while continuing to maintain our long-term conservative view.

In Tiptree Capital, we have over \$185 million of capital deployed across our mortgage operations, cash and publicly traded equities for which we take a long-term view. The management team at our mortgage business has executed well in a tough operating environment.

The servicing side of the business and proactive cost reductions led to positive returns in the third quarter and have kept the business near breakeven for the year. We maintain a positive outlook for the business, as mortgage rates appear to be stabilizing, and we will continue to pursue avenues to increase profitability.

At Tiptree, we continue to look for opportunities to generate long-term absolute return. Our balance sheet remains well-capitalized, with no holding company debt and substantial cash for future deployments. With strong performance in 2023, we are well-positioned for growth, and we maintain a positive outlook for the company.

With that, I'll let Scott take you through the financial update.

Scott T. McKinney
Chief Financial Officer

Thank you, Michael. For the quarter, Tiptree's revenues were up 19%, excluding unrealized gains and losses, driven by growth in insurance underwriting and fee-based service revenues. Consolidated net income of \$2.2 million was driven by growth in our insurance operations and positive contributions from our mortgage business, partially offset by unrealized investment losses and lower shipping revenues from the sale of our five vessels in 2022.

Adjusted net income was \$24 million, representing a 17.6% annualized adjusted return on average equity. As Michael mentioned, our cash and capital position remains strong. We ended the quarter with over \$515 million of cash and equivalents, with roughly 1/5 of that figure outside the insurance company.

Turning to Fortegra's results for the quarter. Premiums and equivalents increased 10% year-over-year to \$835 million, driven by robust growth in specialty lines and service contracts, partially offset by softness in our retail channel personal lines offering. The mission activity and the pipeline of new underwriting opportunities remain strong across our specialty lines.

Revenues grew by 24% to \$407 million, and the combined ratio improved to 90.2%. Underwriting margins improved over the prior year for both insurance and services offerings, while the expense ratio was stable at 13.8%. Adjusted return on equity for the quarter was approximately 31% annualized. Fortegra's long-standing history of disciplined underwriting, combined with the scalability of its technology-enabled platform, continues to produce strong returns on capital.

Specialty insurance markets remained favorable. The E&S market continues to benefit from the inflow of business from admitted markets, in addition to rate increases, driven by inflation and tighter underwriting conditions. We, along with many of our competitors, believe these trends will continue through 2024 and potentially beyond.

Our services lines grew top line in the quarter by 29%, driven by growth in vehicle service contracts and the added production coming from our acquisition of Premia earlier in 2023. We include the next set of charts as a snapshot of Fortegra's trends over time. Gross written premiums and equivalents have increased 27% annually since 2019, with the vast majority coming from organic growth.

Excess and surplus lines represented 27% of our \$2.4 billion of written premiums and equivalents for the year-to-date 2023, a significant increase from when we formed the surplus line subsidiary in late 2020. We believe there is a longer-term shift of underwriting talent moving to managing general agencies, which provides Fortegra with additional opportunities to partner with those agents and to underwrite profitable business.

The combined ratio has been very consistent, moving from 93% to 91% over the past 5 years. Even with that improvement, we continue to invest in people and technology to drive efficiencies, improve our underwriting results and support our growth objectives at Fortegra.

Turning to investments. The portfolio ended the quarter at \$1.2 billion, up 11% year-over-year. 91% is invested in a combination of high credit quality liquid securities and cash, with an average S&P rating of AA. Book yield was 3.2% at quarter end, up nearly 120 basis points from the prior year, driven by improving yields on money market funds and short-duration fixed income securities.

Net investment income was just under \$20 million for the year, up 92% year-over-year. The duration of our fixed income portfolio is approximately 2.4 years, which positions us well as maturities roll and the portfolio grows to reinvest at a higher yield, all while maintaining our high credit quality rating.

Flipping to Tiptree Capital. Pretax loss for the quarter was \$6.1 million, driven primarily by unrealized losses on our investment in Invesque. Reliance delivered \$400,000 of pretax income, despite mortgage volumes being down 17% in the quarter. The mortgage servicing asset ended the quarter at \$43.5 million on our balance sheet, a \$2.1 million increase in 2023. Our mortgage servicing portfolio and cost management measures provided stability in the quarter, and we expect origination volumes and margins to normalize as we look ahead.

With that, I will turn the call back to Michael to conclude our prepared remarks.

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott. We are pleased with the operating performance of our businesses this year. Fortegra continues to post record results. The pipeline of new opportunities continues to build and specialty market conditions remain favorable.

Contributions from the Fortegra investment portfolio have begun to take hold. As we look forward, we see significant opportunities to create value from a combination of underwriting income and fees as well as increased investment returns.

At Tiptree, we remain focused on building long-term value. We will continue being patient and disciplined when allocating capital, and remain focused on nurturing our current businesses for future growth. We are excited to move forward on the proposed Fortegra IPO.

As we stated earlier, we will not be taking questions this morning. We will be able to give you more information on the Fortegra IPO once the registration is filed. Thank you for joining us today. This concludes our conference call.

Operator

You may disconnect your lines at this time, and thank you for your participation.

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