S&P Global
Market Intelligence

Universal Insurance Holdings, Inc. NYSE:UVE

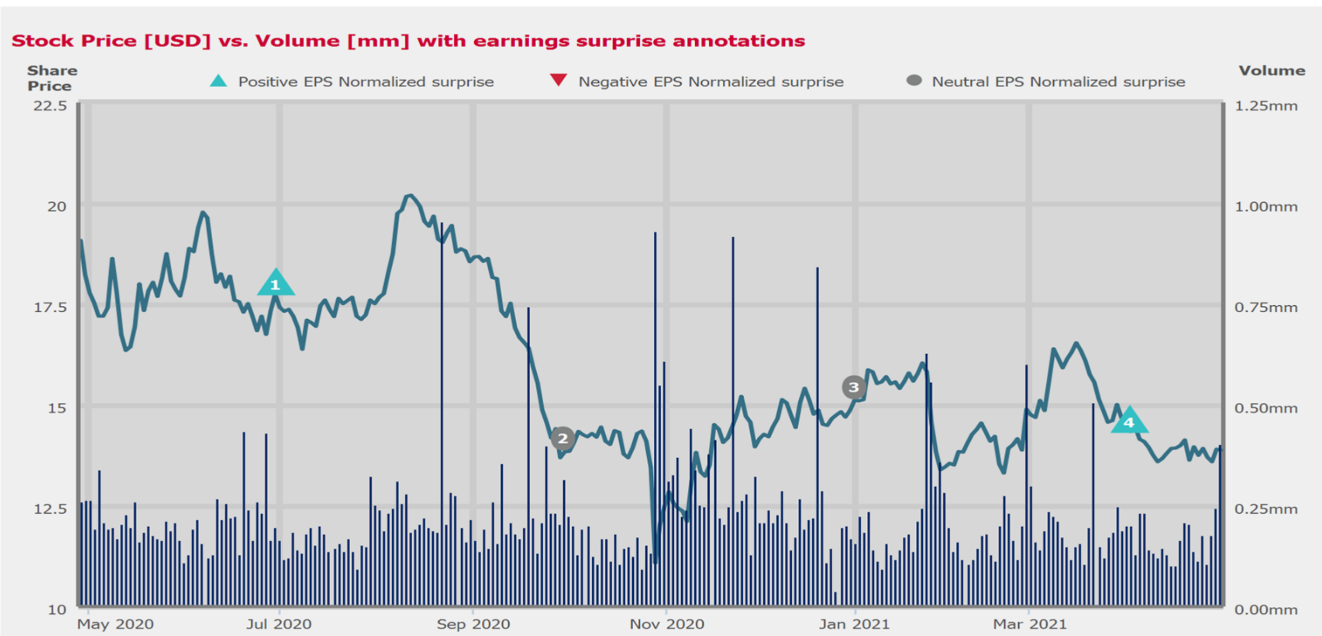
FQ1 2021 Earnings Call Transcripts

Thursday, April 29, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.63	0.84	33.33	0.46	2.20	NA
Revenue (mm)	269.49	262.76	(2.50 %)	272.90	1092.75	NA

Currency: USD
Consensus as of Apr-29-2021 3:17 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	0.50	0.52	1 4.00 %
FQ3 2020	0.10	(1.43)	NM
FQ4 2020	(1.69)	(0.84)	NM
FQ1 2021	0.63	0.84	2 33.33 %

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Call Participants

EXECUTIVES

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Rob Luther
Vice President of Corporate Development, Strategy & Investor Relations

Stephen Joseph Donaghy
CEO & Director

ANALYSTS

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the UVE First Quarter 2021 Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Rob Luther, Vice President of Corporate Strategy and Investor Relations. Sir, you may begin.

Rob Luther
Vice President of Corporate Development, Strategy & Investor Relations

Thank you, and good morning, everyone. Welcome to our discussion on our first quarter 2021 earnings results, which we reported yesterday. On the call with me today is Steve Donaghy, Chief Executive Officer; and Frank Wilcox, Chief Financial Officer.

Before we begin, please note today's discussion may contain forward-looking statements and non-GAAP financial measures. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information, please see the press release and UVE's SEC filings, all of which are available on the Investors section of our website, at universalinsuranceholdings.com, and on the SEC's website. A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the quarterly press release.

With that, Steve, I'll turn it over to you.

Stephen Joseph Donaghy
CEO & Director

Thank you, Rob, and good morning, everyone. Thank you for joining us today. We are off to a strong start to 2021, with solid first quarter results. Including, close to 12% top line growth, margin expansion in excess of 200 basis points, and a total annualized return on average equity of 23.2%.

We continue to make progress on our reinsurance program renewal and were oversubscribed on our first cat bond in March at rates below the low end of our initial range. We have now completed procurement of our Allstate's first event reinsurance program for UPCIC for the 2021 wind season, and we'll have additional details in May as we finalize the remaining pieces of our risk management strategies for our insurance company subsidiaries.

In addition, we were encouraged earlier this month when the Florida Senate passed Bill 76, which would enable Floridians to have reliable access to property insurance. For a number of years, Florida has been a significant outlier compared to the rest of the country when it comes to litigated property claims, which has put significant pressure on the Florida property insurance marketplace. We have not been immune to these market dynamics. And during the first quarter, we actively reduced our policies in force sequentially and reduced new and renewal policy counts in aggregate this quarter when compared to the first quarter of 2020. That being said, we continue to monitor closely the companion bill in the House, House Bill 305, which has differences from the Senate Bill 76.

We look forward to continue to make positive strides throughout 2021 and should have additional details on our reinsurance program renewals in the next several weeks.

So with that, let me now turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Thank you, Steve, and good morning, everyone. As a reminder, discussions today on adjusted operating income and adjusted EPS are on a non-GAAP basis and exclude effects from unrealized and realized gains and losses on investments and extraordinary reinstatement premiums and related commissions. Adjusted operating income also excludes interest expense.

We ended the first quarter with total revenue up 11.7% to $262.8 million, driven by primary rate increases from 2020, earning through the book as policies renew and an improvement in the unrealized portion of the investment portfolio, partially offset by the impact of higher reinsurance costs when compared to the first quarter of 2020.

Margins expanded by 210 basis points for the quarter, driven by the incremental fall-through profit from the top line as previously discussed, lower losses in LAE and lower operating expenses as a percentage of direct premiums earned. EPS for the quarter was $0.84 on a GAAP and non-GAAP adjusted basis. As to underwriting, direct premiums written were up 9.2% for the quarter, led by direct premium growth of 10.2% in Florida.

On the expense side, the combined ratio improved 1 point for the quarter to 93.1%. The improvement was driven by a 2-point improvement in the loss and LAE ratio from decreased weather, favorable prior year reserve development, and a benefit from our claims adjusting business, partially offset by increased reinsurance costs and less than 1 point of current year strengthening on a direct basis, when compared to the first quarter of 2020.

The expense ratio improved on a direct earned basis by 45 basis points as a result of operating efficiencies but was more than offset by the impact of increased reinsurance costs on the net ratio resulting in a 1 point increase in the net expense ratio for the quarter. On our investment portfolio, net investment income decreased by 56.3% to $3 million for the quarter, primarily due to significantly lower yields on the reinvested portfolio following the sale of a majority of securities in the portfolio that were in an unrealized gain position in the third and fourth quarters of 2020.

Unrealized equity losses improved substantially during the quarter when compared to the market volatility seen last March as a result of the COVID-19 pandemic. Total invested assets increased 10.6% to $1 billion since year-end 2020.

In regards to capital deployment, during the first quarter, the company repurchased approximately 15,000 shares at an aggregate cost of $245,000. On April 22, 2021, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, which is payable on May 21, 2021, to shareholders of record as of the close of business on May 14, 2021.

As mentioned in our release yesterday, we are maintaining our guidance for 2021. We still expect GAAP and non-GAAP adjusted EPS range of between $2.75 and $3 and a return on average equity of between 17% and 19%. The guidance assumes no extraordinary weather events in 2021 and also assumes a flat equity market for GAAP EPS. If weather events exceed plan, we expect to see both a benefit from our claims adjusting business and increased loss costs.
With that, I'd like to ask the operator to now open the line for questions.

Question and Answer

Operator

[Operator Instructions] We have a question on the line from Mr. Tom Shimp with Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Can you guys give me some more of your thoughts on the bills [bring] to the state legislature? So if insurers got the most favorable aspects of the bills being contemplated. How do you think about the potential benefit to your litigation trends?

Stephen Joseph Donaghy
CEO & Director

Tom, that's a question that is burning throughout the state currently. And as you can imagine, there's tremendous change currently occurring. House Bill 76 that was passed by the Senate was seen as quite favorable. There was a lot of good policy in the bill, 2-year limitation on supplemental reported claims on a catastrophe, policyholders, written notice within prior -- 60 days prior to pursuing litigation; attorney fees, which is really the symptom of the illness currently, there was good language in there. And I think we find ourselves now, where the House is weighing in on those topics and additional topics. The House is contemplating those issues along with trying to assist citizens of becoming rate adequate. And the session closes tomorrow.

So I would also say that I feel as though the department has done a balanced job of trying to represent the industry and Floridians with several items that they've published to the House and to the Senate. So I think the information is there. The information is flowing. There are 2 strong sides. There's Floridians in the insurance business. There's lawyers. And hopefully, tomorrow, we'll get a favorable legislation that will improve and enable carriers to begin writing and helping out Florida residents.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Staying on the insurance regulators. Last year, there were some headlines that the board of regulators were examining the fees between the insurers and the corporate affiliates. Do we have an update on that? Or can we just still view that as just ongoing discussions, typical discussions?

Stephen Joseph Donaghy
CEO & Director

Yes. Tom, I think it's a misnomer to feel as though the Department of Insurance is not intimately aware, at least with Universal of our relationship between subsidiaries and the parent, the fees that are charged, how they relate to market. So sometimes that sounds like they don't do it, but they do -- at least with us, they are -- they do a very good job of understanding the relationship. And we have to file changes to the agreements between the subsidiaries and the parents; if we have any changes. So there is language in the House bill that continues that. And the department has a lot of resources available to them, should they want to know the intimate relationships between those. So there is some language, but from where we sit, we've been an open book with them and the relationship has been solid with the department relative to Q&A regarding those.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Yes. I would just add on to that, but there are multiple instances where they do evaluate and examine those fees. And as Steve pointed out, they have every opportunity to review and object to the fee structure within the agreements, and we've not heard anything from them as to their dissatisfaction.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then moving to PIF, I was just hoping you could just talk about that a little bit more. Florida PIF went down, and I understand that comes out of the struggles in Florida in trying to shed some of those costly policies. But outside of Florida, that was also down too. So can you just give me your updated thoughts on how you're thinking about growth outside of Florida?

Stephen Joseph Donaghy
CEO & Director

Well, we -- the growth outside of Florida, we've taken numerous measures in the past several years relative to becoming more rate adequate. The reduction in out of state is not -- is very, very nominal at this point. And we see a lot of upside in the future because we've recently seen some competitors take rate in some states we do quite well in. So we might have been a little bit ahead of the market, but we're sitting in a good position. And our desire for rate adequacy is paramount to growth. So we rather slow growth and have profits than vice versa. So we feel good about where we're at. And we also feel it's very important that as we share data with our reinsurance partners, they expect us to perform at the levels we submit to them. And we feel like we're right in line with what we communicated to that market. And it's important that you do what you say you're going to do, and that's a piece of the equation for 2021.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then I was hoping we could talk about reserves, just reserve development. It looked like on a net basis, it was a favorable development, but on a direct basis there was some unfavorable development. Can we just have more color on that? And what were the moving parts?

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Yes. So this is Frank, Tom. Sally developed by $92 million on a gross basis. But because of the way that our reinsurance programs operate and coordinate -- and just as a reminder, we have a program for our states, and then we have a completely separate program for other states to the extent that the other states program exceeds the retention of $15 million on that, that would come back to reduce our losses. And that's what we realized on a net basis for Sally. So despite the gross development of $92 million, we had a net favorable development of Sally of $5 million.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Was there any other development from any other storms besides Sally?

Stephen Joseph Donaghy
CEO & Director

Yes. There was no other development on a gross basis. With the losses that we see to the cat fund, they are subject to estimates, and we re-estimated the amounts that would be under the contractual arrangements would be ceded to the cat funds. That's a $3.8 million adjustment offsetting the $5 million, and there's your $1.2 million net favorable. And that was on Irma, I'm sorry.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then at the start of the second quarter, I think earlier this month, there was a weekend there where the Panhandle and the rest of Florida had a line of severe storms that I saw in the headlines. Is there anything you can tell us in regards to how you're thinking about losses from that? Is it material? Or did the headlines I see make too much of it.

Stephen Joseph Donaghy
CEO & Director

Tom, we track each one. There was a PCS event that was identified for that. We've got under 500 claims that were called in, and we have under 100 open right now. So we feel as though we've got that fairly well in hand. And as you know, we have some room in our plan for weather each quarter. So at this point, we don't see any reason to kind of pull any alarms, but we're tracking it closely. The claims team is all over it. And fortunately, we were able to handle a majority of those claims with internal associates. So outer adjusting continues to provide benefit to the parent in that regard.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then in general, I was just hoping we could just get a high-level update on how you're viewing your loss picks. You've been increasing them the past few years and has there been any changes as of late? Any trends that have in the past quarter or 2 have made you rethink your loss picks? Any update there?

Stephen Joseph Donaghy
CEO & Director

Tom, we go -- at the end of 2019, we implemented controls that benefited the company last year as we put monies up throughout the year when we saw the need, Q2, Q3 and Q4, of course. As we went through those controls at the end of Q1 with Frank and our actuaries, we saw the benefit of the loss pick this year benefiting from the rate increases that are flowing through our book in Florida and other states. So the 40% in 2021 for our loss pick compared to the 40% in 2020. The 40% in 2021 is a dynamically higher amount of money put up for reserves. So we see it, we feel good at the end of Q1, the weather cooperated, and we don't have a crystal ball, but if that trend continues, we feel very good about the rest of the year.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

And then lastly, I was hoping we could just -- you guys could give us some strategic updates. You've announced partnerships with Verisk and you have the direct business in Clovered. And I was just hoping we can get an update on how management is viewing their progress and for their potential, and if there's any other strategic initiatives that the management team is focusing on into 2021.

Stephen Joseph Donaghy
CEO & Director

Yes. Tom, we continue to focus on our capital management. Frank and his team have done a good job of ensuring that we track the levers and understand our capital position and ensure that just like 2020 that the subsidiaries feed the parent in a fashion that we can take care of our insurance subsidiaries. Clovered, like the rest of the agency force in the state of Florida, they are focused on growing their business in a non-home market. Citizens is really one of the few carriers open. They're not a preferred carrier to write with because they're -- it's not as easy as others, and the commission is pretty low for the right reason. So we find ourselves cross-selling quite a bit. So we're writing a lot more auto. We're writing umbrellas. The benefit to Clovered is they're behaving more and more like a true agency. So we feel good about that. They're approaching $40 million in written premium. So we're getting to a point where we may be able to segregate that business more deeply and track it at a P&L level and type of things. So we can show that to yourself and others. But then we continue to invest in that business, and we feel good about it.

I think from a growth perspective, we will continue to enter additional states either at Universal or American Platinum. And we've been focusing on insurance score products in other states, which is somewhat unique for us and how we kind of approach the future. So I think there's a lot of very positive things that are occurring at the company. Our underwriting team as well as has -- since there's less business coming in, we've gone back and implemented additional tools on their machines to ensure that we're looking at roofs more closely. We're looking at the business more closely and going back and looking at the business on the books. And we and our agency force are highly focused on our retention, which we feel very good about in light of the necessary increases that are flowing through our book of business currently. I can go on. There's a ton of stuff. That's the best part about the job, Tom, is working on the strategy and the new things that the company is doing.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

I appreciate the answers. And then congrats on the first strong first quarter.

Stephen Joseph Donaghy
CEO & Director

Thanks, Tom. Appreciate your time.

Frank Crawford Wilcox
CFO & Principal Accounting Officer

Thank you.

Operator

[Operator Instructions] I am showing no further questions. I will now turn the call back over to the management for closing remarks.

Stephen Joseph Donaghy
CEO & Director

In closing, I'd like to thank our associates, consumers, agents and our stakeholders for their continued support of Universal. Have a great day.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.