

Universal Insurance Holdings, Inc. NYSE:UVE

FQ4 2015 Pre Recorded Earnings Call Transcripts

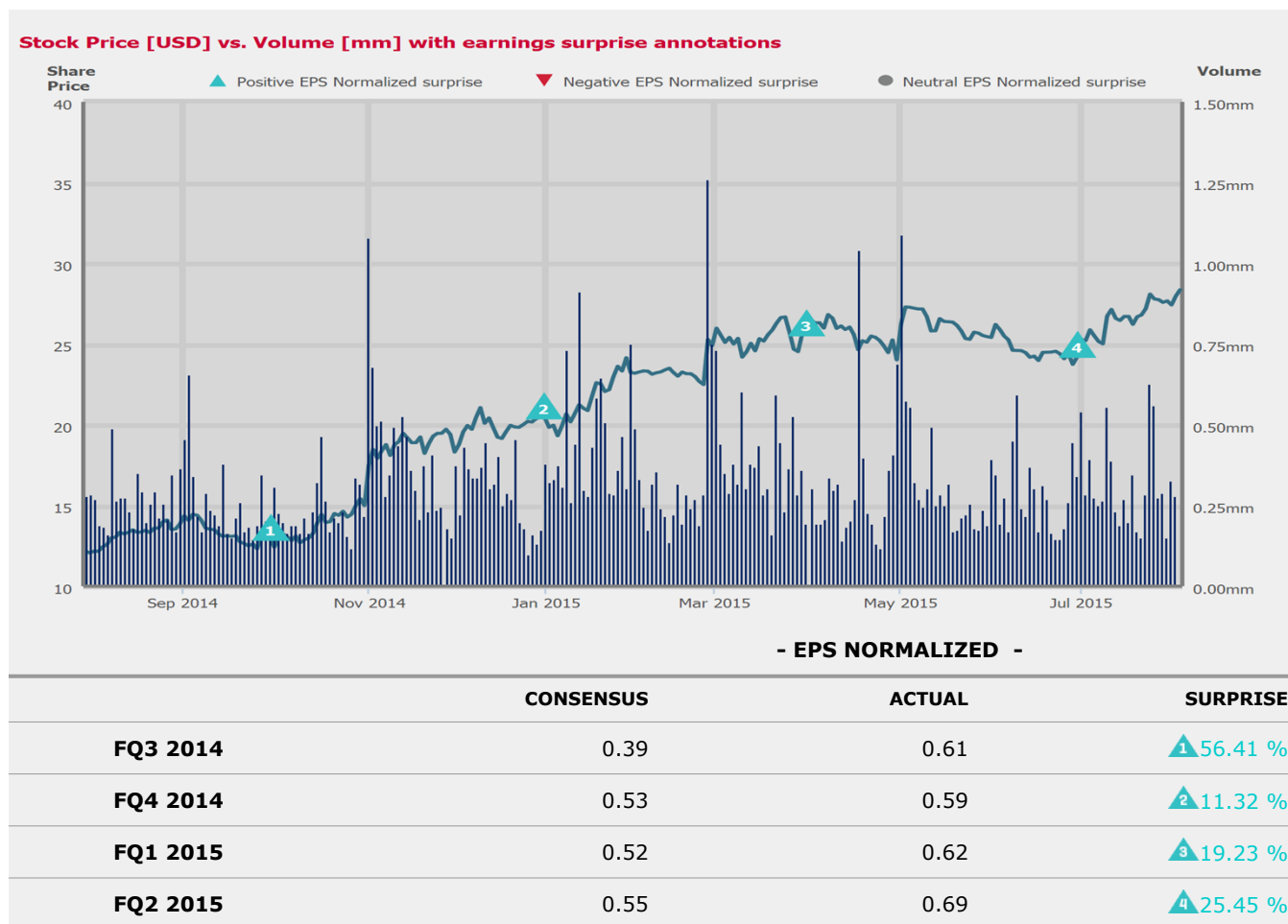
Wednesday, February 24, 2016 12:00 AM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-		-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	0.67	0.84	▲25.37	0.72	▲13.89	2.86
Revenue (mm)	-	-	-	-	-	-

Currency: USD

Consensus as of Jan-19-2016 1:35 AM 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 Fourth Quarter and Full Year 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, our Director, Executive Vice President and Chief Operating Officer.

Earlier today, we filed our Form 10-K 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 March 24, 2016.

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 solely 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, and thank you all for joining us as we review our results for the fourth quarter and full year 2015.

I would like to begin by providing some highlights from the quarter and year and then take a moment to review our strategy in growth initiatives. Jon will then discuss our operational highlights and Frank will conclude by discussing our financial results.

We are pleased to have delivered another record quarter in the fourth quarter, concluding a historically strong year in which we achieve the highest earned premiums, total revenues, net income and diluted EPS in the company's history.

For the fourth quarter, net income was \$29.2 million, an increase of 39% year-over-year and diluted EPS was \$0.82.

For the full year, we delivered net income of \$106.5 million, a 46% year-over-year increase with diluted EPS of \$2.97.

These record results highlight the consistent execution of our growth strategy across all aspects of our business and the hard work of our employees and our peer leading network of approximately 7,800 independent agents. Thanks to their efforts, UPCIC has grown to become the largest private homeowners insurance provider in Florida, with an expanding presence in 15 additional states outside of Florida.

Supporting our success is our consistent focus on maintaining disciplined underwriting standards as we seek to grow our business on an entirely organic basis. Our results demonstrate that this approach is working. Thanks to our organic growth strategy and the initiatives we have in place. We have seen a consistent increase in policy count and insured value in all states in which we operate over the past 2 years.

We have successfully maintained a market-leading position in Florida among private insurers and have seen our total insured value for states outside of Florida increase from 9% of our total in 2013 to 12% in 2014 and now 16% as of the end of 2015.

A key factor in our success has been our commitment to providing high-quality service to our policyholders and independent agency force through our vertically integrated structure. We have continued to invest in our business in areas including underwriting, policy issuance, general administration, and claims processing and settlement. An important benefit of maintaining the claims functions internally is that allows us to review and pay claims in a more efficient and timely manner and more effectively control claims handling costs.

I would like to take a moment to showcase the considerable progress we have made in terms of our claims processing.

Thanks to the added resources we now manage in-house, our average time to close claims in 2015 decreased by over a week as compared to 2014 and '13. Not only does this provide us with a significant benefit in terms of the policyholder experience, and by extension, our relationship with our independent agents has allowed us to decrease our claims operating expenses and lower our loss adjustment expenses. Ultimately, our ability to provide high-quality service through our vertically integrated business model has been a key driver behind our steadily improving renewal retention rates, which exceeded 88% in 2015 compared to 87% in '14 and 83% in 2013.

Another element in our strong profitability in 2015 was our decision to eliminate quota share reinsurance in our 2015/'16 reinsurance program. We believe that the restructuring of our reinsurance program and our focus on continuously reviewing our reinsurance coverage has allowed us to capitalize on attractive reinsurance pricing in terms, retain 100% of our profitable business and effectively manage risk. Our consistent execution and operational performance has resulted in a robust financial position, allowing the company to continue returning capital to shareholders.

In November, we completed our previously announced \$10 million share repurchase program and initiated a new \$10 million repurchase program. We also continued to return capital to our shareholders through our dividend program. In January, the board declared a dividend of \$0.14 per share of common stock, an increase of \$0.02 or approximately 17% from the \$0.12 per share paid previously.

Our ongoing share repurchase program and dividend payments highlight our continuing track record of prudent capital deployment and commitment to returning value to shareholders.

As we look ahead, we remain focused on executing on the 4 key pillars of our strategy to drive profitable growth. First, we continue to provide high-quality service through our vertically integrated structure. Second, we will continue to increase our policies in force in Florida by seeking profitable, rate adequate in 100% organic growth. Third, we will continue to diversify our revenue base and risk by increasing our policies in force in states outside of Florida through our geographic expansion strategy. And fourth, we will continue to optimize our reinsurance program as our risk profile changes.

Our record results for the fourth quarter and full year highlight the merits of our strategy. And we remain committed to executing on our plans to drive profitable growth and enhance value for our shareholders.

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 add some further commentary on our progress as respects the 4 key pillars of our strategy you mentioned.

First, from a service perspective, we just recently exceeded 400 full-time employees for the first time in company history. With over 180 claims professionals and another 120 in underwriting and marketing, the vast majority of our staff works directly with our policyholders and independent agents every day. We

have developed a proprietary suite of applications that provide all functions of our business. And most importantly, this sophisticated policy processing system is solely managed by our own employees through owning, managing and continuously enhancing the core system, which supports the insurance enterprise, we leverage our proprietary technology as a distinct advantage in servicing the business.

Second, we have continued to build upon our past success in Florida by adding additional organically grown policies in 2015. Specifically, during calendar year 2015, the net growth in the Florida book was 44,000 policies, nearly 9% year-over-year growth. 72 million of additional in force premium all produced through our independent agency partners and underwritten 1 policy at a time.

Third, our geographic expansion continued at a successful rate. We added certificates of authority to write business in 5 additional states during 2015, bringing our geographic footprint to a total of 16 states. In addition to Florida, we are actively writing policies in 10 other states. This leaves the 5 remaining states in the pipeline for future growth. We are currently in various stages of research, rate and form filings and agency appointments in these 5 states. During the course of 2015, the net growth in the 10 other states was 24,000 policies, just shy of 50% year-over-year growth, over 20 million of additional in force premium. Again, this business was all written through our independent agency partners and underwritten by our staff.

Lastly, from a reinsurance perspective, we are currently in the early stages of the process for the June 1, 2016 renewal of our catastrophe reinsurance coverage. The transition in 2015 to a single catastrophe tower covering all states coupled with the continued growth in our portfolio outside of Florida representing 16% of our insured values, should continue to lead to efficiencies in our catastrophe reinsurance purchases.

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 full year ended December 31, 2015.

Net income for the fourth quarter of 2015 totaled \$29.2 million, which is an increase of 39% compared to \$21 million in 2014. This reflects improvements in multiple measures, driven by our efforts to increase profitability through rate adequate organic growth, favorable changes in the structure of our reinsurance program, including the ultimate elimination of quota share reinsurance, and operational initiatives, such as the improvements made in the claims process.

Diluted EPS for the fourth quarter was \$0.82, which was up \$0.23 or a 39% increase from the same quarter in 2014 and in line with the increase in net income. An increase in net earned premiums of \$55.2 million or 57.8% for the quarter compared to the same period in 2014 was due to both an increase in direct earned premiums of \$22.2 million and a decrease in ceded earned premiums of \$33 million. The increase in direct earned premiums stems from our ability to drive organic growth both inside and outside of Florida. The elimination of quota share reinsurance contracts was the primary driver behind the decrease in ceded earned premiums.

Net investment income in the quarter increased by \$978,000 or 122% year-over-year to \$1.8 million. This reflects an increase in our invested assets and actions taken to rebalance our fixed income portfolio to increase yield. We generated \$768,000 of realized gains in the fourth quarter of 2015 compared to \$274,000 for the same period in 2014. We realize gains from time to time when opportunities arise.

Commission revenue of \$4.1 million for the quarter was up by \$790,000 or 23.8% year-over-year 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 \$3.4 million for the quarter were up \$281,000 or 8.9% year-over-year as a result of the increase in policy count. Losses and loss adjustment expenses of \$60.6 million for the quarter were \$26 million or 75.2% higher than the fourth quarter of 2014, which was primarily the result of the elimination of our quota share reinsurance contracts, and to a lesser extent, our growth in exposure.

General and administrative expenses were \$53.6 million for the fourth quarter of 2015 compared to \$33 million for the same quarter in 2014, an increase of 62.7% or \$20.6 million. The majority of the increase was due to additional amortization of net deferred acquisition costs of \$18.2 million, resulting mostly from the elimination of quota share reinsurance effective June 1 of 2015. There are also increases in stock-based compensation of \$1.2 million, which reflected in an appreciation in the market price of our common shares and \$1.2 million in other remaining expenses combined.

The effective income tax rate decreased to 39.1% for the fourth quarter of 2015 from 43.2% for the same quarter in 2014. The improvement in our tax rate is primarily due to a reduction in the amount of nondeductible executive compensation.

Now let me turn briefly to our full year results for 2015.

Net income increased by \$33.5 million or 45.9% for 2015 compared to 2014. This reflects an increase in net earned premiums, net investment income, commission revenue and policy fees, which were partially offset by decreases in net realized gains on investments and other revenues and increases in operating expenses. Diluted earnings per share for 2015 increased by \$0.89 or 42.8% compared to 2014.

The full year results for 2015 reflect record results on multiple measures, including the highest net income and diluted earnings per share in the company's history.

Stockholder's equity reached an all-time high of \$293.1 million as of December 31, 2015 compared to \$218.9 million pro forma stockholders equity as of December 31, 2014.

In closing, we believe our results for the quarter and full year reflect all the operational and strategic initiatives intended to increase profitability, protect our policyholders and strengthen our balance sheet.

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

Sean P. Downes

Chairman and Chief Executive Officer

Thank you, Frank.

We are pleased with our performance in 2015 and believe we have the right strategy in place to drive continued profitable growth and shareholder value creation. Our experienced and dedicated team, focused underwriting discipline, robust internal capabilities, superior claims operations and strong independent agent distribution network are all competitive advantages that we believe will allow us to capitalize on our future growth prospects.

We have also taken strides to improve our investor communications, including enhancements to our 10-K, which we filed today. We hope you'll find this information useful. And as always, we welcome feedback from our shareholders. In addition, beginning next quarter, we will have the company's first earnings call. In closing, I would like to thank our independent agents and employees for their hard work and dedication, as well as our Board of Directors and management team. Thank you.

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