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Tiptree Inc. NasdaqCM:TIPT

Earnings Call

Thursday, October 31, 2024 2:30 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

Call Participants

EXECUTIVES

Michael Gene Barnes

Executive Chairman of the Board

Scott T. McKinney

Chief Financial Officer

Presentation

Operator

Ladies and gentlemen, greetings, and welcome to the Tiptree Inc. Third Quarter 2024 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. Thank you, and over to you.

Scott T. McKinney

Chief Financial Officer

Good morning, and welcome to our third quarter 2024 earnings call. Joining me today are Michael Barnes, our Executive Chairman; Jonathan Ilany, CEO; and Randy Maulsby, President.

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. In today's call, we will discuss non-GAAP financial measures, which are described in more detail in our presentation. Reconciliations of these measures and additional disclosures can be found in our SEC filings, the appendix to our presentation and on our website.

With that, I will turn the call over to Michael.

Michael Gene Barnes

Executive Chairman of the Board

Thank you, Scott, and good morning to everyone. The strong performance from our businesses continued in the third quarter. Revenues year-to-date have increased by 28% from the prior year, while delivering an adjusted return on equity of 22%. Our insurance company, Fortegra, delivered revenue growth of 28% and adjusted net income growth of 38%. These exceptional figures were driven by continued expansion of specialty insurance lines, particularly in the excess and surplus market.

Gross written premiums and equivalents were \$2.2 billion, an increase of 10% over 2023. We continue to see a strong pipeline of opportunities and the pricing environment remains attractive for underwriting new business. Within the third quarter, we witnessed several catastrophic events, resulting in extreme destruction and personal loss and communities across the country. Our thoughts are with those who were impacted and the team at Fortegra remains focused on delivering quality service to its policyholders.

Despite these events, Fortegra's combined ratio improved to 90%, demonstrating the underwriting discipline and diversification of risk that we have observed for many years. The investment portfolio, which is overseen by our asset management subsidiary, Tiptree Advisors, ended the quarter at \$1.5 billion of investable assets. Our focus when investing paid in premiums remains unchanged.

We allocate to high-quality liquid fixed income securities, coupled with select high-yielding investment opportunities to enhance return. As the portfolio grows and maturing investments roll, we continue to see attractive opportunities to add high-quality bonds that enhance our overall book yield and future earnings profile. The team at our residential mortgage origination and servicing business, Reliance continues to execute in a tough operating environment. Volumes have increased modestly compared to the prior year and the fee income from our retained servicing book has led the business to profitability. We hold a positive outlook for the business, anticipating increased potential for future profit as mortgage rates tighten.

We are pleased with Tiptree's performance thus far in 2024, and as always, we remain committed to growing long-term shareholder value, and we'll continue to seek constructive ways to more fully reflect the intrinsic value of Tiptree's businesses in our share price.

With that, I'll turn the call over to Scott for his comments.

Scott T. McKinney
Chief Financial Officer

Thank you, Michael. As you highlighted, the results for the quarter and 9 months exceeded our expectations, and we remain positive on the outlook for growth. Tiptree's revenues were up 19% for the quarter, driven by growth in earned premiums, an increase in net investment income and investment gains as compared to the prior year. Adjusted net income for the quarter was \$27.9 million, representing an increase of 56%, driven by strong underwriting and investment income at our insurance business and increased origination volume at our mortgage business. Consolidated net income was \$11.9 million compared to \$2.2 million in the prior year.

Tiptree's GAAP tax rate for the quarter was 44%. Setting aside the book tax implications of being deconsolidated from Fortegra for tax purposes, our effective tax rate was 28%, the vast majority of which is deferred. Our balance sheet remains well positioned. We ended the quarter with a highly rated liquid investment portfolio, substantial cash balances and strong cash flow from operations. Consolidated cash flow from operations was \$171 million, driven by premium growth and profitable insurance and fee-based earnings with the majority of proceeds being deployed into fixed income investments at attractive yields. Book value per share increased by 18.6% from the prior year, inclusive of dividends paid. This was driven by earnings growth and a significant recovery of unrealized losses on Fortegra's fixed income portfolio.

Turning to our insurance results for the quarter. Gross written premiums and equivalents increased 13% year-over-year, driven by growth in excess and surplus lines. E&S lines represented 40% or about \$312 million of total premiums and grew at a rate of 34% in the quarter. We continue to see submission growth and positive rate movement on both property and casualty lines. Net written premiums were \$389 million, an increase of 17%, driven by overall premium growth and increased retention on both E&S and admitted P&C lines.

Property lines accounted for 33% of net written premiums, up from 20% in the prior year. Revenues grew by 18% and the combined ratio remained consistent at 90.2%. Even with the higher-than-average catastrophic events this quarter, our combined ratio continues to demonstrate the team's underwriting discipline as we expand our diverse portfolio of paid in premiums. Impacts from named storm losses in the third quarter were well within our actuarial defined loss reserves, and we continue to maintain a conservative position with respect to loss reserves at our insurance subsidiaries.

Fortegra's annualized adjusted return on equity was 28%, driven by the combination of profitable insurance underwriting and fee-based service offerings. In regards to the investment portfolio, we ended the quarter at \$1.5 billion of investable assets with 90% invested in a combination of high credit quality, liquid securities and cash with an average S&P rating of AA- and a duration of 2.7 years. For the 9 months, net investment income, combined with interest on cash equivalents, amounted to \$37 million, representing a 35% increase over the prior year. Our book yield was 4.1% at quarter end, up 90 basis points from the prior year, driven by improving yields on our fixed income securities.

Additionally, with the move in rates in the quarter, we saw a substantial recovery on the bond portfolio, registering a \$22 million positive pretax impact to equity. At quarter end, 24% of the total portfolio is held in cash and equivalents. With these substantial cash balances in addition to near-term maturities and further growth in invested assets, we expect the portfolio will be a driver of future earnings growth.

Longer-term trends at Fortegra remain favorable as the next set of charts highlight. Over the past 5 years, top line premiums have compounded 23% annually, primarily driven by organic growth. The flow of business in the E&S markets and ongoing positive rate environment coupled with the addition of new agents and distribution partners have driven this growth and are expected to continue as we look forward.

During the same period, the combined ratio has improved by 250 basis points with limited volatility from period to period. As the business increasingly focuses on specialty P&C lines, the mix shift has driven an increase in the loss ratio, which has been more than offset by reductions in both the acquisition ratio and the operating expense ratio. Even with that, we continue to make meaningful investments in people, technology and data. That includes investments in our agent relationships and technology primarily

focused on the underwriting and claims management tools that we believe will facilitate better results over the long term.

Tiptree Capital ended the quarter with \$110 million of capital deployed across our mortgage origination and servicing business, our liquid investment portfolio and cash. Pretax income for the year was \$1.8 million, driven by positive contributions from our mortgage operations and realized gains on other investments. Mortgage originations for the year were \$693 million, up 4% on a comparative basis. Contributions from the servicing portfolio in addition to proactive cost management throughout the past 2 years have sustained our profitability despite the prevailing interest rate environment.

As we look ahead, we expect origination volumes to improve given the outlook for declining mortgage rates. Consistent with prior quarters, we have included information to arrive at Tiptree's sum of the parts value, which takes into account a range of values for Fortegra based on the multiple implied by Warburg's investment as well as peer earnings multiples. Fortegra's adjusted net income increased to \$147 million on a trailing 12-month basis. This growth, along with our holdings in Tiptree Capital, has contributed to an increase in our view of Tiptree's intrinsic value per share.

With that, I'll pass the call back to Michael to wrap up our prepared remarks.

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott. Our third quarter was another great quarter. Fortegra continues to deliver excellent financial results. The pipeline of new opportunities continues to build, and the specialty market conditions remain favorable. Reliance remains profitable despite a challenging operating environment and is focused on opportunities to increase volume and profitability. We at Tiptree will continue to look for opportunities to allocate capital for long-term value creation.

I'd now like to turn the call back to the operator for Q&A.

Operator

[Operator Instructions] Ladies and gentlemen, as there are no further questions, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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