



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 First 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. Thank you, Mr. McKinney. You may begin.

Scott T. McKinney

Chief Financial Officer

Good morning, and welcome to our first quarter 2023 earnings call. Joining us today are Michael Barnes, our Executive Chairman; and Jonathan Ilany, our 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. Reconciliations of these measures and other associated disclosures are contained in our SEC filings, the appendix to our presentation and posted on our website.

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

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott, and good morning, everyone. We were pleased with Tiptree's start to 2023, with strong operating results despite continuing uncertainty regarding interest rates and inflation.

Once again, our specialty insurance business, Fortegra, delivered exceptional growth in the first quarter. And our balance sheet remains strong with substantial cash and no holding company debt.

Overall revenues for the quarter increased to \$382 million, up 17% from the prior year, while contributing adjusted net income of \$17 million.

At Fortegra, the team continued to deliver with \$750 million of gross written premiums, up 25% from the prior year's first quarter while producing an adjusted return on equity of 26%. Growth was led by strength in specialty insurance lines and services business, while excess and surplus lines continue to grow as a driver of the business, with approximately \$640 million of premiums over the last 12 months.

We have always placed a significant value on the consistency of Fortegra's performance. And in the first quarter, we saw just that with a combined ratio of 91%, which was right in line with its 5-year average.

The prevailing environment of economic uncertainty, market volatility and capital shortfalls in much of the insurance industry has led to continued favorable markets for specialty risks. We anticipate this hard market environment to extend and view it as an opportunity for Fortegra to grow as it has over the past several years.

Fortegra's investment portfolio grew in line with premiums, ending the quarter with \$1.3 billion of investable assets. With the front end of the yield curve providing attractive current returns, the portfolio book yield has increased, while simultaneously maintaining a conservative risk profile. Going forward, we believe the portfolio will be a more meaningful driver of profits.

In Tiptree Capital, we now have approximately \$220 million of capital deployed across our mortgage operations, cash and publicly traded equities for which we take a long-term view. Although our mortgage origination and servicing business experienced a modest loss for the first quarter, management's proactive cost reductions and the appreciation of our servicing book have kept the business near breakeven over this past year despite an unprecedented spike in interest rates. As mortgage rates now appear to stabilize at these higher levels, we maintain a positive outlook for our mortgage business.

With significant cash balances on hand, we continue to look for opportunities to generate long-term absolute returns. Having no set holding period and able to take very long-term views, we believe we have a distinct competitive advantage to others seeking to allocate capital.

Starting out 2023 with a strong first quarter, we are well positioned to continue our growth, and we maintain a positive outlook for the company.

With that, I'll pass it to Scott for the financial update.

Scott T. McKinney
Chief Financial Officer

Thank you, Michael. For the quarter, we continued to see strong revenue growth and a stable combined ratio at Fortegra. The net loss of \$1.1 million was a result of our insurance growth being more than offset by declines in mortgage volumes, shipping revenues and the deferred tax expense posted on Fortegra's earnings at the Tiptree level. Excluding investment gains and losses, revenues were up 16%, driven by growth in insurance operations.

Adjusted net income for the quarter was \$17 million, representing a 13% annualized adjusted return on average equity. Book value per share of \$10.91 increased by 5.4% over prior year, driven by the comprehensive income per share and the net increase to Tiptree stockholders' equity from the Warburg transaction in the second quarter of 2022.

We ended the quarter with over \$400 million of cash and equivalents with roughly 1/4 of that figure outside the insurance company.

Turning to Fortegra's results for the quarter. Premiums and equivalents increased 25% year-over-year to \$750 million, driven by growth in excess and surplus lines and services offerings. Revenues grew by 30% to \$368 million, and the combined ratio remained stable year-over-year at 91%. Adjusted return on equity for the quarter was approximately 26% annualized.

We were pleased to see growth in all lines of business. Submission activity and the pipeline of new underwriting opportunities remain strong. We continue to invest in hiring talented underwriters as well as our data science and artificial intelligence capabilities. We believe pairing these 2 will produce better underwriting results and stickier relationships with our agents over the long term.

We include the next set of charts each quarter so you can see Fortegra's trends over time. Gross written premiums and equivalents have increased 32% annually since 2019, with the vast majority coming from organic growth.

Many of Fortegra's products are multiyear policies where premiums are earned over the life of the policy. As written premiums increase, earned premiums will likely lag and be recognized over future years. Unearned premiums and deferred revenue on the balance sheet ended the quarter at \$2.1 billion, up 18% year-over-year. This unearned premium provides a solid base for Fortegra's future earnings.

Bolt-on acquisitions have also contributed to roughly 4 percentage points of growth over the past several years, all on the services side of the business. We view these as excellent opportunities to deploy capital and build upon Fortegra's specialty insurance platform.

In February of this year, we acquired a majority interest of Premia, a leading auto warranty administrator in the U.K. for just under \$23 million. With Premia, we have partnered with an experienced management team, we gained an extensive dealership network across the U.K., our global administration capabilities

are enhanced, and we believe the growth profile of the business will contribute to Fortegra's expansion in Europe.

The insurance investment portfolio ended the quarter at \$1.3 billion, up 42% year-over-year. 91% of the portfolio is invested in a combination of high credit quality, liquid securities and cash with an average rating of AA. The fixed income portfolio has a relatively short duration at 2.1 years, similar to our weighted average liability duration. Book yield stands at 3% at quarter end, up from 1.2% in the prior year driven by improving yields on money market funds and short-duration fixed income securities.

In the quarter, we took advantage of the higher interest rate environment and deployed a greater portion of the portfolio into short-dated U.S. treasuries. Without impacting credit quality, we believe there is an opportunity for material improvement in investment income with the increase in interest rates and just over 1/4 of the portfolio held in cash and equivalents.

In summary, over the last 12 months, Fortegra posted record premiums of \$2.8 billion and record adjusted net income of \$85.6 million. Its differentiated platform has delivered excellent returns from insurance lines alone at an 18% return on equity. And we continue to see significant lift from warranty services, which contributed an additional 8 points to the ROE.

Capital and liquidity remains robust for the company. With a growing equity base, strong cash flow from operations and the recent refinancing and extension of its \$200 million revolving debt facility, we believe Fortegra is well positioned for future growth.

Flipping to Tiptree Capital. The pretax loss for the quarter was \$1.1 million, driven by a decline in mortgage origination volumes and the loss of income from the sale of 5 vessels in 2022. In the first quarter, mortgage volumes were down 43% as rising interest rates and declining affordability has impacted Reliance as well as overall originations across the industry. 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.

Each quarter, we highlight Tiptree's sum of the parts value reflecting the impact of the investment in Fortegra. Based on the transaction multiple implicit in Warburg's investment, Tiptree's ownership of Fortegra represents \$20.88 per Tiptree diluted share. Including our other holdings, we believe Tiptree's sum of the parts value to be \$26.70 per diluted share or more than \$1 billion of value.

Now I will turn the call back to Michael to conclude our prepared remarks.

Michael Gene Barnes

Executive Chairman of the Board

Thanks, Scott. As I previously stated, we are pleased with Tiptree's start to 2023. Fortegra's growth and returns were excellent. The pipeline of new opportunities remains robust, and specialty market conditions remain favorable.

As we look forward, we see significant opportunities for future value creation at Fortegra, resulting from a combination of a continuation of profitable underwriting and fees as well as increased investment income given a higher rate environment. In addition, we remain focused on deploying capital with the objective of creating long-term shareholder value appreciation.

With that, we will open the line for questions.

Operator

[Operator Instructions] There appear to be no questions at this time. I'd like to turn the floor back over to Scott for closing remarks.

Scott T. McKinney

Chief Financial Officer

Thank you, Devin, and thanks for everyone for joining us today. If you have any questions, please feel free to reach out to me directly, and this concludes our conference call.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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