Universal Insurance Holdings, Inc. NYSE:UVE

Earnings Call

Friday, April 26, 2024 3:00 PM GMT

Call Participants

EXECUTIVES

Arash Soleimani
Chief Strategy Officer

Frank Crawford Wilcox
Chief Financial Officer

Stephen Joseph Donaghy
CEO & Director

ANALYSTS

Jon Paul Newsome
Piper Sandler & Co., Research Division

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal's First Quarter 2024 Earnings Conference Call. As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Arash Soleimani, Chief Strategy Officer.

Arash Soleimani
Chief Strategy Officer

Good morning. Thank you for joining us today. Welcome to our quarterly earnings call.

On the call with me today are 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 on Universal'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 and can also be found on Universal's website at universalinsuranceholdings.com.

With that, I'll turn the call over to Steve.

Stephen Joseph Donaghy
CEO & Director

Thanks, Arash. Good morning, everyone. It was a strong quarter, including a 29.4% annualized adjusted return on common equity and 35.4% adjusted diluted earnings per share growth year-over-year.

Results were solid across the board, including profitable underwriting that was complemented by our non-underwriting operations, which is a testament to our differentiated business model. Direct premiums written growth accelerated sequentially as policies in force are stabilizing following our previous underwriting initiatives.

I'm pleased to announce the completion of our 2024, 2025 reinsurance renewal for our insurance entities as our program is now fully supported and secured. We've also secured additional multiyear coverage, taking us through the 2025, 2026 hurricane season and have added new financially strong reinsurers to our existing panel of long-term partners.

This achievement reflects the diligence and planning of our reinsurance team throughout the year. Program cost and coverage were consistent with our expectations, and we'll provide specific details at the end of May as we typically do.

I'll turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
Chief Financial Officer

Thanks, Steve. Good morning. Adjusted diluted earnings per common share was $1.07, up from $0.79 in the prior year quarter. The increase mostly stems from higher underwriting and net investment income partially offset by lower commission revenue. Core revenue of $364.9 million was up 15.4% year-over-year with growth primarily stemming from higher net premiums earned and net investment income, partially offset by lower commission revenue.

Direct premiums written were $446.2 million, up 8.8% from the prior year quarter including 5.2% growth in Florida and 25.6% growth in other states. Overall growth mostly reflects higher rates, inflation adjustments and stabilizing policies in force. Direct premiums earned were $482.1 million, up 5.9% from the prior year quarter, reflecting rate-driven direct premiums written growth over the last 12 months.

Net premiums earned were $334 million, up 18.4% from the prior year quarter. The increase is primarily attributable to higher direct premiums earned and a lower ceded premium ratio. The net combined ratio was 95.5%, down 4.5 points compared to the prior year quarter. The decrease reflects lower net loss and expense ratios. 71.9% net loss ratio was down 1.2 points compared to the prior year quarter with the decrease primarily attributable to higher net premiums earned associated with lower reinsurance costs in the current quarter.

The 23.6% net expense ratio improved by 3.3 points compared to the prior year quarter, primarily reflecting higher net premiums earned associated with lower reinsurance costs in the current year and economies of scale. During the first quarter, the company repurchased approximately 208,000 shares at an aggregate cost of $4.1 million. The company's current share repurchase authorization program has approximately $20 million remaining.

On April 10, 2024, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock payable on May 17, 2024, to shareholders of record as of the close of business on May 10, 2024.
With that said, I'd like to ask the operator to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter. I was hoping you could talk a little bit about what seems to be a very rapidly changing competitive environment, particularly in Florida. And thoughts on pricing and whether or not they really are folks come in or out at this point from a competitive perspective.

Stephen Joseph Donaghy
CEO & Director

Yes. Paul, thanks for the question. We're seeing more entrants coming into the market. We continue to see Citizens as a competitive carrier in the state. I think we continue to lean on particular markets where we are open, that we feel are profitable. We've opened additional ones at the end of 2023.

And we feel good where we sit today with the business that's coming in.

From a rate perspective, it's always a combination of carrier and rate. And I think our agency force feels very confident in Universal's ability to support their books of business as well as they're insured. So I think our relationships, our rates and the markets that we're opening are serving us well.

From a competitive perspective, we see some people doing things that we don't want to do, and we don't feel bad about the business going elsewhere, so to say. We also have seen our retention improve quarter-over-quarter, and we feel good about that flowing through the book as well right now. I don't know if you have anything more specific than that, but be happy to answer anything further, if you like.

Jon Paul Newsome
Piper Sandler & Co., Research Division

No, that's helpful and interesting. I heard thoughts and talk of regulatory pressure group pricing because of the tort reform coming, you're not -- you said this year, but maybe next. But then I hear you on that it's been such a tough in part for so long that things will hold on for a long time.

Where do you fall in that conversation? Do you see pressure building it for sort of an offset for the tort reform. You do hear people talk about concerns about the affordability policies just being of the sales in Florida and the impact that may have on what the regulators want to do.

Stephen Joseph Donaghy
CEO & Director

Yes. There's a lot in that question, unpacked, Paul. I think from an affordability perspective, that is an issue across the state of Florida right now and certain segments of the market continue to go to the E&S market where rates are extremely high.

We traditionally -- even in '23, we looked at our rate indication and we took less as a submitted rate request as a result of the tort reform because we felt good about what was coming through the book. We're just kicking off our rate analysis as we speak for 2024. And when we get the final figures in, we'll take a look at that and try and do what's best for the market, for ourselves, for our shareholders and for our insurers, and try and do the right thing.

When you talk about pressures, I think the state of Florida has done a very good job with the tort reform and we're appreciative of that. Could they have gone a little further? Perhaps. Did they go too far? I don't think so.

So I think as we look in the future, we'll try and take all those measures into account and do the right thing. But we don't feel -- there's nobody calling or suggesting anything to us that we're not getting any undue pressure, so to say, at this point.

Operator

Our next question comes from the line of Nick Iacoviello of Dowling.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Nice quarter. I was just wondering, first off, was there any net prior year development recognized in Q1?

Frank Crawford Wilcox
Chief Financial Officer

Nothing on a net basis, negligible on a direct.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. I know we'll get more details towards the end of May, but I was just wondering on the comment on the reinsurance program being fully supported and secured. Does that currently assume a similar GAAP retention as the program placed last year?

Stephen Joseph Donaghy
CEO & Director

Yes, you're referring to the use of the [indiscernible] yes, Nick, that would be consistent with last year. And we feel as though that was the right thing to do based on cost and capital utilization from the parent. So yes.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Steve Donaghy, CEO, for closing remarks.

Stephen Joseph Donaghy
CEO & Director

Thank you. I'd like to thank our associates, our consumers, agents and our stakeholders for their continued support of Universal. I wish you all a great day. Thank you.

Operator
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.