

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
October 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0231984
(I.R.S. Employer
Identification No.)

1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309

(Address of principal executive offices)

(954) 958-1200

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,600,279 shares of common stock, par value \$0.01 per share, outstanding on October 23, 2015.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of September 30, 2015 and the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2015 and 2014 and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 25, 2015. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC

Chicago, Illinois

October 29, 2015

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$201,774	\$ 115,397
Restricted cash and cash equivalents	2,635	2,635
Fixed maturities, at fair value	417,769	353,949
Equity securities, at fair value	46,627	19,642
Short-term investments, at fair value	75,023	49,990
Investment real estate, net	5,820	—
Prepaid reinsurance premiums	113,240	190,505
Reinsurance recoverable	36,135	55,187
Reinsurance receivable, net	166	7,468
Premiums receivable, net	56,617	50,987
Other receivables	5,195	2,763
Property and equipment, net	26,302	17,254
Deferred policy acquisition costs, net	63,003	25,660
Income taxes recoverable	10,964	5,675
Deferred income tax asset, net	12,196	11,850
Other assets	4,900	2,812
Total assets	\$1,078,366	\$911,774
LIABILITIES, CONTINGENTLY REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	\$101,059	\$ 134,353
Unearned premiums	463,651	395,748
Advance premium	26,029	17,919
Accounts payable	1,582	4,121
Book overdraft	3,728	5,924
Payable for securities purchased	7,937	—
Reinsurance payable, net	125,427	66,066
Income taxes payable	—	1,799
Dividends payable to shareholders	4,287	—
Other liabilities and accrued expenses	37,388	36,318
Long-term debt	24,324	30,610
Total liabilities	795,412	692,858

Commitments and Contingencies (Note 12)

Contingently redeemable common stock	—	19,000
Issued shares - 0 and 1,000		
Outstanding shares - 0 and 1,000		

STOCKHOLDERS' EQUITY:

Cumulative convertible preferred stock, \$.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 12		
Outstanding shares - 10 and 12		
Minimum liquidation preference, \$9.99 and \$8.49 per share		
Common stock, \$.01 par value	456	448
Authorized shares - 55,000		
Issued shares - 45,595 and 43,769		
Outstanding shares - 35,628 and 34,102		
Treasury shares, at cost - 9,967 and 9,667	(69,818)	(62,153)
Additional paid-in capital	67,845	40,987
Accumulated other comprehensive income (loss), net of taxes	(2,515)	(1,835)
Retained earnings	286,986	222,469
Total stockholders' equity	282,954	199,916
Total liabilities, contingently redeemable common stock and stockholders' equity	\$1,078,366	\$911,774

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	\$222,572	\$195,435	\$684,147	\$607,361
Ceded premiums written	(71,150)	(103,492)	(185,578)	(301,624)
Net premiums written	151,422	91,943	498,569	305,737
Change in net unearned premiums	(5,269)	2,345	(145,168)	(74,280)
Premiums earned, net	146,153	94,288	353,401	231,457
Net investment income (expense)	1,307	644	3,376	1,574
Net realized gains (losses) on investments	11	501	292	5,353
Commission revenue	4,115	3,123	10,757	10,882
Policy fees	3,820	3,416	12,003	10,827
Other revenue	1,637	1,528	4,614	4,701
Total premiums earned and other revenues	157,043	103,500	384,443	264,794
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	53,854	34,181	127,148	88,685
General and administrative expenses	55,289	32,167	130,152	85,431
Total operating costs and expenses	109,143	66,348	257,300	174,116
INCOME BEFORE INCOME TAXES	47,900	37,152	127,143	90,678
Income tax expense	17,602	15,811	49,811	38,662
NET INCOME	\$30,298	\$21,341	\$77,332	\$52,016
Basic earnings per common share	\$0.87	\$0.64	\$2.22	\$1.55
Weighted average common shares outstanding - Basic	34,911	33,432	34,837	33,607
Fully diluted earnings per common share	\$0.84	\$0.61	\$2.15	\$1.48
Weighted average common shares outstanding - Diluted	35,999	34,812	35,918	35,097
Cash dividend declared per common share	\$0.12	\$0.10	\$0.36	\$0.30

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$30,298	\$21,341	\$77,332	\$52,016
Other comprehensive income (loss), net of taxes	(794)	(924)	(680)	(1,171)

Comprehensive income (loss)	\$29,504	\$20,417	\$76,652	\$50,845
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The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net Income	\$77,332	\$52,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	497	262
Depreciation and amortization	1,251	845
Amortization of share-based compensation	12,566	8,766
Amortization of original issue discount on debt	427	659
Accretion of deferred credit	(427)	(659)
Book overdraft increase (decrease)	(2,196)	(9,086)
Net realized (gains) losses on investments	(292)	(5,353)
Amortization of premium/accretion of discount, net	1,340	1,540
Deferred income taxes	(347)	829
Excess tax (benefits) shortfall from share-based compensation	(5,241)	(6,465)
Other	24	25
Net change in assets and liabilities relating to operating activities:		
Restricted cash and cash equivalents	—	(3,997)
Prepaid reinsurance premiums	77,265	45,892
Reinsurance recoverable	19,052	51,606
Reinsurance receivable, net	7,302	(12,332)
Premiums receivable, net	(5,915)	(8,444)
Accrued investment income	(374)	(158)
Other receivables	(2,269)	(450)
Income taxes recoverable	(5,289)	5,238
Deferred policy acquisition costs, net	(37,343)	(11,933)
Other assets	(1,088)	(768)
Unpaid losses and loss adjustment expenses	(33,294)	(22,307)
Unearned premiums	67,903	28,387
Accounts payable	(2,539)	1,016
Reinsurance payable, net	59,361	16,019
Income taxes payable	3,869	3,899
Other liabilities and accrued expenses	1,497	514
Advance premium	8,110	(1,657)
Net cash provided by (used in) operating activities	241,182	133,904
Cash flows from investing activities:		
Proceeds from sale of property and equipment	55	30
Purchases of property and equipment	(10,310)	(1,578)
Payments to acquire a business	(1,000)	—
Purchases of equity securities	(46,668)	(74,407)
Purchases of fixed maturities	(145,118)	(61,760)

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Purchases of short-term investments	(87,538)	(37,500)
Purchases of investment real estate, net	(5,888)	—
Proceeds from sales of equity securities	17,412	121,580
Proceeds from sales of fixed maturities	26,154	5,168
Proceeds from sales of short-term investments	12,500	—
Maturities of fixed maturities	63,201	17,395
Maturities of short-term investments	50,000	—
Net cash provided by (used in) investing activities	(127,200)	(31,072)
Cash flows from financing activities:		
Preferred stock dividend	(7)	(10)
Common stock dividend	(8,520)	(6,967)
Issuance of common stock	511	—
Purchase of treasury stock	(7,665)	(29,736)
Purchase of preferred stock	(257)	—
Payments related to tax withholding for share-based compensation	(10,195)	(12,404)
Excess tax benefits (shortfall) from share-based compensation	5,241	6,465
Borrowings under promissory note	1,390	—
Repayment of debt	(8,103)	(7,103)
Net cash provided by (used in) financing activities	(27,605)	(49,755)
Net increase (decrease) in cash and cash equivalents	86,377	53,077
Cash and cash equivalents at beginning of period	115,397	117,275
Cash and cash equivalents at end of period	\$201,774	\$170,352
Supplemental cash and non-cash flow disclosures:		
Interest paid	\$767	\$1,158
Income taxes paid	\$51,554	\$28,684

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc., (“UIH”) is a Delaware corporation originally incorporated as Universal Heights, Inc., in November 1990. UIH with its wholly-owned subsidiaries (the “Company”), is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), together referred to as the “Insurance Entities,” the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company’s primary product is homeowners insurance offered in ten states as of September 30, 2015, including Florida, which comprises the vast majority of the Company’s in-force policies. See “—Note 5 (Insurance Operations)” for more information regarding the Company’s insurance operations.

The Company generates revenues primarily from the collection of premiums and invests funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include brokerage commissions collected from reinsurers, policy fees collected from policyholders by our wholly-owned managing general agency subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments.

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 25, 2015. The condensed consolidated balance sheet at December 31, 2014, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

To conform to the current period presentation, certain amounts in the prior periods’ consolidated financial statements and notes have been reclassified. Such reclassifications were of an immaterial amount and had no effect on net income or stockholders’ equity.

The Financial Statements include the accounts of UIH and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Management must make estimates and assumptions that affect amounts reported in the Company's Financial Statements and in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31,