

Tiptree, Inc.

Second Quarter 2024 Earnings Conference Call

August 1, 2024

CORPORATE PARTICIPANTS

Scott McKinney, *Chief Financial Officer*

Michael Barnes, *Executive Chairman and Chairman of Board of Directors*

Jonathan Ilany, *Chief Executive Officer*

PRESENTATION

Operator

Greetings, and welcome to Tiptree, Inc. Second Quarter 2024 Earnings Conference Call.

At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Scott McKinney, Chief Financial Officer. Thank you, Mr. McKinney. You may begin.

Scott McKinney

Good morning, and welcome to our second quarter 2024 earnings call.

Joining me today are Michael Barnes, our Executive Chairman, and Jonathan Ilany, CEO.

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 metrics, which are described in more detail in our presentation. Reconciliations of these metrics 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 Barnes

Thank you, Scott, and good morning to everyone.

We are extremely pleased with Tiptree's first half results. Revenues year-to-date have increased by 33% from the prior year and our collective businesses produced a 21% adjusted return on equity. Our specialty insurance company, Fortegra posted record results in the first half with revenue growth of 34% and adjusted net income growth of 40% from the prior year.

Gross written premiums and equivalents were \$1.4 billion, while delivering a combined ratio of 90%, demonstrating the ability to generate consistent growth and consistent underwriting performance over time. As we look to the future, we remain bullish on Fortegra's growth given the continued hard market environment and the strong level of submission activity within our specialty sectors. The investment portfolio, which is overseen by our asset management subsidiary, Tiptree Advisors, ended the quarter at \$1.4 billion of investable assets. As the book of paid in premiums continues to grow, we remain focused on investments in primarily high-quality liquid fixed income securities, coupled with select higher-yielding investment opportunities to enhance overall returns. Portfolio duration was just under three years at quarter's end, which gives us room to modestly extend duration given anticipated interest rate cuts in the second half of 2024 and 2025.

The team at our residential mortgage origination and servicing business, Reliance, has shown resilience in navigating the challenges posed by elevated mortgage rates. In the first half, volumes increased modestly compared to prior year, and the income, along with the sustained market value of our retained servicing book, led the business to profitability. We hold a positive outlook for the business with greater potential for future profit as mortgage rates tighten.

With a strong first half of 2024, we are in a good position to sustain our growth, and we have a positive outlook for Tiptree's future. As always, we remain committed to growing long term shareholder value, and will 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 to discuss our financial results.

Scott McKinney

Thank you, Michael.

As you highlighted, the first half results exceeded our expectations, and we remain positive on the outlook for growth. For the quarter, Tiptree's revenues were up 35%, driven by growth in earned premiums, fee-based service revenues and increased investment gains as compared to the prior year period. Consolidated net income of \$12.9 million was driven by strong underwriting and investment income at our insurance business and positive contributions from our mortgage business. Adjusted net income for the quarter was \$24.4 million, representing an increase of 39% compared to prior year.

Tiptree's GAAP tax rate for the quarter was 46%. Setting aside the book tax implications of being deconsolidated from Fortegra for tax purposes, our effective tax rate was closer to 30%, 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 we continue to maintain a conservative position with respect to our loss reserves at the insurance company. An aggregate of

\$40 million of capital was contributed to Fortegra in March and April of this year to support growth with just over \$30 million coming from Tiptree.

Turning to our insurance results for the quarter, Fortegra posted record results on all fronts with written premiums, revenues and net income, all high marks for the company. Gross written premiums and equivalents increased 8% year-over-year to \$776 million, driven by growth in specialty E&S insurance lines. Excess and surplus lines represented 42% or just below \$330 million of total premiums and grew at a 40% rate in the quarter. We continue to see submission growth and positive rate movement on both property and casualty lines. The pricing environment remains favorable with rate increases in excess of anticipated loss cost trending. Partially offsetting the growth in the quarter was the cancellation of certain contractual liability in personal lines programs.

Net written premiums were \$366 million, an increase of 14%, driven by overall premium growth and increased retention on both E&S and admitted P&C lines. Revenues grew by 38% to \$530 million, and the combined ratio improved by 30 basis points to 89.9%. As earned premium scale, we continue to see expense ratio improvement, which was down more than two points compared to last year.

Fortegra's annualized adjusted return on equity was 30%, driven by revenue growth, profitable underwriting, and the scalability of our technology-enabled platform.

Regarding investments, the portfolio ended the quarter at \$1.4 billion, with 91% invested in a combination of high credit quality liquid securities and cash with an average S&P rating of AA. Our embedded book yield was 4.1% at quarter end, up approximately 100 basis points from the prior year, driven by improving yields on short duration fixed income securities and money market funds.

For the first half, net investment income, when combined with interest on cash equivalents, yielded \$23 million or roughly a 23% increase over prior year. With the duration of 2.7 years and a third of the total portfolio in cash and equivalents, we believe we are well-positioned to continue to increase investment income over the balance of 2024 and into 2025.

Longer-term trends at Fortegra remain very favorable as the next set of charts highlight. Over the past five years, the gross written premiums and equivalents have compounded at 24% annually, primarily due to organic expansion in specialty insurance and warranty premiums. During the same period, the combined ratio has improved by 3.2 percentage points, with low volatility from one quarter to the next.

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. Year-to-date, adjusted net income reached a new high of \$74 million, marking a nearly 40% increase year-over-year. Looking forward, the ongoing hard market conditions, coupled with the addition of new agents and distribution partners are expected to drive Fortegra's growth.

Tiptree Capital ended the quarter with \$116 million of capital deployed across our mortgage origination and servicing business, our liquid investment portfolio, and cash. Pre-tax income for the year was \$4.5 million, driven by positive contributions from our mortgage operations and realized gains on other investments. Mortgage originations for the year were \$437 million, up 2% from the prior year. Contributions from the servicing portfolio, in addition to proactive cost management throughout the past year, 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. In April 2024, we sold our Invesque shares, crystallizing the capital loss for tax purposes, representing approximately \$107 million that can be used to offset any future taxable gains.

Finally, consistent with past quarters, we've included information to arrive at Tiptree 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 our peer earnings multiples. Fortegra's adjusted net income increased to \$137 million on a trailing 12-month basis. This growth, along with our holdings in Tiptree Capital has contributed to a rise 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 Barnes

Thanks, Scott.

To quickly summarize, we are very pleased with the first half performance of our businesses. Fortegra continues to produce record results, both from a growth and return perspective. Reliance was profitable in a tough operating environment and is focused on opportunities to grow its volume. We are well positioned financially, and we could not be more excited about the future. As always, we at Tiptree will continue to look for opportunities to allocate capital for long-term value creation.