

Tiptree Inc.

First Quarter 2022 Earnings Conference Call

May 6, 2022

CORPORATE PARTICIPANTS

Sandra Bell, *Chief Financial Officer*

Michael Barnes, *Executive Chairman*

Jonathan Ilany, *Chief Executive Officer*

PRESENTATION

Operator

Greetings and welcome to Tiptree Inc. First Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. I would now like to turn this conference over to your host, Ms. Sandra Bell, Chief Financial Officer.

Thank you, ma'am. You may begin your presentation.

Sandra Bell

Good morning and welcome to our first quarter 2022 earnings call. We are joined today by our Executive Chairman, Michael Barnes, and CEO, Jonathan Ilany.

You can find the slides that accompany this review on our Investor Relations website. Please note that some of our comments today will contain forward-looking statements based on our current view of our business, 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 addition, we will discuss certain adjusted or non-GAAP financial measures, which are described in more detail in this morning's presentation. Reconciliations of non-GAAP financial 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 Barnes

Thanks, Sandra. Good morning and welcome to the earnings call.

In the first quarter, our operating businesses continued to produce excellent returns with revenues increasing 10% to \$325 million and adjusted net income improving 17% to \$15 million. Fortegra posted another great quarter with premiums and equivalents of \$601million, 26% growth from the prior year, led by strength in the admitted and E&S insurance lines. The business continues to experience hard markets for its specialty E&S line, which contributed to the record quarterly adjusted net income of \$21 million and return on equity of 28%. In early April, Fortegra also added a bolt-on acquisition in the UK for just over \$15 million of net cash consideration, further establishing its footprint in the European auto warranty sector.

The Warburg regulatory approval process remains on track, and we expect to close within the second quarter. We anticipate using investment proceeds for additional growth capital in Fortegra specialty lines and to repay Tiptree's corporate debt facility. Like many of our peers, our investments experienced a negative mark-to-market for the quarter, both within our insurance investment portfolio and on our investor shares. We are likely to experience such volatility from quarter-to-quarter on publicly traded bonds and stocks, and therefore we tend to look at performance over a much longer time horizon. Our fixed income portfolio remains conservatively positioned income portfolio remains conservatively positioned with AA-plus rating and a 2.5-year weighted average duration. We feel confident that the majority of the unrealized losses from this quarter will be recovered over the coming years as bonds mature.

As the portfolio grows and we reinvest maturing securities, the rising interest rate environment as we observed in the first quarter could be a meaningful driver of income over time. As of the end of the quarter, our investment portfolio stood at nearly \$900 million. Despite this quarter's unrealized marks, Invesque, our largest publicly traded equity position, continues to execute its strategic initiatives to streamline its portfolio of senior care properties. It recently announced three separate sales totaling \$75 million that will allow the company to continue to reduce its overall debt profile. We are confident that over time we will realize the value of this investment.

In our marine business, we had an active quarter with both dry bulk and tanker investments producing solid returns. Given the elevated pricing levels for dry bulk tonnage, we signed a definitive agreement to sell one of our three vessels for \$21.5 million, representing a 50% gain to first quarter carrying value. We also took advantage of an opportunity to repay debt on our tankers at a 10% discount level to the outstanding principal balance. As we look forward, we believe there will be additional sale and purchase opportunities within the shipping sector. Finally, our mortgage business produced positive returns in the first quarter driven by mortgage servicing fees and value appreciation on our MSR asset, while volumes and margins have compressed in the beginning of 2022, over the past two years, the business has grown, retained earnings substantially, and we now hold an MSR asset worth approximately \$38 million on our balance sheet. In summary, we were pleased with our operating businesses for the first quarter of 2022 and believe there is a clear path

for growth in future periods. With that, I'll pass it to Sandra, who will take you through the financial results in more detail.

Sandra Bell

Thank you, Michael. On page 3 of the presentation, we highlighted Tiptree's key financial metrics for the first quarter of 2022 compared to the prior year period. We incurred a net loss just shy of \$1 million in the quarter resulting from unrealized losses on investments, which was partially offset by continued growth in the insurance business and positive performance in our shipping operations. Excluding investment gains and losses, revenues were up 25% for the quarter, driven by organic growth in insurance operations and increases in vessel charter rates.

Adjusted net income for the quarter was \$15.5 million representing a 15.8% annualized adjusted return on average equity. Book value per share of \$10.51 decreased by 4.9% for the quarter primarily a result of unrealized losses on our fixed income securities, driven by higher interest rate environment. Our businesses continue to produce strong operating cash flows, which gives us the ability to hold these securities to maturity. The higher interest rate environment allows us to invest new money and improve yields, which we expect will be a benefit in the long term.

Turning to page 4, we highlight Tiptree's some of the parts value reflecting the impact of Warburg's \$200 million investment in Fortegra. Based on the transaction multiple of trailing 12 months adjusted net income, which is implicit in Warburg investment, Tiptree's retained ownership on Fortegra on an as converted basis represents approximately \$739 million or \$20 per Tiptree – per diluted Tiptree share. \$140 million of proceeds will go to the Tiptree Holding Company to fully repay outstanding debt, with the remaining to be deployed as growth capital within for Fortegra. After the transaction closes when you include the book value of Tiptree Capital and holding company assets, we believe Tiptree some of the parts value to be approximately \$26 per diluted share.

On the next page, we highlight Fortegra's results for the quarter. As Michael mentioned, we continue to see strong momentum in Fortegra's performance. For the first quarter 2022, premiums and equivalent increased 26%-year over-year, driven by growth in all lines of business, including admitted, excess and surplus and warranty lines. The roughly \$600 million represents – the roughly \$600 million represented the largest single quarter of written premiums in Fortegra's history. Deferred revenues and unearned premiums, which represent future earnings potential, stood at \$1.75 billion, up 33% year-over-year. The combined ratio improved 100 basis points year-over year to 90.5%, as operating and technology efficiencies contributed to an improved expense ratio, while the underwriting ratio remained relatively consistent with prior periods.

Fortegra continues to experience hard market conditions in specialty commercial lines both from a pricing and terms and conditions perspective. We are constantly monitoring inflation and loss costs trending and maintain a cautious approach to underwriting. Thus far, the impact of inflation on the business has been minimal, as we have generally been able to mitigate any rising costs with offsetting

premium increases. Fortegra's 12.9% expense ratio for the quarter continues to benefit from economies of scale with underwriting and fee revenues growing faster than operating expenses. Operating return on equity was approximately 28% on an annualized basis. Fortegra's low expense ratio and scalable, efficient platform remains in a strong position to continue its growth and best in class returns going forward.

On page 7, you can see the insurance company financial trends. Gross written premiums and equivalents have increased 34% over this period with a 28% organic growth rate. Specialty commercial lines have grown 61% through the addition of new agents and programs and the expansion of E&S offerings. Personal loans have increased 7% and benefited from the bounce back in commercial spending in 2021 and early 2022, and warranty lines have tripled through increased market penetration. Fortegra's vertically integrated product offerings to agents, dealers and retailers have provided a strong platform for growth, when combined with significant expansion in Europe. The combined ratio is not only stable but has shown consistent improvement over time moving from 94% in 2019 to 90.5% in 2022. Adjusted net income increased to \$21.1 million for the first quarter, representing a 48% growth rate over the past three years. Adjusted return on equity has improved from 10% to 28% over the respective periods. Of note, this puts Fortegra just above \$75 million trailing 12-month adjusted net income, a figure we expect will continue to grow in future periods.

Turning to the insurance investment portfolio on page 8, total investments and cash and cash equivalents ended the quarter at \$892 million, up 23% year-over-year, in line with the underlying premium growth, 86% of the portfolio is invested in high credit quality and liquid securities with an average rating of AA+. The Fixed income portfolio has a relatively short duration, as we mentioned earlier, while unrealized marks have impacted book value. Generally, we have the ability to hold these securities to maturity. We view reinvestment as an opportunity for improvement in investment income with rising rates a positive for Fortegra's investment portfolio in the long run. Fortegra's capital and liquidity remains strong with \$294 million of stockholders' equity, debt capacity of nearly \$200 million, and an ability to draw \$60 million of capital upon the Warburg transaction closing, all of which put the business in a solid position for future growth.

On page 10, we present the results of Tiptree Capital, which consists of our mortgage and shipping operations as well as our Invesque shares. While pre-tax income was impacted by the unrealized marks on Invesque in the quarter, 2022 adjusted net income for the first quarter was \$1 million. Our mortgage business has benefited from several tailwinds over 2020 and 2021 including higher refinance volumes supported by both low rates and rising home prices, as well as the growing servicing book. As of March 31, 2022, the equity in our mortgage business was \$58 million, after distributing nearly \$20 million of capital to Tiptree over the past three quarters. While origination volumes were down 16% from the prior year and margins compressed to pre-COVID levels, we believe our mortgage servicing portfolio and home price appreciation will offset some of the impact on originations as rates rise. For the quarter, our shipping business contributed \$2.5 million of adjusted net income, as both dry bulk and tanker charter rates remain at robust levels. Given elevated charter rates and a strong demand for shipping assets, we believe the fair value of our vessels to be well in excess of our first quarter net book carrying value of \$83 million.

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

Michael Barnes

Thanks Sandra, the diversification of our business has supported the strong operational results in the first quarter. Fortegra posted record adjusted net income and return on equity. Given the strong pipeline and favorable market conditions, we expect this profitable growth to continue. Within the shipping sector, both bulker and tanker markets are performing well, which provides us with the opportunity to drive near-term returns. And we remain focused on developing – on deploying capital with the objective of long-term shareholder value appreciation.

Sandra Bell

Thank you, everyone, for joining us today. As always, if you have any questions, please feel free to reach out to me directly. This concludes our first quarter 2022 conference call.

