

14-Mar-2025

Kingstone Cos., Inc. (KINS)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Karin Daly

Vice President, The Equity Group

Jennifer Gravelle

Vice President & Chief Financial Officer, Kingstone Cos., Inc.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

OTHER PARTICIPANTS

Robert Farnam

Analyst, Janney Montgomery Scott LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Kingstone Companies Fourth Quarter and Full Year 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. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Karin Daly, Vice President, The Equity Group and Kingstone's Investor Relations Representative. Thank you. You may begin.

Karin Daly

Vice President, The Equity Group

Thank you, Melissa, and good morning, everyone. Joining us on the call today will be President and Chief Executive Officer Meryl Golden, and Chief Financial Officer Jennifer Gravelle. On behalf of the company, I would like to note that this conference call may contain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause actual results to be materially different from projected results. Forward-looking statements speak only as of the date on which they are made, and Kingstone undertakes no obligation to update the information discussed. For more information, please refer to the section entitled Risk Factors in Part 1, Item 1A of the company's latest Form 10-K. Additionally, today's remarks may include references to non-GAAP measures. For a reconciliation of these non-GAAP measures to GAAP figures, please see the tables in the latest earnings release.

With that, it's my pleasure to turn the call over to Meryl Golden. Meryl?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Thanks, Karin. Good morning, everyone, and thanks for joining our call. I am delighted to share the results of another record-breaking quarter and the most remarkable year in Kingstone's history. In 2024, the hard work to transform and turn around the company that started over five years ago was fully reflected in our financial results. During the year, we saw improvement in virtually every aspect of our business. I want to thank my great

leadership team and our employees who worked tirelessly to make these results possible and our select producers for their commitment to the company. I am proud of what we've been able to accomplish and excited to build on this foundation to achieve even better results in 2025. Let me start by highlighting the phenomenal growth we achieved in the fourth quarter and for the full year. We finished the year with 21% growth overall and 31% growth in our core business.

In the third and fourth quarters, core business growth was driven by the exit of two competitors, Adirondack and Mountain Valley, who reached an agreement with the New York Department of Financial Services to non-renew or cancel their entire book by the end of 2024. In the fourth quarter, our core direct written premium grew by 49% as a result of the increased market opportunity from their exit, with homeowners' new business policies up 4 times the prior year quarter, overall policy count up 44%, and average premium up 15%. In the back half of 2024, we wrote \$23 million in direct written premium and over 6,000 policies from customers previously insured with these two carriers. For additional visibility, in January we wrote an additional couple of million of dollars of premiums from these competitive displacements. But otherwise, all of these policies have moved.

The hard market conditions in Downstate New York footprint have not changed materially. Growth in written premium in 2025 to-date has moderated from what we experienced in the second half of 2024, as to be expected, but is still materially higher than the prior-year quarter driven by both higher new business counts and higher average premium. For 2025, our plan is to continue our focus on our core state of New York and capitalize on the hard market conditions. We are also investing considerable resources to learn more about other catastrophe-exposed geographies and strategically developing a plan to expand our footprint beyond Downstate New York. We will share our expansion plans later in the year when they are finalized. From a profitability perspective, our Select product continues to outperform our expectations with a 29% reduction in frequency for the year compared to our legacy product, a phenomenon that we have experienced since the introduction of the Select product three years ago.

Typically, the legacy renewal book would have lower frequency than Select since it's all renewals and Select includes 49% -- excuse me, 47% new business. Our Select pricing and underwriting has shifted our mix to more preferred risk with more well-maintained homes, better insurance scores, and higher deductibles which is driving our frequency improvement. We've also been closely monitoring the business from Adirondack and Mountain Valley, and that book is running even better than our well-performing Select book. Despite our high growth rate in 2024, only 41% of our policies in-force have been written in the Select product as of year end, which bodes extremely well for the future. Before I cover guidance, I want to share an update on our debt and the at-the-market offering. I had previously shared that a \$4 million prepayment have been made in December, reducing our debt to \$6 million at year end 2024.

Today, I am pleased to share that we made three additional prepayments in January and February and our debt has been fully paid off, which will save us roughly 800,000 in interest expense in 2025, contributing another \$0.05 to earnings per diluted share. It's an incredible accomplishment that we were able to pay off \$20 million of debt in just five months. I am delighted that Kingstone is now debt-free. To enable this, during the fourth quarter of 2024, we issued 302,000 shares via the ATM at an average share price of \$15.41. And through yesterday, we have issued an additional 613,000 shares at an average share price of \$16. The ATM has been used as a vehicle to generate cash at the holding company level to fund expenses and to pay off the debt.

You may recall that the magnitude of prior-year underwriting losses precluded the insurance company from paying dividends to the holding company until last November, so the ATM played a critical role in sustaining the company. Kingstone is in great financial condition again with a healthy balance sheet. We are generating substantial income and cash and have sufficient statutory surplus to support our growth, even after a material

reduction in quota share, and we have the ability to pay dividends to the holding company from the insurance company again if additional capital is needed. As such, we have put a pause on share issuance via the ATM for the foreseeable future. And finally, turning to guidance. There were a few material items that are now reflected in our raised guidance for 2025. First, the updated guidance considers increased premiums written in the fourth quarter of 2024 that will be earned in 2025.

Second, the reduction in our quota share for 2025 to 16% from 27% in 2024 and the higher ceding commission received had a material positive impact. Third, the reduction of interest expense from the elimination of our debt. And last, the gain on the sale of our headquarters building which should close next week. With that, for 2025 we are re-affirming core business direct written premium growth between 15% and 25%. And based on approximately \$184 million of net premiums earned, we expect to achieve a GAAP combined ratio between 81% and 85%, basic earnings per share between \$1.90 and \$2.30, diluted earnings per share between \$1.75 and \$2.15, and return on equity between 27% and 35%. While 2024 was a monumental year for the company, it has only increased our desire to achieve even better results in 2025.

The Kingstone team is working hard every day to build on our success and keep the momentum going. We have a winning formula, the right team, a great product, and a competitive expense structure as our foundation that we believe will drive increased value to our shareholders for years to come.

With that, I'll turn the call over to Jen for a more detailed review of our quarterly results. Jen?

Jennifer Gravelle

Vice President & Chief Financial Officer, Kingstone Cos., Inc.

Thanks, Meryl, and good morning, everyone. We could not be more pleased to share with you our record-breaking fourth quarter and full year 2024 results. As Meryl previously mentioned, this now marks our fifth consecutive quarter of profitability with net income of \$5.4 million or \$0.40 per diluted share for the quarter. For the year, our net income was \$18.4 million compared to a net loss of \$6.2 million last year and earnings per diluted share of \$1.48 compared to a loss of \$0.57 last year. Direct written premiums for the fourth quarter increased 37%, inclusive of a 49% increase in core direct written premiums from the market dislocation that Meryl had been discussing. This was partially offset by the continued strategic reduction of our non-core business which decreased another 60% in direct written premiums and 65% in policies in-force compared to the same period last year.

Besides the high new business yields, the growth in our core business also reflects strong pricing action with average premiums for personal lines up almost 20% in the quarter versus the same quarter in 2023. For the year, direct written premiums were up 21% with growth of 31% in the core business driven by a 12% increase in core personal lines policies written and a 21% increase in the average premium for the year. Our combined ratio improved by 11 percentage points to 78.5% for the quarter. Our current quarter loss ratio improved by 7.7 percentage points, comprised of a 4.7 percentage point improvement in the non-cat losses and a 3 percentage point reduction in catastrophe losses. We also had a small \$144,000 favorable prior year development, reducing the loss ratio by 0.4 percentage points. Our expense ratio was 29.8%, 2.9 percentage points lower than the fourth quarter of 2023.

For the calendar year, our combined ratio improved by 25.3 percentage points to 80%, with an 18.5 percentage point improvement in the non-cat loss ratio, including a 1.4 percentage point of favorable prior year development, a 5.2 percentage point improvement in the catastrophe loss ratio, and an expense reduction of 1.6 percentage points, resulting in an expense ratio of 31.3%. For the quarter, our non-cat loss ratio improvement was driven primarily by a reduction in frequency of water losses in homeowners, our main line of business. This was offset by

a few large fire claims, which are typical during the fourth quarter. For the year, our attritional loss ratio improved by 17.1 percentage points to 48.2% driven by material reductions in both frequency and severity for personal lines as compared to the prior year, particularly for water which is our largest peril.

Frequency for the homeowners' water peril decreased every quarter this year and improved over 25% for the year in total. In addition to mild weather throughout the year, we attribute this improvement in frequency to better risk selection in our Select product and to the reduction in our non-core business, which had a much higher frequency than core. Water severity was also down almost 14% for the year as well driven by better risk selection in our Select product and the reduction of our non-core business as I previously mentioned, as well as fewer large losses compared to the prior year and the three-year average. Kingstone's reserve position has continued to strengthen during the calendar year 2024. At year end, our carried reserves were \$3.2 million higher than the central estimate from our outside independent actuarial firm, which is up from \$1.9 million in calendar year end 2023.

Our net investment income for the quarter increased 21% to \$1.9 million, up from \$1.6 million in the same period last year. Strong cash generation from operations continues to support our investment portfolio growth. In the quarter, we invested primarily in highly-rated two to five-year corporate bonds, longer-duration taxable municipals, and mortgage-backed securities. This approach reduces our portfolio's exposure to short-term rates and lets us lock in attractive book yields over the coming years. During the quarter, we invested \$39 million in these instruments, achieving a book yield of about 5% and an effective duration of 5.25 years. Our non-cash invested assets yields an average of 3.68% with an effective duration of 3.9 years and a weighted average maturity of 7.6 years. We continue to balance between duration and maturity, allowing us to generate steady returns while managing sensitivity to rate changes.

Approximately \$12 million of our fixed income portfolio will mature by the end of 2025 and another \$34 million by the end of 2026. These securities have relatively low book yields of 3.2% and 3.6% respectively. As these assets mature, we plan to reinvest them at the prevalent higher market rates, which will further enhance our future investment income. Significant increases in the Treasury yields across the curve pressured bond prices during the quarter, leading to a \$3.1 million unrealized decline in the value of our bond portfolio as reflected in the change in other comprehensive income. We intend to hold the bonds to maturity, mitigating the impact of the short-term market fluctuations. Despite these headwinds at year end, we still achieved \$100,000 unrealized gain for the full year.

Overall, we had an incredible quarter; 37% growth in written premiums, a combined ratio of 78.5%, net income per diluted share of \$0.40, and annualized return on equity of 34.4%, leading to an exceptional year where we achieved an increase in direct written premiums of \$42 million, improvement in our combined ratio by more than 25 points, an increase in net income by \$24.5 million, and eliminated the debt at our holding company. It's unbelievable what a difference a year makes.

And with that, we're going to open this up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question comes from the line of Bob Farnam with Janney Montgomery Scott. Please proceed with your question.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Hi there and good morning. A couple questions here. On the growth expectations for 2025, obviously with Adirondack and Mountain Valley, kind of that opportunity going away, I'm just trying to get an idea of where that growth is coming from and maybe kind of get into what the competitive environment is like to be able to do that growth.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

Sure. So Bob, the hard market conditions in our Downstate New York footprint still persists. And there are few companies writing coastal properties, and of those still open, most are MGAs and E&S writers as we've talked about in the past. There have been rumors of new market entrants, but it's just rumors so nothing has really happened to-date. So again, we are continuing to see growth in our new business counts and our average premium, and we feel super confident with our pricing. So, we're intend to take advantage of these hard market conditions.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Do you have a sense of the new business, where they're coming from? Like what the incumbent carrier – who the incumbent carriers are?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

I don't really know who the carriers are, but our mix is essentially the same as it has been. So, I mean, more and more you hear about the standard and preferred carriers who are not interested in coastal business in Downstate New York, so it's a mix of carriers. And again, it's the same mix of business that we've been writing in Downstate New York.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Okay. All right. And when you talk about your potential expansion plans, are you are you talking about New England or are you thinking of other states around the country?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

Yeah. So, actually both. So, what I want to say is this is the perfect time for Kingstone to expand geographically for two reasons. First, we're in a great place. Our Select product is proven to match rate to risk. We have an incredible team, we have a low expense ratio, and our balance sheet is strong. And at the same time, as I'm sure you know, the homeowners market around the country, there are so many states that need capacity. And so,

we've committed significant resource to learning about many of these catastrophe-exposed states, trying to understand the market, the market potential, the regulatory environment so we can better prioritize among them. And we're not in a hurry; we're going to be super thoughtful about our expansion. So thanks for asking that question, Bob.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Okay. You're talking about the improvement in the expense ratio. Do you have like an idea of where that expense ratio is going to get to over time? Is there – do you have a goal for kind of an expense ratio?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

Well, I'd like to say that it's now part of our culture to be very focused on having low expenses because having low expenses allows us to have either more competitive rates or higher margins, so it's something that we continue to work at. My goal for this year is to take another point out of our expense ratio. And again, because we wrote so much business in the second half of last year that's going to earn in 2025, plus the reduction in our quota share, our earned premium should be higher. So, I'm pretty sure we can achieve that.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Right. Right. Okay. And last question, kind of getting into the realm of forward-looking, but how would you characterize the first quarter weather? Has this been kind of a regular winter season for you guys or better or worse?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

Sure. So, last year was an incredibly mild winter, and this year we have definitely had more snow than last year and it's been colder. But there have not been any material catastrophe events and, in fact, the frequency of catastrophe events has been pretty low. So, Q1 is looking good for a winter quarter.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Q

Great. Thanks for the input.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

A

My pleasure.

Operator: Thank you. Our next question comes from line of [ph] Gabriel Mickeler (00:22:12), private investor. Please proceed with your question.

Q

Hi, Meryl, and congratulations on the fourth quarter.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Thanks, [ph] Gabe (00:22:24).

A

Q

Yeah. And also, I'd like to say thank you for all you do.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Thank you.

A

Q

Yeah. I think Bob just stole my first question about the first quarter, so that was good. I guess my second question, I got one for you and then one for Jennifer. But the one for you is maybe getting a little deeper into the guidance. When I go back and I look at your quarter ending June, quarter ending September and then the last quarter, the growth has accelerated sequentially by quite a bit with the 49% in core, and then we're guiding for 15% to 25% growth in core for the year. And I know we've got about 2.5 months into this year, so how are you thinking about that or what are you seeing out there Meryl? How does that square?

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Yeah. So, I still feel very good that we can achieve core growth between 15% and 25%. So, I've mentioned there are few active writers and we really have not heard of – well, there's no reality about other companies entering the market yet, just rumors. And so we have – because we've been a broad, open market, there's lots of new producers that are knocking on our door looking for appointments, so we are expanding our producer base. And then, we're always out in the field talking to our producers about their needs, and so we have updated our underwriting appetite where there's a market need and we're priced adequately. For example, we're now writing up to \$3.5 million in replacement cost. And also, we anticipate seeing an improvement in retention because our rate changes this year will be less – they will certainly be more moderate than they were in the last few years.

So combination of all those things, [ph] Gabe (00:24:31), I feel very confident with our guidance on core written premium.

Q

Okay. Very good. And then, I've got a question for Jennifer. Jennifer, I think you might have said it, but it's kind of – I don't think I caught it. But what is our book yield on the portfolio right now?

Jennifer Gravelle

Vice President & Chief Financial Officer, Kingstone Cos., Inc.

3.86%.

A

Q

Okay. Thank you.

Jennifer Gravelle

Vice President & Chief Financial Officer, Kingstone Cos., Inc.

You're welcome.

A

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Thank you, [ph] Gabe (00:24:58).

A

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Golden for any final comments.

Meryl S. Golden

President, Chief Executive Officer & Director, Kingstone Cos., Inc.

Thank you. It continues to be an exciting time for Kingstone. We could not be more optimistic about the trajectory of our business and our ability to generate long-term value for our shareholders. Thank you for joining the call today and for your continued support.

Operator: Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.