

Kingstone Companies, Inc.

NasdaqCM:KINS

FQ2 2025 Earnings Call Transcripts

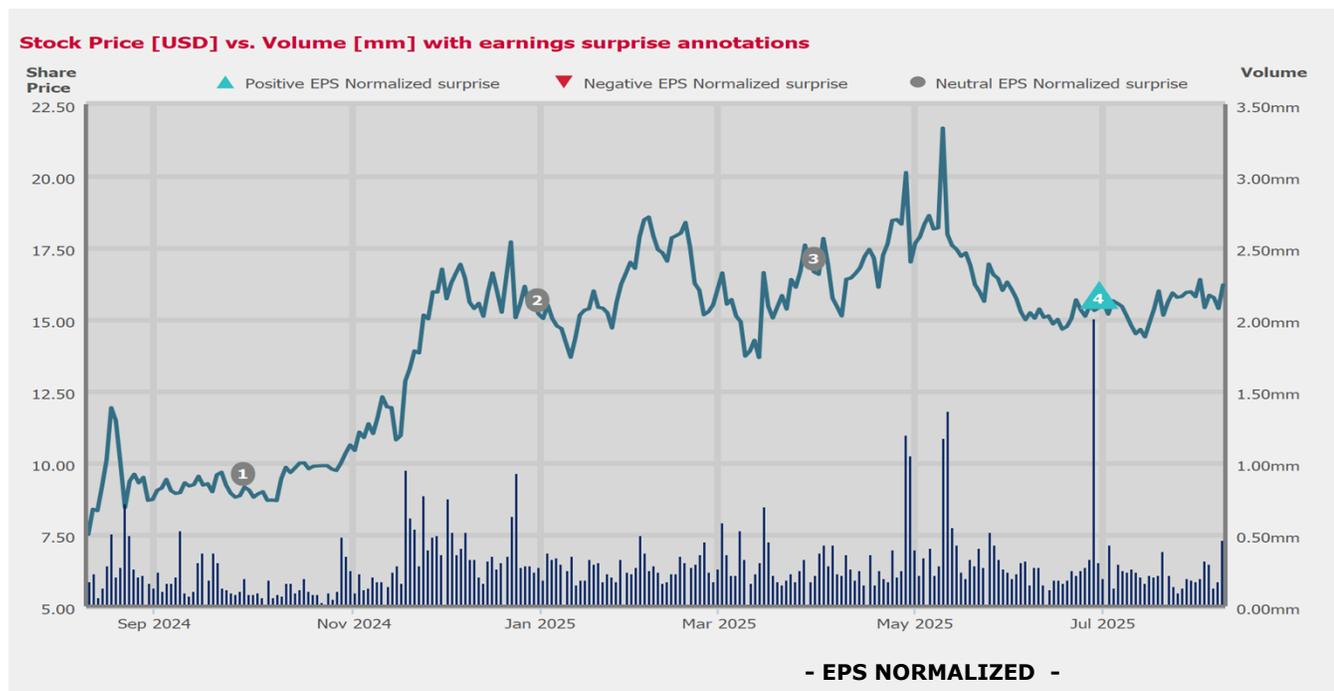
Friday, August 8, 2025 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.75	▲ 36.36	0.65	2.00	2.45
Revenue (mm)	44.60	46.22	▲ 3.63	47.60	187.90	233.90

Currency: USD

Consensus as of May-27-2025 12:20 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	0.50	0.50	① 0.00 %
FQ4 2024	0.46	0.46	② 0.00 %
FQ1 2025	0.00	0.17	-
FQ2 2025	0.55	0.75	▲ 36.36 %

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Call Participants

EXECUTIVES

Meryl S. Golden
President, CEO & Director

ANALYSTS

Robert Edward Farnam
*Janney Montgomery Scott LLC,
Research Division*

ATTENDEES

Gabriel McClure

Karin Daly
The Equity Group, Inc.

Presentation

Operator

Greetings, and welcome to the Kingstone Company's Second Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Karin Daly, Vice President, The Equity Group and Kingstone Investor Relations Representative. Thank you, Karin. You may now begin.

Karin Daly

The Equity Group, Inc.

Thank you, Dana. Good morning, everyone. Joining us on the call today will be President and Chief Executive Officer, Meryl Golden.

On behalf of the company, I would like to note that this conference call may include 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 I, 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, CEO & Director

Thanks, Karin. Good morning, everyone, and thanks for joining our call today. Yesterday afternoon, we posted the most profitable quarter in Kingstone's history with \$11.3 million in net income, an increase of 150% compared to the prior year quarter. We delivered a stellar combined ratio of 71.5% and with net premiums earned increasing 52% over last year, our underwriting profits were exceptional.

Our quarterly net income translates to diluted earnings per share of \$0.78 and an annualized return on equity for the quarter of 50.8%. With the exception of our incredible results in 2024, this quarter's net income was higher than any other full calendar year's profit in Kingstone's history. A remarkable achievement.

Before covering our quarterly results in more detail, I want to recap some of the recent announcements we've made. First, I'm delighted that Randy Patten will be joining the company as CFO later this month. Randy comes from NEXT Insurance where he played a key role in facilitating the recent sale of the company to a subsidiary of Munich Re for \$2.6 billion.

Additionally, he has extensive prior experience as a public company finance leader, including a robust understanding of capital raising and M&A matters, and will play a critical role in providing strategic financial leadership for the company. Having a CEO -- CFO of his caliber will be a tremendous asset for Kingstone, and I look forward to introducing Randy to you next quarter.

We've also had some changes on the Kingstone Board. 2 of our long-term board members, Tim McFadden and Carla D'Andre have completed their service after many years, and we are grateful for their numerous contributions. At the same time, Pranav Pasricha, an entrepreneurial leader with a strong track record of building insurance and technology companies join the Board. Pranav's perspective will be invaluable as we drive forward our longer-term strategy.

I also want to reiterate how pleased I am to have reinstated our quarterly dividend. The company is in a strong position, delivering consistent top-tier underwriting results and generating significant cash

flow from operations. With a robust capital position and Kings inclusion in the Russell 2000, we believe it was the right time to restore the dividend. This decision reflects our commitment to rewarding our shareholders and demonstrates our confidence in the company's future growth and stability.

Turning to quarterly results. Direct written premium grew 14% for the quarter with 17% growth in our core business, offset by the planned 42% reduction in noncore business. The growth in our core property premium was driven by a 21% increase in new business policy count, a 15% higher renewal average premium and a slight uptick in retention. Core policies in force were up 11% from the prior year quarter, led by a 20% increase in Homeowners, our largest line of business, offset by declines in our smaller product lines, particularly dwelling fire.

The hard market conditions in our Downstate New York footprint have not changed materially. And while we are seeing some companies starting to write business again, or increasing their underwriting appetite, we have also seen others making further restrictions. At this point, there have been no new market entrants, but certainly, there could be in the future.

The growth in net earned premiums, a key driver of our increased operating income has been and will continue to be a tailwind for our results throughout the year, exceeding 50% again for the second consecutive quarter of 2025. The increase is primarily driven by our reduced quota share, which allows us to keep a higher percentage of our premiums and underwriting profit.

Additionally, the surge in new business written in the second half of last year continues to earn in, further contributing to the growth in earned premiums. From a profitability perspective, our non-cat loss ratio improved by 8.4 percentage points to 38.7% in the second quarter of '25 from 47.1% in the prior year quarter, driven by a material reduction in property frequency, primarily nonweather water losses, our largest peril.

The frequency of this peril has been improving over time, and we are confident that this trend will continue. We believe that the mix shift we have been experiencing, and our Select Homeowners program is the driver of our frequency improvement. As mentioned previously, our Select product pricing and underwriting has shifted our mix to more preferred risks with well-maintained homes, newer roofs, better insurance scores and higher deductibles.

Cumulative frequency for the Select Homeowners product has now decreased for 17 straight months. Additionally, fire-related claim frequency also improved this quarter. For Homeowners, all perils combined, excluding catastrophes, our frequency was down 29% for the quarter. And while severity was elevated compared to the second quarter of last year, it was down from the first 3 months of 2025. The rise in severity was more than offset by lower frequency, resulting in favorable loss performance. Catastrophe losses are typically low in the second quarter, and this quarter, they contributed only 0.6 percentage points to the loss ratio. We also recognized 213,000 or 0.5 percentage points of favorable reserve development on prior year losses.

Our expense ratio was up 1.5 percentage points in the quarter to 32.7%, and up 0.7 percentage points to 32% year-to-date. This is driven by lower ceding commission on our primary quota share treaty, which is on a sliding scale based on the loss ratio. As the year progresses and if the loss ratio continues to improve, as expected, ceding commission will continue to increase, and our expense ratio will benefit as a result.

We anticipate the expense ratio for full year 2025 to be in line with 2024. Overall, the combined ratio of 71.5% was 6.7 percentage points better than the 78.2% combined ratio in the second quarter last year, and our operating income increased by 130%, up \$6.1 million to \$10.8 million.

During the quarter, we finalized our catastrophe reinsurance purchase on favorable terms, we were able to increase the limit purchased by 57%, while incurring less than a 10% increase in price. This limit included multiyear protection of \$125 million through the issuance of our first cat bond, and that helped manage the cost of the placement as we saw our rates overall decline by more than 10%. We also retained our first event retention of \$5 million.

In spite of the increase in coverage the cost per dollar of earned premium decreased by 5% from the prior treaty period. We offset this decline in rates with better balance sheet protection. To give you a

sense of our protection, if a loss event similar to Superstorm Sandy were to hit with our current exposure base today. Total loss cost would be approximately \$95 million, of which \$90 million would be paid by our reinsurers and \$5 million would be paid by Kingstone.

Our net investment income for the quarter increased 30% to \$2.3 million, up from \$1.8 million in the same period last year. Strong cash generation from operations continues to drive our investment portfolio growth. During the quarter, we invested an additional \$17.7 million in highly rated mortgage-backed pass-through securities, collateralized mortgage obligations and other asset-backed securities with a book yield of 5.6%, and an effective duration of 4.5 years. Increasing operating profits will continue to generate more cash, allowing us to grow our overall portfolio, while also investing in higher-yielding securities. This will result in higher investment income in the future.

Our noncash investment assets yield an average of 4% with an effective duration of 4.3 years, and a weighted average maturity of 10.3 years. With the drop-in interest rates late in the quarter and year-to-date, our bond portfolio increased in value by \$1 million and \$3.2 million net of taxes for the quarter and year-to-date, respectively. The unrealized gain is reflected in our balance sheet as an increase in other comprehensive income.

Before turning to '25 guidance, I want to share more about our longer-term strategy. I am very pleased to announce our 5-year goal of \$0.5 billion in written premium, effectively doubling the size of the company relative to today. We have been diligently working on a strategic plan that outlines how we'll achieve this goal through a combination of organic initiatives and strategic inorganic opportunities in our Core state of New York, along with measured geographic expansion into new states. We will present this plan to you at an Investor Day in the future.

I want to emphasize that we intend to stick to our Core expertise of ensuring catastrophe-exposed properties. Relative to geographic expansion, we've conducted a thorough study of selected geographies and states with the help of industry-leading third-party advisers and overlaid important lessons learned from our past challenges to ensure that we do not make the same mistakes again. We plan to pursue prudent growth at a measured pace in our chosen new state testing and validating rate adequacy commensurate with risk factors in our new geographies. Our current plan is to go live in 2 states in '26 and 2 additional states in '27. We are not sharing the specific states this time to preserve our competitive advantage, but plan to do so in the coming quarters.

For background, in 2024, the broader Homeowners market across the U.S. was about \$173 billion in written premium, and New York represented only \$8 billion or about 5% of the total. So the growth potential is enormous, both in our Core state of New York and in thoughtfully selected new states that would provide a very large addressable market for us.

The Homeowners market overall is in a bit of a crisis, primarily as a result of an adequate pricing due to inflation and the rising cost of catastrophe events, the Homeowners line of business has lost money almost every year since 2017. This has resulted in a number of insurance companies restricting their writing in multiple states, and creating a scarcity of options for consumers seeking Homeowners coverage. While industry results for the Homeowners line of business improved in '24 to 99.7% combined ratio, it is expected to suffer its worst combined ratio in almost 15 years in 2025, due primarily to the California wildfires.

Additionally, climate change is leading to both an increase in the frequency of catastrophe events and a rise in the severity of these events. This, coupled with substantial underwriting losses has resulted in the top writers of Homeowners, the name brand insurers with dominant market share, to restrict new business writing and take deliberate action to reduce their exposure in higher catastrophe-prone geography.

As such, there's a strong need for underwriting capacity and we are confident that these market dynamics will allow Kingstone to expand opportunistically and achieve robust margins as we are doing today in our core state. State expansion will enable Kingstone to achieve a diversification benefit, which will mitigate our risk of geographic concentration, enhance risk management and improve financial stability.

Let me share some thoughts on why I'm confident we can expand successfully. First, as just mentioned, the Homeowners market is distressed with fewer participants and demand exceeding supply. When Kingstone expanded previously, the market was saturated, and the company had to compete on price to get the business. Today, availability is the imperative, not price competitiveness.

Second, we plan to offer coverage on an excess and surplus or E&S basis in the majority of these new geographies. E&S product offerings are not subject to the same rate approval and forms regulations as those offered on an admitted basis. This means we'll have greater flexibility to set rates to meet our margin requirements and customized coverage to manage loss costs. We'll also be able to avoid any business that does not meet our strict underwriting and profit standards.

Importantly, we have made significant advancements in our product design by more effectively leveraging data analytics and data science to build a more robust product. We'll be using our Select product for these new states, which has proven its effectiveness at properly matching rate to risk. When Kingstone expanded previously, the company did not have a product built using data science techniques and this led to adverse selection.

Kingstone is not the same company as in 2017. We have strengthened all aspects of our organization and assembled highly experienced team including in our claim's organization. We have never been stronger and now have a solid foundation to successfully execute this strategic expansion. We are currently finalizing the details of our plan, and I look forward to sharing it with you at an Investor Day in the future. I am very optimistic about our future prospects, and we'll keep you apprised as we continue to make progress.

And finally, with the first half of the year behind us, we've updated our guidance primarily to reflect our results this quarter, the AmGuard transaction and cost savings from our '25, '26 Catastrophe Reinsurance Placement. Relative to top line growth, we reduced the first 12-month premium estimate from the AmGuard renewal rights transaction to \$12 million, now that we have a better understanding of our comparative rate levels, while regulation requires the book to be nonrenewed over a 3-year period, we had assumed many policyholders would move in advance of being nonrenewed in last quarter's estimate.

After gaining a better understanding of AmGuard's rate level, it became clear that there is not a compelling reason for policyholders to switch carriers until they get nonrenewed or AmGuard raises their prices further. As such, we expect a material premium benefit over a 3-year period, with the benefit realized more proportionally over all 3 years rather than front-loaded as we had previously assumed. We just started quoting policies with effective dates of September 1 and beyond.

Given market conditions and the various product changes we have been making, we continue to plan for substantial organic growth as well. Regarding the profitability metrics, our first half underwriting results were exceptional, and we also achieved significant cost savings from our '25, '26 Catastrophe Reinsurance Placement relative to what was assumed in previous guidance. As a result, we are raising our profitability metrics for 2025.

Our updated guidance is as follows: we are refining our Core business direct written premium growth to a range of 15% to 20% and based on approximately \$187 million of net premiums earned, we expect to achieve a GAAP net combined ratio between 79% and 83%, basic earnings per share between \$2.10 and \$2.50, diluted earnings per share between \$1.95 and \$2.35 and return on equity between 30% and 38%. As a reminder, we have not assumed any major catastrophe events in this guidance.

To conclude, we delivered another exceptional quarter with direct written premium growth in our core business -- with 17% direct written premium growth in our core business and increased profitability with our highest quarterly income in history. I have never been more optimistic about the trajectory of our business and feel confident that with our terrific team, we will continue to put up top-tier financial results, while also achieving our goal of doubling the size of the company in 5 years. With that, let's open it up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question today is coming from Bob Farnam of Janney Montgomery Scott.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

I have a question on the reinsurance. So thank you for the details about kind of the \$5 million net to you. I'm just curious, even if it's remote, what happens if it's a second event that occurs in your territory?

Meryl S. Golden

President, CEO & Director

Sure. Our second event retention is \$9 million. So after tax, roughly \$7 million.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Okay. And you have a reinstatement premium for that as well?

Meryl S. Golden

President, CEO & Director

Yes, we have a reinstatement premium for the first layer of our cat tower.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Okay. And the second question was, given that you're expanding into new states, I know you're doing a lot of research into -- how to do that appropriately. I'm just curious, what impact is that going to have on your expense ratio in the near term before premium really starts to roll in and rightsizes?

Meryl S. Golden

President, CEO & Director

Yes. I don't think it's going to have much of -- it will not have much of an impact at all. So it's -- we have to modify the product. We've hired some staff to help lead the expansion effort, but the expenses relative to expansion will be very small relative to our earned premium growth. So I don't expect our expense ratio to tick up as a result of our expansion efforts.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Okay. So I mean a lot of times, companies say, well, we're spending a lot right now, but we haven't really generated the premium yet. So it's temporarily going to be a mismatch, but it sounds like it's not going to be much of an issue for Kingstone?

Meryl S. Golden

President, CEO & Director

Yes. Look, we've built the foundation already. We already have the product. We need to modify it, obviously, for these various states, but we have the actuarial team. We have the team in place today that's doing the research and leading this. We have the claims team in place. So again, we might make a few hires and there's certainly systems cost, but it's immaterial on a relative basis, I don't think we'll see an uptick.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Great. Okay. And the last bit is with the AmGuard transaction, if I read it right, you're only looking for maybe \$12 million of premium from that \$70-some-odd million book. I'm just curious if that's something that you -- it's lower than I expected. So is that something you found in that book that maybe not all that conducive to getting into Kingstone?

Meryl S. Golden

President, CEO & Director

No. Look, last quarter, I knew after announcing the transaction that everyone would want to know what the approximate premium benefit would be. And so we came up with an estimate, but we had very little data. And to be honest with you, we still have very little data because as I mentioned, we just put out the first batch of quotes effective September 1. So we don't have certainty around what our conversion rate will be.

But what we do have certainty around now is our rate level difference. And so we knew that AmGuard was taking a rate increase, but we didn't know where our rates would compare to AmGuard. So originally, I still think we're going to write \$25 million to \$35 million, which was the estimate that I shared last quarter. But last quarter, I thought it would be more front loaded because I assumed since we're paying higher commission that producers would proactively move the book.

But now that I see that our rates are higher, I think that the producers and consumers will wait until they're being nonrenewed in order to join Kingstone. So it's the same amount of total premium just spread more proportionately over 3 years rather than front-loaded as I had assumed last quarter. Does that make sense, Bob?

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Yes. No, that's good color. That was one of the questions. I mean I just saw that it had come down from what you initially thought. So I just kind of wanted to ask about it. So good explanation.

Meryl S. Golden

President, CEO & Director

Okay. Thanks, Bob.

Robert Edward Farnam

Janney Montgomery Scott LLC, Research Division

Yes. That's it for me.

Operator

Our next question is coming from Gabriel McClure of Private Investor.

Gabriel McClure

Congratulations on an amazing quarter.

Meryl S. Golden

President, CEO & Director

Thank you.

Gabriel McClure

Yes. So I guess you just answered my AmGuard question. Thank you for that and also the hurricane exposure. So I just have one question left for you.

Meryl S. Golden

President, CEO & Director

Sure.

Gabriel McClure

And so you announced the dividend reinstatement, and thank you for that. All the shareholders are grateful for that. But -- and as I kind of look at the company and the trajectory that you're on and basically a simplified way of saying that the money is starting to pile up, and I know we got a lot of growth ahead of us. But how does your capital allocation priorities look? How do you think about all that and share buybacks in the mix going forward?

Meryl S. Golden

President, CEO & Director

Sure. So I've been asked the question in the past about share buybacks, and I'm going to be very consistent. We have the opportunity to use our capital, and we have no plans at this point to do a share buyback.

So we -- in terms of our capital strategy, we may need more capital to execute on our plan. And if needed, we'll look caterfully at all alternatives. But the profitability we've achieved over the last 7 quarters has put us in this phenomenal place where we've paid off our debt. We've replenished our surplus. We bought more reinsurance. We've reduced our quota share and now we've restated the dividend to shareholders. So we feel like we have sufficient capital to fund our growth in the near and midterm. And we just think we're in a really good place. I hope that answered your question.

Gabriel McClure

It does.

Operator

Thank you. There's no further questions at this time. I will turn the call back over to Meryl Golden for closing remarks.

Meryl S. Golden

President, CEO & Director

Terrific. Well, thank you for joining the call today. The entire team at Kingstone is both proud and energized by the strong results we've delivered, and we look forward to building Kingstone into a multistate carrier poised for meaningful growth and profitability in the years ahead. Have a great day.

Operator

Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.

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