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Kingstone Cos., Inc. (KINS)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Karin Daly

Vice President, The Equity Group Inc.

Meryl S. Golden

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

OTHER PARTICIPANTS

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Jon Old

Analyst, Long Meadow Investors, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Kingstone Companies' First Quarter 2025 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.

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

Karin Daly

Vice President, The Equity Group Inc.

Thank you, Melissa. And 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 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'm delighted to share the results of our sixth consecutive quarter of profitability, with 18% direct written premium growth overall, including 23% growth in our core business and net income of \$3.9 million or \$0.27 per diluted share. As a Northeast writer, the first quarter is typically the least profitable quarter for the company, and we were fortunate to have experienced another mild winter this quarter, which contributed to these terrific results.

As always, I want to thank the great Kingstone team for their hard work and our select producers for their commitment to the company. I'd like to start by providing more insight into the renewal rights transaction we announced a few weeks ago with AmGUARD, a subsidiary of Berkshire Hathaway. You might recall that last year, around the same time, that the withdrawal of Adirondack and Mountain Valley from New York was announced. We mentioned that a third company had also announced their intention to withdraw from the admitted homeowners' market nationally and had signed a renewal rights deal with Foremost, a Farmers subsidiary.

AmGUARD's withdrawal plan was never approved by the New York regulators as Foremost's underwriting appetite in Downstate New York was too restrictive. This created the opportunity for Kingstone to replace Foremost and execute a renewal rights agreement for the business in Downstate New York. AmGUARD's withdrawal plan with Kingstone as the replacement carrier has now been approved by the New York regulators. And we expect to start quoting the business in late third quarter. This transaction gains us access to the data from AmGUARD across all agents that opt into the program, providing several competitive advantages.

First, we get to underwrite the business upfront to make sure that we're only quoting those risks that meet our profitability standards. Second, by providing a quote for the business, we want to write to the producer, we anticipate a higher overall conversion rate as it'll take less effort for them to move the business to us. And last, we'll be able to expand our footprint through the introduction to high-potential producers who had not previously represented Kingstone.

As policies are written from the AmGUARD book, we are confident that they will contribute to Kingstone's profitability as the business will be written in our Select product, which continues to outperform our expectations.

The Select homeowners program's cumulative frequency has now decreased for 13 straight quarters. For this quarter, our Select homeowners' frequency was 1.6%, compared to 2.3% for our legacy product. As mentioned previously, our Select pricing and underwriting has shifted our mix to more preferred risk with well-maintained homes, better insurance scores, and higher deductibles, which is driving our frequency improvement. Select represents only 48% of policies-in-force today and we expect it to grow to close to 60% by the end of the year, which bodes well for our continued profitability.

Our plan for 2025 is to continue our focus on our core State of New York, capitalize on hard market conditions, and maximize our profitable growth in the state we know best. We expect the AmGUARD premium to help to accelerate our growth starting in late third quarter. While it's very early to have confidence around the level of growth, we'll see from this renewal rights transaction, our current estimate is \$25 million to \$35 million in premium over a 12-month period.

The hard market conditions in our Downstate New York footprint, have not changed materially, although companies are starting to increase their underwriting appetite. Our consolidated, direct written premium growth at 18% for the quarter was materially higher than the prior-year quarter, with 23% growth in our core business, offset by a 64% reduction in non-core as planned. The growth in our core business premium was driven by a 68% increase in new business policy count and a 19% higher renewal average premium for the property lines of

business. The new business growth early in the quarter included policies from the Adirondack and Mountain Valley withdrawal and these withdrawals have now been completed.

Core policies-in-force are up 10% from the prior-year quarter, led by homeowners, our largest product with a 19% increase offset by declines in our smaller product lines, particularly dwelling fire. In April, we implemented rate segmentation changes in our dwelling fire product, which should address this decline. Our strategy remains consistent to focus on properly matching rate to risk by improving rate segmentation. This enables us to be more competitive for the risk we want to write.

Growth in net premiums earned exceeded 50% for the quarter as a result of earnings from the \$11 million in premium that was returned from the reduction in our quota share, along with the significant increase in growth we achieved in the second half of 2024, which is now being earned. This substantial increase in net earned premium will be a driver of our higher operating income throughout the balance of the year.

For the quarter, our non-cat loss ratio was up 0.4 percentage points, driven by a reduction in property frequency. But an increase in severity due to a few large fire losses. For homeowners, all perils combined but excluding catastrophes, our frequency was down over 35% for the quarter. For non-catastrophe water losses, our largest peril, we experienced the lowest level of frequency in recent years, offset by an increase in fire frequency, which is typical during the first quarter. Severity increased markedly during the quarter as fire losses are very costly, resulting in a 3.3 percentage point increase in attritional losses, offset by a 3.5 percentage point reduction in catastrophe losses from a light quarter for catastrophe events.

During the quarter, we recognized 600,000 of favorable prior-year development, improving our loss ratio by 1.4 percentage points. Relative to severity, we are monitoring the cost of building material and acknowledge that tariff-related inflation is a moving target. If costs increase as expected, we will need to increase rates more than currently planned. Replacement costs are already updated annually to account for inflation. We don't anticipate that an increase in inflation would have a material impact on our results. Our expense ratio was flat with the prior year at 31.3% even with the significant reduction in ceding commission, as growth in expenses continues to be lower than the growth in earned premiums.

While our combined ratio of 93.7% was close to the 93.3% combined ratio in the first quarter last year, our operating income nearly tripled from the prior-year period, up \$1.6 million to \$2.4 million. During the quarter, we finalized the sale of our headquarters building an adjacent property, resulting in a one-time after-tax gain of \$1.5 million. We also fully paid-off our remaining holding company debt, which will save us over \$800,000 in interest annually. Bond issue costs of \$175,000 were written off this quarter and are included in other operating expenses.

In this uncertain time, it's a relief to have no debt at the holding company, a healthy balance sheet and sufficient statutory surplus to support our core growth. Our net investment income for the quarter increased 36% to \$2 million, up from \$1.5 million in the same period last year. Strong cash generation from operations continues to support our investment portfolio growth.

During this quarter, we invested \$16 million in highly rated, mortgage-backed pass-through securities, collateralized mortgage obligations and other asset-backed securities with a book yield of 5.41%, an effective duration of 5.53 years. We've extended duration to take advantage of higher yields further out on the yield curve. Approximately \$10 million of our fixed income portfolio will mature by the end of the year and another \$34 million by the end of 2026. These securities have relatively low book yields of 3.1% and 3.6% respectively.

As these assets mature, we plan to invest them at higher market rates, which will further enhance our future investment income. Our non-cash invested yield average of 3.7% with an effective duration of 4.5 years and a weighted average maturity of 9.7 years. With the drop-in interest rates, we saw a \$2.2 million net increase in the value of our bond portfolio this quarter. The unrealized gain is reflected in our balance sheet as an increase in other comprehensive income, adding to our overall financial strength.

Before I turn the call over for questions and as shared in yesterday's earnings release, we are reaffirming our calendar year 2025 guidance. There is still too much uncertainty with the AmGUARD transaction to determine the benefit and we plan to include it in our updated guidance next quarter.

Overall, we delivered another strong quarter with 23% direct written premium growth in our core business and 172% increase in net income. Our performance reflects the discipline of our underwriting strategy in a challenging environment. As we look forward, we are highly optimistic about the trajectory of our business. We are confident in our ability to generate long-term value for our shareholders through thoughtful execution and the fundamental building blocks we have put in place over the last few years.

With that, I'll open it up to 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.

Meryl S. Golden

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

A

Hi, Bob.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

I wanted to start off with the fire losses. Thanks you for the detail. So, it sounds like the fire losses were 3.3 points higher than you had anticipated for a typical first quarter. And that was offset by lower catastrophe losses by 3.5 points. Do I have that right?

Meryl S. Golden

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

A

Yes. And let me just tell you, we're really not concerned about these fire losses. So, first of all, we're talking about a small handful that are more losses than we experienced in the average of the last three years. And most of those fire losses were for policyholders insured in our legacy product. So, if you remember, we stopped writing new business in the legacy product in the beginning of 2022. So, these policyholders have been with us quarter-after-quarter and for many first quarters and we've never seen an uptick in fire frequency before. So, it's clearly a random event. And we also looked at all those fire losses and there is nothing – we wanted to see if there was

something that stood out that was consistent. But, they're across different geographies, cause of loss and producers. So, it's really just a random uptick for the quarter.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Right. Okay, good. And that was why since the cat losses and the fire losses offset each other that was why you didn't really feel a need to update any combined ratio guidance, even though cat losses were kind of lighter than you expected. Is that [ph] accurate (00:26:34)?

Meryl S. Golden

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

A

Yes. That's exactly the reason.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Okay. Okay. And now that you've paid down the expensive debt, your opportunities for capital management have opened. Now, I understand you have a lot of growth coming on. So, I can understand that's going to be the primary focus. But, I just wanted to go over kind of like your capital management priorities, where does dividends and share repurchases come [indiscernible] (00:27:02) into the mix as well and non-organic growth as well?

Meryl S. Golden

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

A

Yeah. So, relative to the dividend and share repurchases, the board actively discusses and considers the opportunities to return capital to shareholders all the time, including restoring the dividend. So, it's definitely something that is being discussed and there's lots of opportunity to deploy our capital given our growth. So, I don't envision any share buybacks in the near future. We currently are pretty confident that we have adequate surplus, adequate capital to support our growth, including the growth from the AmGUARD transaction.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Right. Okay. Regarding that transaction, the AmGUARD transaction, I think, I asked before, do you have any idea of the price differential between you and AmGUARD? As you look at these policies, are they going to be sticker shock as they get into the Kingstone's pricing range?

Meryl S. Golden

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

A

So, AmGUARD got out of homeowners for a reason. They weren't making money. So, certainly our pricing is higher. It depends on the risk, obviously. And so, my understanding is AmGUARD is filing for a rate increase in New York. So, I think that will close the gap somewhat. But, we'll have to see. I mean, that's one of the – we have a lot of uncertainty around what this transaction will mean for the company. But, I've taken that into consideration in the estimate of \$25 million to \$35 million over a 12-month period.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Right. Okay. And thanks for that guesstimate as well. And last question for me. Any update on CFO search?

Meryl S. Golden

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

A

Yes. So, we're in the process. We have hired a retained search firm and we are actively in the interview process. I can assure you that, Victor Brodsky, our Chief Accounting Officer, who was our former CFO and myself were covering the gap in the short-term. But, we do look forward to adding another great person to our team in the near future.

Robert Farnam

Analyst, Janney Montgomery Scott LLC

Q

Okay, great. Thanks for the answers.

Meryl S. Golden

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

A

Thanks, Bob.

Operator: Thank you. Our next question comes from the line of [ph] Gabriel Mickeler (00:29:39), private investor. Please proceed with your question.

Q

Good morning, Meryl.

Meryl S. Golden

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

A

Hi, [ph] Gabe (00:29:45).

Q

Hi. So, I had a couple of questions and I would like to – at the risk of sounding like a broken record, also congratulate you on another great quarter.

Meryl S. Golden

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

A

Thank you.

Q

Yeah. So, we had a nice jump in net investment income. And it looks like it's accelerating. And I was just going to see if you could give me a little color on why that happened and then maybe how I should think about that number evolving in the quarters throughout the year.

Meryl S. Golden

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

A

Sure. So, the primary reason for the jump in our investment income is that, we're generating a lot of cash from the profitability of the insurance company and we're putting that to work in our investment portfolio. So, as our investment portfolio grows, our investment income will grow. And then, as I mentioned, we're also moving duration of that. We're moving up the curve to have take advantage of higher interest bearing of fixed income securities. So, that will also have a positive impact on the investment income over time.

Q

Okay. Got it. Thanks. And then, I had another one for you. There's a couple of famous insurance executives out there that like to talk about their idea of value for their companies. They call it intrinsic value. And I was just wondering, I know you're pretty busy over there, but do you ever have time to think about your own idea of the value of Kingstone, the intrinsic value versus maybe the market value or book value or whatever? And if so, could you share that with us?

Meryl S. Golden

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

A

So, I don't really have anything to share. I mean, we certainly think about the value of Kingstone relative to the stock price and what we can do to increase our value. But, I don't really have anything to share with you, [ph] Gabe (00:31:54).

Q

Okay. All right. Very good. Thanks, again.

Meryl S. Golden

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

A

My pleasure.

Operator: Thank you. Our next question comes from the line of Jon Old with Long Meadow Investors. Please proceed with your question.

Jon Old

Analyst, Long Meadow Investors, LLC

Q

Hi, Meryl. Thanks again for everything. Great.

Meryl S. Golden

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

A

Hi.

Jon Old

Analyst, Long Meadow Investors, LLC

Q

Great year, great start to the 25 year. So, yeah, Bob asked, you answered the question about CFO search. That was one of my questions. The other one was, in the past, you've talked about possibly looking at other jurisdictions, other states. Where do you stand with that process? Or do you sort of just stay focused on New York at the current time?

Meryl S. Golden

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

A

Sure. So, our 2025 strategy is to continue to focus on Downstate New York and the hard market here and maximize our profitable growth and make sure that we are successfully executing on this AmGUARD transaction. But, as I've mentioned in the past, this is a great time for Kingstone to be looking at other geographies, because we have a product that properly matches rate to risk, great team. We're nimble. We're efficient and there's a lot of states around the country that have a market need for more capacity. So, it's a hard market in homeowners nationally.

So, listen, I do want to – I know there are some investors that are super concerned about Kingstone expanding, given our history. And I want to assure you, we are not the same company. We were in 2017 and we know what the mistakes made were in the past. And the primary mistake was that our product did not properly match rate to risk and therefore we were adversely selected again. So, we've a lot of confidence in our products. We're going to be slow and thoughtful and do it right this time. And as we make final decisions, I will certainly inform you, it's a 2026 and beyond strategy for the company. So, no impact to this calendar year.

Jon Old

Analyst, Long Meadow Investors, LLC

Q

Got it. Thank you. Thank you very much. Appreciate it.

Meryl S. Golden

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

A

My pleasure.

Operator: Thank you. Ladies and gentlemen, there are no other questions in the queue. I'll turn the floor back to Ms. Golden for any final comments.

Meryl S. Golden

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

Great. Well, thanks for joining the call today and we appreciate your continued support. Have a great day.

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

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