

James River Group Holdings, Ltd.

NasdaqGS:JRVR

FQ4 2024 Earnings Call Transcripts

Tuesday, March 4, 2025 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.46)	(0.99)	NM	0.33	(0.44)	(1.07)	NM	1.53
Revenue (mm)	159.91	126.71	▼ (20.76 %)	189.72	738.30	707.63	▼ (4.15 %)	779.08

Currency: USD

Consensus as of Jan-13-2025 6:55 AM GMT

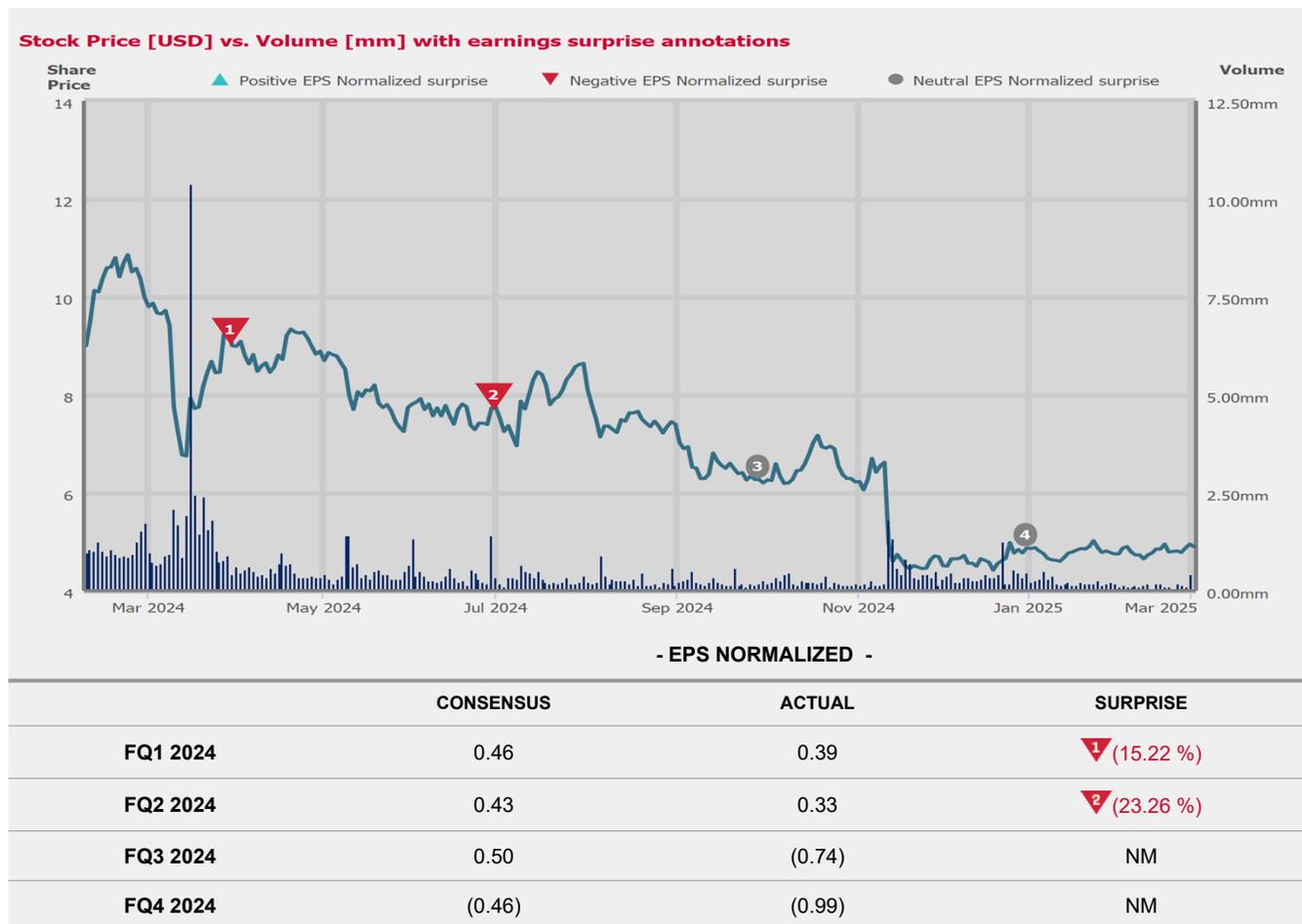


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Call Participants

EXECUTIVES

Frank N. D’Orazio
CEO & Director

Sarah Casey Doran
Chief Financial Officer

Zachary Shytle
Senior Analyst of Investor Relations and Investments

ANALYSTS

Unknown Analyst

Presentation

Operator

Hello, and thank you for standing by. At this time, I would like to welcome you to the James River Group Q4 2024 Earnings Call. [Operator Instructions]

I would now like to turn the conference over to Zachary Shytle, Investor Relations. Please go ahead.

Zachary Shytle

Senior Analyst of Investor Relations and Investments

Good morning, everyone, and welcome to the James River Group Fourth Quarter 2024 Earnings Conference Call. During the call, we may be making forward-looking statements. These statements are based on current beliefs, intentions, expectations and assumptions that are subject to various risks and uncertainties, which may cause actual results to differ materially.

For a discussion of such risks and uncertainties, please see the cautionary language regarding forward-looking statements in yesterday's earnings release and the risk factors of our most recent Form 10-K and other reports and filings we have made with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

In addition, during this presentation, we may reference non-GAAP financial measures. Please refer to our earnings press release for a reconciliation of these numbers to GAAP, a copy of which can be found on our website at www.jrvrgroup.com. Lastly, unless otherwise specified, for the reasons described in our earnings press release, all underwriting performance ratios referred to are for our continuing operations and business that is not subject to retroactive reinsurance accounting for loss portfolio transfers.

I will now turn the call over to Frank D'Orazio, Chief Executive Officer of James River Group.

Frank N. D'Orazio

CEO & Director

Thank you for that introduction, Zach. Good morning, everyone, and welcome to our fourth quarter 2024 earnings call. I'm pleased to be joining you today to provide additional color on our fourth quarter and full year 2024 results, but just as importantly, to impart our thoughts on the direction and opportunities that lie ahead for the organization.

For James River, 2024 was a costly year, but also a transformative step forward in our efforts to put our legacy issues behind the organization and position it to prosper and thrive as a top-tier E&S franchise. We successfully executed several transactions and initiatives that will enable us to focus on our insurance business, having completed the divestiture of our Bermuda reinsurance operation.

We completed 2 legacy reinsurance transactions and added a key strategic partner, achieving our goal of validating our balance sheet and meaningfully walling off casualty reserves from 2010 through 2023. Our investment portfolio also continues to perform very well with the portfolio generating \$93.1 million of net investment income from continuing operations, a 10.8% increase over 2023.

Additionally, we continue to invest in our maturing ERM framework and performance monitoring discipline, key underpinnings of our organization today that have been significantly fortified over the last 4 years with the sole purpose of providing the organization and its shareholders with better performance, improved outcomes and a vastly refocused company.

Taken in concert, these actions position James River very well for long-term stability and profitable growth. We believe we can continue to improve our organizational efficiency through actions like our planned redomestication, continual improvements in our technology and processes and our rededicated focus as an outstanding underwriting company.

Fortunately, favorable market conditions have continued to provide robust tailwinds for our business as new and renewal submissions have reached record highs for the last 4 years, including 2024, which marked the most submissions the company has ever received.

In the fourth quarter, submission growth trends were led by meaningful increases in manufacturers and contractors and general casualty. Our team has demonstrated exceptional resilience and we have seen unwavering support from our wholesale distribution partners, reinforcing our position as a top 25 E&S carrier.

More broadly, we believe continued industry reserve concerns and a prolonged tightening of the casualty reinsurance market will continue to allow E&S underwriters like James River to continue to push rate in excess of loss trend.

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While our results this quarter were complicated by the transactions we announced in November, I'd like to pare back some key data points to frame our prospective E&S business in particular. Our accident year combined ratio for the E&S segment for 2024 was 91.8%. Excluding the legacy structure purchases, our accident year combined ratio would have been 89.3%.

Our 2024 E&S accident year loss ratio of 64.3% is 2.4 points higher than the previous year, reflecting a cautious and prudent approach. For 2025, our loss picks assume a very slight rise in loss trend, most notable in our excess casualty and general casualty lines. That said, given the strength of the E&S rate environment, we expect the positive rate we are achieving on the overall portfolio will more than offset that trend.

As a reminder, we saw a positive renewal rate change of 9% in 2024, which was virtually at the same level as 2023, reflecting strong market momentum and a continued positive outlook for the E&S sector.

For James River, the positive rate environment is even more impactful considering the significant underwriting changes we have implemented in several of our underwriting divisions like general casualty and excess casualty over the last 2 to 3 years, which appear to be driving materially lower reported loss ratios in prior years. We plan to be patient in recognizing these improvements in the performance of the portfolio.

Turning to production. Our \$1 billion E&S business grew by 2% for the fourth quarter, but was negatively impacted by continued vigilance in our excess casualty unit as we continue to take a conservative approach on accounts with significant auto exposure. Absent excess casualty, our growth for the fourth quarter would have been 11.2% for the quarter across the remaining 14 underwriting divisions.

For the full segment, December's monthly production saw one of the most significant year-over-year increases and we expect our growth rate to accelerate in 2025 as we move beyond the strategic review that concluded in November 2024, especially as technology innovations and efficiency initiatives take hold.

Finally, on reserves for the E&S segment, the year-end increase in reserves for the quarter of \$38.4 million prior to sessions to the LPT ADC and \$8.9 million on a net basis was driven by continued higher severity observed, especially in primary GC and higher frequency in manufacturers and contractors, leading us to increase our estimates in these segments, primarily focused on the period from 2019 to 2022.

We are monitoring certain claims trends specific to our construction portfolio, where there was an influx of claims, particularly from Florida, which we believe may likely be attributable to the enactment of Senate Bill 360, which shortened Florida's statute of repos from 10 to 7 years, but in the process may have created an artificial spike in claim reporting during the quarter. Regardless, we chose to respond to the activity prudently and conservatively in the quarter and we'll continue to monitor the development closely.

With the exception of manufacturers and contractors, frequency was down across the segment for the remaining 14 underwriting divisions over the course of the year. Perhaps most notably, reported claims frequency is down 25% from 2022 in our habitational primary GC portfolio, a segment of the portfolio that has undergone significant underwriting and rate actions since 2023.

As of year-end 2024, the E&S segment now has \$116.2 million of reserve cover remaining after significantly increasing the reserve balance over the course of the past year. In essence, the charges for these legacy purchases were accounted for in 2024 and the remaining balance of coverage represents an additional 13.3% of protection over the subject E&S reserve base.

Having taken these actions, we believe our balance sheet is strong and better protected from adverse development on prior accident years than it has been in the company's recent history. We also have the benefit of receiving additional outside data points in the fourth quarter to confirm our view.

While we are cautiously optimistic about the profitability of the 2024 year, we will prudently monitor loss emergence as that accident year seasons before recognizing any favorable development.

Now turning to Specialty Admitted. In Q4, the segment generated a combined ratio of 95.3% and a 92.2% for the full year with underwriting profit growth of 68.6% over the prior year. Additionally, during the year, the segment experienced \$607,000 of favorable development on prior accident years.

The expense ratio for the segment improved from 19.6% in 2023 to 14.4% in 2024 as we carefully manage expenses in the face of declining premiums in the segment, resulting from our decision to exit our workers' comp business while also taking actions to reduce elements of our commercial auto program portfolio in 2024. Despite these dynamics, the segment grew its top line gross premiums by 8.3% over the course of 2024.

Now with 2024 behind us, we feel fortunate to have executed on a handful of truly critical transactions and initiatives that we believe position the company well for future success. We are thankful for the strategic partnerships formed over the course of the year, the continued support of our distribution partners and loyalty of our staff.

Perhaps an understatement, but we are very excited about 2025 as we further distance ourselves from the strategic review and focus on delivering our financial goals and objectives for the year, appreciating both the significance and future implications of the reserve protections we have in place and the opportunities that lie ahead in the E&S sector for a vastly improved and reengineered company to profitably succeed in favorable market conditions.

And with that, I'm going to hand it over to Sarah for further commentary on our financial performance and guidance for the year ahead.

Sarah Casey Doran
Chief Financial Officer

Thanks very much, Frank. Good morning, everyone, and thanks for joining us today.

I wanted to focus my comments on key dynamics that are driving our results for the quarter as well as provide high-level guidance for 2025. For the fourth quarter, we're reporting an adjusted net operating loss of \$40.8 million or \$0.99 per share and a net loss from continuing operations available to common shareholders of \$92.7 million or \$2.25 per share.

The loss was largely attributed to the 2 items we announced in November. These were the \$52.8 million of consideration paid for the top-up adverse development cover, which we closed in late December and accounted for as an increase in ceded premium as well as a \$27 million deemed dividend resulting from the amendment to the Series A preferred shares. As a reminder, we also sold \$12.5 million of primary common stock to Enstar for \$6.40 per share in late December.

First, I'd like to peel apart our performance and view for the year ahead and then I'll come back to spend a minute on the deemed dividend. Clearly, 2024, as Frank said, was a costly year for James River and the 2 retroactive reinsurance structures we purchased significantly distort the run rate performance of the underlying E&S operations in particular.

Our flagship E&S operations are simple and straightforward and perform well at meaningful scale. They're poised for profitable growth, especially given market conditions, submission growth and the many underwriting changes we've made over the last few years. The \$52.8 million payment for the top-up adverse development cover this quarter reduced net written and earned premium, pressuring the loss and expense ratio.

Absent the impact of the retroactive structures, E&S would have generated an 89.3% accident year combined ratio, a compelling result for a business experiencing very robust conditions with a strong following for its casualty-focused SME products rather than the 115.1% we reported for the calendar year. The group accident year combined ratio would have been 94.9% rather than the 117.6% calendar year combined ratio that we reported.

As Frank pointed out, our 2024 E&S accident year loss ratio of 64.3% is 2.4 points higher than the previous year and this sustained increase reflects our cautious approach of loss cost dynamics going into 2025.

Our retroactive coverage, which not only covers the overwhelming majority of the 2010 through 2023 reserves, but also incidentally provided a meaningful vetting of our current year loss picks by best-in-class outsiders provides us with significant comfort with our balance sheet.

We also completed our year-end with the benefit of multiple external reviews of our reserves, validating our current reserve position following the significant actions taken in 2024 to strengthen E&S reserves. Our 10-K will be available later today, showing meaningful strengthening across E&S for all accident years 2016 through 2022.

We entered 2025 with \$116.2 million of aggregate limit available to us in the future, which effectively means we prepaid for \$116.2 million of future losses -- potential future losses, that is, attributed to the 2010 through 2023 E&S accident years. We believe our reserve position is certainly as strong as it has been in many years.

And while I would be hesitant to look at any one of these metrics in isolation, the additional \$116.2 million of available limit means that we could increase IBNR on the subject business by 20% and not exhaust our coverage. Or said another way, we could increase total subject reserves by 13% and not exhaust our coverage.

For 2025, we expect to generate a mid-teen operating return on tangible common equity. This should be underpinned by a similar accident year loss ratio to what we saw in 2024 as we continue to take a prudent view to our initial loss picks despite the significant changes in underwriting appetite. We continue to focus on changes we made during the year to manage our expenses and in particular, our external casualty reinsurance renewals, which come up at midyear.

To briefly close out operating performance for 2024. This quarter, we earned net investment income of \$22 million. Included in prior year net investment income was a contingent payment of \$2.5 million associated with one of our renewable energy investments, which had been previously sold. Absent this one-off benefit, our net investment income declined a bit, impacted by a lower asset base as we funded the retroactive reinsurance transaction.

We were again able to put a significant amount of cash to work in our core fixed income portfolio with attractive yields averaging in excess of 5% and well above our embedded portfolio book yield. Looking into 2025, we expect to continue to see attractive yields above that level as we both continue to put cash to work and grow our operating cash flow.

And before I hand it over for questions, I wanted to come back and spend a minute on the deemed dividend as it impacted our net loss and our tangible common equity. As we announced in November, we negotiated significant changes to the Series A preferred, which included converting \$37.5 million of the \$150 million then outstanding to common equity and thus lowering and capping the fixed charge for preferred dividends. This was very beneficial to our capital.

As expected, we accounted for this as an extinguishment of the preferred and therefore, revalued the security at its new terms. The result was an increase to the value of the preferred security. As we did not bring additional proceeds on to the balance sheet, simply said, we accounted for a portion of the valuation increase as a deemed dividend.

If the terms had not changed, the simple result would have been a preferred on our balance sheet at \$112.5 million and additional common equity from the conversion of the \$37.5 million of preferred at \$6.40 per share. But largely due to the revaluation, the preferred increased in value by \$27 million, and the net-net was to record the deemed dividend, which reduced shareholders' equity by an offsetting \$27 million.

Capital on our balance sheet on a total capital basis, including total shareholders' equity and preferred mezzanine is unchanged as is the amount of tangible equity. But the impact of the deemed dividend is effectively to reduce the amount of tangible common equity by about \$0.60 a share and to reduce net income to common shareholders by the same amount. This is an accounting dynamic and does not impact our underwriting capital.

We continue to have more than ample capital to add profitable growth to our E&S business in particular as well as very healthy operating and financial leverage ratios of 1.3x and 26.6% respectively. And lastly, James River did not experience any net losses due to the California wildfires and we do not expect to, given our conservative property stance. So with that, I'll turn it back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from the line of Meyer Shields from KBW.

Unknown Analyst

It's [Dean] on for Meyer. My first question is on the submission growth. You guys reported 9% submission growth. I'm just wondering like how is the trend looking in 2025? Are you seeing any changes in the competitive dynamics in the market?

Frank N. D'Orazio CEO & Director

Thanks for your question. So yes, we have seen an increase just relative to submissions. I think overall, several of our divisions, I think, demonstrated pretty healthy growth in '24 despite competition in the excess property market specifically. We saw very healthy growth in sports and entertainment, environmental, general casualty and small business, just to name a few.

I think we've been pretty transparent about our activities in excess casualty related to heavy commercial auto accounts. But when you exclude our excess casualty division, our growth for the quarter would have been 11.2%.

To your point, we reported submission growth of 9% for the quarter. Definitely not isolated to any single line. Allied Health was up. Environmental submissions were up, general casualty submissions up. So overall, fairly healthy in terms of well-rounded opportunities for the underwriting platform.

If you look at gross premium for December, the first full month following the conclusion of our strategic review, we saw 7.5% growth compared to the prior year quarter. So I think with the conclusion of the strategic review and the reaffirmation of our rating, we feel we can provide our distribution partners and insurers with more certainty, which should provide additional tailwind into 2025.

Just relative to overall competition, again, we are seeing it specifically in the property marketplace, maybe a little bit stronger relative to some of the larger accounts that we run into. But overall, I don't know that it's been necessarily a change versus what we've experienced over the course of '24.

Unknown Analyst

Got it. Makes sense. I have a follow-up on, I guess, the loss picks. You guys raised the loss picks to be more conservative. You mentioned that you're seeing some trend in excess casualty and general casualty. I'm just curious, is it the same frequency trend that you're seeing from manufacturer? Yes. Any color on that would be great.

Frank N. D'Orazio CEO & Director

Sure. So I think if you're asking about loss trends in our view relative to 2025, which we have recently refreshed, I would say, overall, our view is slightly higher across the portfolio, call it, just under a point higher, primarily driven by increases in excess casualty and general casualty.

But in the aggregate, we're projecting loss trend to remain in that same high single-digit range. Several of our underwriting divisions are in the mid single digit range. And on the other end of the spectrum, we have 1 or 2 in the low double digit range. Now that's offset, as you know, by exposure trend and it certainly varies across our divisions. But for 2025, again, rolled up, it remains virtually unchanged in the low single-digit range.

Operator

[Operator Instructions] There are no further questions at this time. Frank D'Orazio, I'll turn the call back over to you.

Frank N. D'Orazio CEO & Director

Okay. Thank you, operator. I want to thank everybody for their time today. I also want to point out that for James River, the significance of Q4 and really all of 2024 is more about the steps we've taken to simplify the company and derisk the balance sheet with significant legacy cover protection still in place.

So clearly, all items we had previously reported on, but critical because of the implications of that protection on future performance, while the company operates in what is still a very attractive trading environment for E&S, leveraging all of the good underwriting and performance monitoring improvements we've made over the last few years. For us, it's very much about 2025 and the future for James River more than anything else.

Before we leave, I also want to acknowledge and thank Ollie Sherman for his 9 years of service to James River as both a Non-Executive Director and most recently as Chairman. Ollie has chosen to retire from the Board at the end of April and we will certainly -- we will miss his leadership and guidance.

We're also very fortunate to have elected Christine LaSala as our new Non-Executive Chairperson. And personally, I look forward to working closely with her to chart the future of James River. All right. We look forward to speaking with you all again in just a few weeks to discuss our first quarter results and progress. Enjoy the rest of your day.

Operator

This concludes today's call. Thank you for joining. You may now disconnect.

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