United Fire Group, Inc.

2024 First Quarter Conference Call

May 8, 2024, at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Tim Borst – *Vice President, Investor Relations*

Kevin Leidwinger – *President and Chief Executive Officer*

Julie Stephenson – *Executive Vice President & Chief Operating Officer*

Eric Martin – *Executive Vice President & Chief Financial Officer*

PRESENTATION

Operator
Good morning. My name is Anthony and I'll be your conference operator today. At this time, I would like to welcome everyone to the UFG Insurance First Quarter 2024 Financial Results Conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question you would press star then one on your telephone keypad. To withdraw from the question queue, please press star than two. Please note, this event is being recorded.

I would now like to turn the conference over to UFG Vice President of Investor Relation, Tim Borst. Please go ahead.

Tim Borst
Good morning and thank you for joining this call. Yesterday afternoon, we issued a press release on our results. To find a copy of this document, please visit our website at UFGinsurance.com. Press releases and slides are located under the Investors tab.

Joining me today on the call are UFG President and Chief Executive Officer, Kevin Leidwinger, Executive Vice President and Chief Operating Officer, Julie Stephenson and Executive Vice President and Chief Financial Officer, Eric Martin.

Before I turn the call over to Kevin, a couple of reminders. First, please note that our presentation today may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not a guarantee of future performance. Any forward-looking statement made by us in this presentation is based only on information currently available to us and speaks only as of the date on which it has been made. These forward-looking statements are based on management's current expectations. The actual results may differ materially due to a variety of factors, which are described in our press release and SEC filings discussed specifically in our most recent annual report on Form 10K.

Also, please note that in our discussion today, we may use of non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are also available in our press release and SEC filings.

At this time, I will turn the call over to Mr. Kevin Leidwinger, CEO of UFG Insurance.

Kevin Leidwinger
Thank you, Tim. Good morning, everyone and welcome to our First Quarter Conference call. I'll begin this morning by providing a high-level overview of our results. Following my comments, Julie Stephenson will discuss our underwriting results and Eric Martin will discuss our financial results in more detail.

I'm pleased with our first quarter as net income increased to $13.5 million driven by improved underwriting results and higher investment income. The momentum we established in 2023 carried into the first quarter of 2024 as net written premium grew 17.6% to $321 million, led by our core commercial and assumed reinsurance business. Core commercial growth remains strong fueled by an average annual premium increase of 10.9%, steady retention and attractive new business opportunities reflective of our continued focus on profitability. Rates increased 9% and remained above loss cost trends.

The first quarter combined ratio improved 4 points to 98.9% compared to the first quarter of 2023 and our lowest over the past 8 quarters. The underlying loss ratio improved to 59.4% reflecting continued underwriting and pricing discipline across the portfolio. Catastrophe losses contributed 4.6% to the combined ratio in line with the same period last year and just below our five-year historical average. The expense ratio improved to 34.9% as we continue to diligently manage cost structure while supporting strategic long-term investments in our business.

Prior period reserve development was neutral overall with favorable emergence across several lines of business enabling us to further reinforce our position against the heightened inflationary uncertainty in some liability lines. Investment income increased 28.5% to $16.3 million as we continued to benefit from reinvesting at higher interest rates.

In the first quarter we completed the strategic reallocation of public equity assets into fixed maturities and transitioned management of our investment portfolio to New England Asset Management. Through continued robust execution of our strategic initiatives, we believe we are well positioned to deliver improved long-term performance.

I'll now hand it over to Julie Stephenson, our Chief Operating Officer, to discuss our underwriting results in more detail.

Julie Stephenson
Thank you, Kevin. Net written premium in our core commercial business, which includes small business, middle market and construction grew 12% to $223 million in the first quarter compared to prior year. Renewal premium change in our core commercial business was 10.9% with rates up 9% and exceeding loss trends. Commercial property premium change continued to exceed 20% with rate achievement at 16.5% and exposures increasing at 5.5%. Commercial auto and umbrella continued to improve, now achieving rate above 11%. We remain diligently focused on price adequacy across the portfolio with an increased emphasis on general liability as the industry continues to battle ongoing inflationary pressures.

New business production was consistent with our expectations this quarter and we remain pleased with the quality of accounts being added to the portfolio. We are also encouraged by increased submission activity in middle market and construction as we better align with our distribution partners and focus on delivering additional capabilities in support of becoming an account solution provider.

In small business, we rolled out our new BOP product and quoting platform in 12 additional states helping. accelerate new business production. Retention remained consistent and within expectations at 80% as we continue to refine our portfolio profile. Our alternative distribution portfolio showed strong, multi-faceted growth in the quarter resulting from the addition of several new accounts, continued benefit from 2023 contracts that have yet to expire and organic growth from a few accounts benefiting from favorable market conditions. Our outlook for this business remains within our stated expectations of 25% of the UFG portfolio and we are pleased with the continued opportunities this portfolio affords.

Specialty excess and surplus lines net written premiums declined approximately $1 million from prior year as we continued repositioning our portfolio to reflect a mix of business that will produce more sustainable, consistent profitability. Surety net written premium declined slightly in the first quarter as we continue to take a measured approach to growth, taking steps to reinforce our underwriting discipline and territory management to return the portfolio to our historic levels of profitability.

The first quarter underlying loss ratio of 59.4% improved just over 4 points from first quarter of 2023 as results reflect improvement in our core commercial lines from a combination of underwriting actions, rate achievement and improving frequency. Most notably, the property portfolio produced significant

improvement as steady rate and exposure increases are starting to fully manifest in the results.

Additionally, automobile shows some improvement as prior re-underwriting and changes in portfolio mix. continue to show decreased frequency while rate is covering our severity trends. Other liability and surety loss ratios are elevated relative to the first quarter 2023 as they now reflect our recent opinion that evolved throughout 2023.

Prior period reserve development was flat overall in the first quarter. Loss emergence was neutral to favorable across most of the portfolio. Lines that required additional strengthening throughout the latter half of 2022 and through 2023 revealed no additional pressure this quarter. However, favorable development in property, worker's compensation and surety allowed us to further secure our reserve position in the other liability line, though we did not see any notable adverse activity to weaken reserves. This will further strengthen our position given the uncertainty surrounding loss cost trends in these lines.

I will now turn the call over to Eric Martin, our Chief Financial Officer, to discuss the rest of our financial results.

Eric Martin
Thank you, Julie. Turning to the investment portfolio, as Kevin mentioned, late in the first quarter we successfully transitioned management of our fixed income investment portfolio to our partners at New England Asset Management. Total invested assets and cash ended the first quarter at $1.9 billion, with a slightly higher position in cash-equivalents as we completed the sale of our public equity portfolio and will work to reallocate that cash into fixed income.

Net investment income was $16.3 million in the first quarter, up 28.5% compared to the first quarter of 2023. We continue to realize the benefits of investing in a higher interest rate environment with new money yields exceeding total portfolio yield by a healthy margin. There was approximately $1 million of realized losses in the first quarter as we have identified opportunities to make small adjustments in our fixed income portfolio that will further increase future income.

First quarter net income was $0.52 per diluted share and non-GAAP adjusted operating income of $0.56 per diluted share. These positive earnings supported an improvement in book value per common share to $29.13.

During the first quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of March 8, 2024, continuing our 56-year history of paying dividends back to March 1968.

This concludes our prepared remarks. I will now have the operator open the line for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, please press star than two. At this time, we will pause momentarily to assemble our roster.

It appears or no questions at this time.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Kevin Leidwinger for any closing remarks.

Kevin Leidwinger
Thank you for joining us. We look forward to talking with you again next quarter. Thank you.

Operator
This conference has now concluded. Thank you for attending today's presentation. You may now disconnect**.**