United Fire Group, Inc.

First Quarter 2024 Earnings

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CORPORATE PARTICIPANTS

Tim Borst – *Vice President, Investor Relations*

Kevin Leidwinger – *President and Chief Executive Officer*

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

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

PRESENTATION

Operator
Good day and welcome to the United Fire Group Insurance 2024 Second Quarter Conference Call. All Participants will be in a 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 may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Tim Borst, Vice President of Investor Relations.

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. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about the Company, the industry in which we operate and beliefs and assumptions made by management. 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 is 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 10-K.

Also please note that in our discussion today, we may use some 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 second quarter conference call. I will 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.

Our second quarter results reflect continued progress in our efforts to deliver improved performance through strategic execution of our business plan. We remain focused on engaging with our distribution partners in the pursuit of profitably growing our business, deepening expertise across the company, enhancing our capabilities and leveraging technology to improve efficiency.

Net written premiums grew 9% to $326.1 million, led by ongoing growth in our core commercial and alternative distribution business units. Core commercial growth remained steady with average renewal premium increases of 12.3%, healthy retention and attractive new business opportunities reflecting our continued focus on profitability.

Rate increases accelerated to 9.8% with all liability lines increasing in the second quarter and improving margins above loss cost trends. The second quarter combined ratio of 105.6% improved significantly over prior year, primarily due to lower prior period reserve development, lower catastrophe losses and improvement in underlying combined ratios.

Prior period reserve development in the second quarter was neutral overall. Consistent with the first quarter, favorable emergence across several lines of business enabled us to further reinforce our position against the future inflationary uncertainty challenging our industry in certain liability lines. Loss emergence remains within our expectations and we believe these proactive steps are a prudent measure to mitigate the impact of a potential further acceleration in severity trends.

As you will recall, in the second quarter of 2023, we significantly strengthened loss reserves as a result of investments in our actuarial processes, as well as increased depth of analysis that provided a more informed understanding of our reserve position. Those investments also led to greater visibility into our underlying loss trends and we reacted quickly to recognize the increased levels of severity observed in our liability portfolio.

For the last four quarters, we've been reflecting this elevated view of trend in our analyses as well as management decisions, which has fostered greater confidence in the strength of our reserve position. We remain committed to establishing a strong and stable reserve position, providing a solid foundation to grow our business.

The second quarter catastrophe loss ratio of 11.2% improved nearly 2 points over prior year and was below our historical 5-year and 10-year averages in a quarter of elevated industry losses. We continue to execute a broad range of actions to improve our property catastrophe risk profile.

The second quarter underlying loss ratio of 58.9% improved 5.7 points from the prior year reflecting strong earned rate achievement and continued disciplined underwriting. In addition, results in the second quarter of last year were impacted by elevated surety loss activity.

Our intense focus on expense management has reduced our overall cost structure compared to last year. Efficiencies in non-revenue generating functions have funded investments in talent and technology supporting our underwriting capabilities, shifting our cost structure toward the underwriting expense ratio. As a result, the underwriting expense ratio increased to 35.5% in the second quarter while reductions in loss adjustment expenses contributed to a lower loss ratio. We will continue to diligently manage the underwriting expense ratio down over time.

The second quarter underlying combined ratio of 94.4% improved 4.8 points over prior year as a result of successful execution of our ongoing actions to improve core margins as well as normalizing surety loss activity that impacted prior year's results.

Net investment income increased 59.2% from prior year to $18 million on improving fixed maturity income along with higher valuations on alternative assets. Fixed maturity investment income increased 19% from prior year to $16 million as we repositioned portions of our fixed income portfolio to take advantage of the current attractive reinvestment rates and further support future earnings.

Recently, we identified rating errors within our core commercial business and recorded a pretax charge of $3.2 million in anticipation of voluntarily issuing refunds to certain affected policyholders. We are committed to resolving this matter as expediently as possible and have begun working with state regulators to ensure resolution. This charge was recorded in the Other Income and Loss line and does not impact any of this quarter's combined ratio metrics.

The improvements in underlying profitability were sufficient to generate an operating profit in the second quarter, excluding the impact of this rating error adjustment. We remain committed to continuing to drive improvements in our performance through strategic execution of our business plan during the second half of the year.

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 grew 13% to $224 million in the second quarter compared to prior year with small business, middle market and construction all showing growth for the quarter. Renewal premium change in our core commercial business accelerated to 12.3% with rates up 9.8% and exceeding loss trends. Commercial property premium change continued to exceed 20% while liability pricing accelerated from the first quarter.

As Kevin reminded everyone in his remarks, a year ago our improved actuarial insights enabled us to more quickly recognize increased severities in our underlying loss trends. The elevated levels of trend we established at that time have been holding up over the past four quarters. We see loss trends in the mid-single-digits, with some easing severity pressure in property observed along with ongoing frequency improvement across the portfolio. With overall rate achievement solidly exceeding loss trends, we remain confident in our ability to maintain improvement in underlying profitability.

Core Commercial new business production increased in the second quarter with contributions across our portfolio of small business, middle market and construction. We remain pleased with the quality of accounts being added to the portfolio as we continue to improve alignment with our distribution partners and deliver additional capabilities to enhance our role as an account solution provider. Retention remained consistent and within expectations at 80% as we continue to refine our portfolio profile.

Our alternative distribution portfolio continued to grow supported by increased rate and exposure on existing accounts and new business. We remain pleased with the continued opportunities offered in this space to contribute profitable and diversifying business to the UFG portfolio. We continue to manage this book to stay within a 25% share.

Specialty excess and surplus lines net written premiums declined approximately $7 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 increased approximately $3 million compared to prior year, mostly as a result of the impact of reinsurance reinstatement premiums that depressed last year's results. We continue to take a measured approach to growth, reinforcing our underwriting discipline and territory management to return the portfolio to our historic levels of profitability.

The second quarter underlying loss ratio of 58.9% improved 5.7 points from the second quarter of 2023, continuing the momentum reflected in our first quarter results. We saw improvement across all major lines of business compared to the second quarter of 2023. Rate achievement over the last four quarters

has generally exceeded our elevated, but stable view of loss trends and are now more fully earning into the portfolio resulting in a favorable impact on the loss ratio.

Additionally, prior and continued underwriting actions to reposition the portfolio are producing further improvement in our frequency trends across all of the major lines of business. Combined, these efforts are driving a longer-term, sustainable improvement in the loss ratio. Additionally, we have seen improved large loss activity in the quarter for property and surety lines. Though large loss experience can be volatile from quarter to quarter, we have seen similar results in property in 2023 and current surety losses are emerging more consistent with historical, profitable norms. These are early, but positive signs we're building a portfolio that brings stability in our results.

There are still some areas in the portfolio requiring further attention. Automobile continues to underperform relative to our expected levels of profitability, but we're seeing gradual improvement as prior re-underwriting and changes in portfolio mix continue to show decreased frequency while rate is covering our severity trends. General liability rate achievement has lagged other lines recently, but a renewed focus on this effort in light of relentlessly elevated loss trends has resulted in an improved result this quarter. We will continue to focus on pricing for this line.

In Surety, we are optimistic this line is returning to historical profit levels. However, we are retaining a cautious position in our results until further evidence emerges. Prior period reserve development was flat overall in the second quarter. Consistent with the first quarter of 2024, loss emergence was neutral to favorable across the portfolio.

I'd like to take a step back and remind you of the actions we've taken to shore up our reserves. Beginning in the third quarter of 2022, we began responding to greater severity pressure observed in several liability lines. In 2023, we invested in additional actuarial resources to increase the level of sophistication and analysis we bring to the reserving process and build a more comprehensive and stable framework. New insights have brought greater visibility into our true underlying exposure and emerging trends allowing us to take more proactive steps to establish a strong reserve position.

Since the third quarter of 2022, we have added nearly $90 million to our reserves; $145 million was concentrated in our general liability, umbrella and excess casualty lines, offset by some favorable movement in other lines. Much of this increase was attributable to accident years 2019 and prior. However, a full 40% of this figure was added to the more recent experience periods anticipating a continued escalation in severity will emerge. While initial increases were reactive in nature, we are now seeing opportunities to take more proactive steps to maintain a stable reserve position.

For the first and second quarter of 2024, actuarial analyses indicated overall favorable development, including some favorable to neutral emergence relative to expectations in these pressured lines. Despite these positive indications, management has decided to continue to build a stronger reserve base for these liability lines that are sensitive to the future uncertainty inherent in the economic and social inflation environment. While we by no means claim victory, we are pleased with the progress made in our reserve position.

Our second quarter CAT loss ratio of 11.2% was 1.8 points below prior year and below our 5-year and 10-year historical averages by 1.2 points and 0.3 points, respectively. While we could feel good about showing relative improvement in a quarter with elevated industry losses, we recognize results can be uneven for this exposure over short time horizons and we continue to execute multifaceted strategies to improve our property catastrophe risk profile. We are managing the exposure to severe convective storms by geographically targeted concentration reduction actions while focusing growth in more diversifying areas supported by advanced analytical tools. We continue to reduce our exposure to hurricane PML risk

with more restrictive risk profiles in our most exposed states and improving the fundamentals of risk selection, pricing and deductibles across the property portfolio.

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

Eric Martin
Thank you, Julie. Let me start by providing some additional perspective on the expense ratio. Since the beginning of 2023, we have made meaningful changes to the size and composition of the UFG team. Since January 2023, total headcount has come down significantly, with a 20% reduction during that time. Included in that overall headcount change is a 35% reduction in the size of the claims team from process efficiencies and declining claims frequency.

At the same time, we have made significant investments in technology and talent that will help us grow our business in a profitable way over the long term and we are already seeing the benefits of blending these fresh perspectives with those of our long-tenured UFG employees. This is having a meaningful shift in the geography of our overall expense base, which has increased for underwriting but decreased for claims.

It is easy to see part of the impact of this shift in our underwriting expense ratio remaining elevated. However, we are seeing larger benefits from the reduced costs in our claims organization that shows up in the loss adjusting expenses included in our loss ratio. So far this year, our combined underwriting and loss adjusting expense ratio has declined from 2023. Overall, we are making progress in reducing expenses. It's just not yet showing up in the underwriting expense ratio. We will continue to manage our overall cost structure down while making the necessary
investments to achieve sustainable profitable growth.

Turning to the investment portfolio, total invested assets and cash ended the second quarter at $2.1 billion, a high-quality portfolio with an overall credit rating of AA- and a duration of approximately 4 years.

The transition of fixed income portfolio management to our partners at New England Asset Management has already begun to show benefits. In the second quarter, we began repositioning our portfolio away from its high allocation of tax-exempt municipals into high quality fixed income assets offering more attractive tax-equivalent yields in order to take advantage of the current elevated interest rate environment. In total, we invested approximately 20% of the fixed income portfolio in the second quarter at an average yield of 5.6%, which is significantly higher than the total portfolio yield. This high volume of asset purchases at attractive yields will enhance shareholder returns for years to come.

Net investment income was $18 million in the second quarter, up $6.7 million or 59%, compared to the second quarter of 2023. Increased valuations on limited partnership and alternative assets contributed $5 million of the increase in investment income. Fixed maturity investment income increased nearly $3 million or 19% from prior year to $16 million in the second quarter.

With the portfolio repositioning I mentioned occurring throughout the quarter, this quarter's already improved results do not fully reflect the benefits of the actions that have been taken. There was approximately $1 million of realized losses in the second quarter generated by this repositioning, which will be paid back very quickly.

Second quarter net loss was ($0.11) per diluted share with a non-GAAP adjusted operating loss of ($0.07) per diluted share. These results along with a slight increase in the unrealized loss position resulted in book value per common share decreasing to $28.68. From a capital management perspective, during the second quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as

of May 31, 2024, continuing our 56-year history of paying dividends dating back to March 1968.

At the end of May, we completed a debt transaction with Ares Management Credit funds and two other partners that have provided us with $70 million of regulatory and rating agency capital. We are pleased to support the company's growth on attractive terms given the ability to reinvest these proceeds at an interest rate around 5.5%.

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

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question you may press star then one on your touchtone phone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question today comes from Paul Newsome with Piper Sandler.

Paul Newsome
I wanted to ask a little bit more on the expense line. If I plotted the LAE ratio and the expense ratio combined, would I see the total fall this quarter or recently or is it the combined still— I mean, maybe just ask the question, if I had the LAE ratio, would it be up or down in the quarter—

Eric Martin
Sorry to interrupt. Good morning, Paul. Yes, you would. So, if you plotted the LAE ratio from the first half of last year to the first half of this year or you looked at Q2 over Q2, you'd see that coming down a couple of points. That's a combination of expense ratio staying flat, up a little bit and claims costs coming down over that same time.

Paul Newsome
Maybe a little bit more on the ratings error situation. Obviously, it sounds like you just discovered it, so it's early days, but I've never seen anything like this before. So, I really don't know how to begin in terms of thinking about implications or the size. It looks like a manageable number, more of an earnings issue than a book value issue, but any thoughts in terms of maybe history of this or if you've seen anything like this before? Just to give us a sense of the importance of it.

Kevin Leidwinger
I can't really speak to the broader issue around rating errors. All I can speak to this morning is the fact that you're right, this is a relatively new issue to us identified in July. We're in the process of doing further investigation on both the umbrella and general liability product lines, as well as other lines to ensure that there are no further rating error issues in the portfolio. Obviously, we're in the process of having conversations with state regulators.

At this point, we've recorded an estimated liability based on the information we have available to us at this time. As we indicated in the press release, that could change as more information becomes available to us. But we're diligently working through this issue and we'll have more to share as it becomes available to us.

Paul Newsome
Maybe a related modeling question. Is it fair to say that the $3.2 million was sort of what you overcharged

your customers last year? So, if we're looking at sort of a run rate for revenue, do we just take $3.2 million and start with that as a base? Is that a good way to approach it or is it more complicated or different than that?

Eric Martin
So, I think as you look at the $3.2 million, that's included right now in the revenue section, but as an Other Gain or Loss. I think as we get this one-time item behind us, going forward, we don't think there's a significant premium impact from a run rate perspective after we get this one-time impact past us.

Paul Newsome
We'll take it [indiscernible 23:16]. It doesn't make any sense to me, but I could be very confused. Anyway, those were the two big questions I had for you.

Operator
As a reminder, if you would like to ask a question, please press star then one to enter the question queue.

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
Well, thanks again for joining us this morning and we'll talk to you next quarter. Thank you.

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