United Fire Group

2024 Fourth Quarter Conference Call

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CORPORATE PARTICIPANTS

Timothy Borst – *Director of Investor Relations and Corporate*

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 Fourth 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 telephone keypad. 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. Please go ahead.

Timothy 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 fourth 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.

In 2024, we achieved the highest level of net written premium in our company's 79-year history. In addition, we produced the best annual combined ratio and the highest adjusted operating income since 2015. These milestones reflect the actions we've taken over the past two years to deepen our expertise, evolve our capabilities, better align with our distribution partners and improve our investment returns.

While 2024 marked a return to underwriting profitability for UFG, our work is far from finished. We remain confident in our ability to execute our business plan to further improve performance in the years ahead and are grateful for our people and their dedication to delivering the deep expertise, specialized capabilities, personal relationships and responsive service that our partners and policyholders value.

Turning now to the results. In the fourth quarter, net written premium grew 13%, led by our core commercial and assumed reinsurance business. Core commercial growth was driven by average renewal increases of 11.9%, a substantial increase in new business production and stable retention. On a full-year basis, net written premium grew 15% to $1.2 billion. The fourth quarter combined ratio improved to 94.4%, the lowest in 11 quarters. The full-year combined ratio improved more than 10 points to 99.2% due to improvement in the underlying combined ratio, stable prior year reserve development and catastrophe losses below historical averages.

The fourth quarter underlying loss ratio improved 4.3 points to 55.7%, while the full-year underlying loss ratio improved 4.3 points to 57.9%. These improved results reflect strong earned rate achievement exceeding loss trends and continued underwriting discipline resulting in improved frequency.

Catastrophe losses were well below historical averages at 1.6% for the quarter and 5.4% for the year. Prior year reserve development remained neutral overall in the fourth quarter and for the full-year.

The fourth quarter and full-year expense ratios were elevated at 37.1% and 35.9%, respectively, due to investments in talent to deepen expertise across the company, accelerated development of our new policy administration system that is now poised for implementation in 2025, and increased agency and employee incentive costs from the company's improved performance.

Net investment income improved to $23.2 million in the fourth quarter and $82 million for the full year. Fixed maturity income increased $70 million for the year as new purchase yields remained strong, and we also benefited from improved valuations on our limited partnership portfolio for the full year.

Reported book value per share decreased slightly in the fourth quarter because of the increase in after-tax unrealized loss caused by increased interest rates. Our improved annual earnings and ROE approaching double-digits allowed adjusted book value per share to grow $1.95 for the year to $33.64.

During the fourth quarter, we successfully resolved rating errors in our core commercial business that were identified in the second quarter, resulting in no financial impact to the company. As a result, we've reversed a $3.2 million contingent liability established in the second quarter.

Finally, our hearts go out to all those impacted by the tragic wildfires in Southern California. Our claims and risk control professionals continue to assist policyholders in the wake of the destruction. At this time, we estimate losses in the range of $7 million to $10 million in the first quarter from this tragic event.

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. I want to begin by saying how pleased I am with our business units' performance this year. We exceeded the full-year growth and profit plan for 2024, while significantly advancing capabilities and efficiency across the organization, positioning us well to continue our progress into 2025.

Moving to the quarter's results. Net written premium in our core commercial business, which includes small business, middle market and construction, grew 13% to $184 million in the fourth quarter compared to prior year. Growth across each of these core commercial business units contributed to our record business volume, and our growth prospects remain attractive in the current market.

Renewal premium change in our core commercial business remained strong at 11.9%, with rates up 10.8% and exceeding loss trends. Commercial property premium change moderated slightly from the third quarter but remained strong at nearly 20% and still significantly exceeding loss trends. Rate achievement for general liability increased in the quarter exceeding 9% and has built steady momentum over the last three quarters. Automobile and umbrella continue to produce rate changes in the mid-double-digits.

Our overall net loss trend remained steady in the mid-single-digits. Severity trends remain elevated, but in line with our expectations while we continue to see ongoing frequency improvement across the portfolio. Retention remains steady and within expectations at 80%, allowing room to continue to reposition the portfolio and improve overall quality.

Core commercial new business production was strong and well above prior for the quarter with small business completing its rollout of a new platform and product, while middle market and construction added quality accounts delivered through improved alignment with our distribution partners.

Our specialty business has generated three straight quarters of increased new business production as our target appetite and portfolio strategy has come together more clearly with our new leadership on board. Alternative distribution delivered diversifying and profitable business volume.

The fourth quarter underlying loss ratio of 55.7% improved 4.3 points from the fourth quarter of 2023, continuing the improvement seen throughout the year driven by strong earned rate achievement and continuing favorable frequency trends. The quarter's results also reflect some adjustments associated with our surety and umbrella portfolios. In surety, we had been reflecting a conservative view of this book throughout 2024, following unfavorable experience in 2022 and 2023. But as the year closed out, we reduced our current year reserve significantly to fully reflect the improved results seen throughout 2024. We are very pleased that our efforts to restore this portfolio to its historical profit levels are beginning to be realized.

An offsetting action was taken in the current year for our commercial umbrella portfolio. While there are no early signs of adverse experience in the current year due to the late reporting nature of this line, we've proactively increased our current year loss ratio to be consistent with the strengthened reserve

positions we've been building for prior accident years. This product is inherently uncertain and is only further exacerbated in the current increasingly litigious environment. We feel it is prudent to take a conservative view of this exposure until evidence proves otherwise.

Despite some of this noise observed in the quarter, we are pleased with the trajectory of our full-year results and are confident we will see continued improvement heading into 2025. We're now seeing an early upswing in our earned rate benefit from the last six quarters of accelerated rate achievement and expect to continue to see further benefit as this continues to earn into 2025. These elevated rate levels are now beginning to compound, resulting in a strong positive margin of rate in excess of loss trend despite stubbornly high, but importantly, stable loss severity trends. Additionally, although these severity trends are creating significant hurdles for UFG and the entire industry, we continue to see some partially offsetting benefit from improved frequency results emanating from our more disciplined underwriting and repositioning of the portfolio.

All of our core commercial lines have demonstrated continuous improvement in frequency over the last three years. We have been pricing and reserving our liability lines with estimated severity trends in the near to low double-digit range for the last 18 months, and we maintain this view heading into the new year. Although elevated, this has held steady, and our rate and frequency improvement are proving to be a sustainable response to the current inflationary environment.

Prior year reserve development was flat overall in the fourth quarter as well as the full year. Generally speaking, we saw much of the same dynamics we have shared throughout the year, with many lines showing favorable indications affording the opportunity to strengthen our liability reserves in light of the continuing pressure from social inflation. We experienced some adverse movement in our assumed reinsurance portfolio and also some late emerging claims in our umbrella book for older accident years. Our efforts over the past 18 months to bolster our liability reserves have shown benefits as we are able to manage these modest increases, while maintaining a stable reserve position.

Commercial automobile and general liability, including our construction defect reserves have been holding steady, and in some cases, indicating favorable movement. This umbrella activity reminds us that the liability environment is highly uncertain and increased litigation activity across the industry is delaying claim reporting and settlement timelines. In light of this, we continue to bolster our reserve position in this line.

As an update from our second quarter call, we have added $175 million in additional general liability umbrella and excess casualty reserves to accident years 2023 and prior, since the third quarter of 2022. Although the battle against social inflation does not appear to be subsiding, we feel we are well positioned across our liability exposures to navigate the headwinds in the near future.

Our fourth quarter catastrophe loss ratio of 1.6% was well below our 5-year and 10-year historical averages. Hurricane Milton had a small impact on our quarterly catastrophe loss ratio, and we experienced very modest non-hurricane catastrophe losses. Our catastrophe management efforts in Florida specifically proved beneficial this year after three hurricane landfalls resulted in immaterial losses for UFG.

Our ongoing multifaceted strategies to improve our property catastrophe risk profile since exiting personal lines in 2022 contributed to a full year catastrophe loss ratio of 5.4%. This full year result is below our 5-year and 10-year historical averages by 3.3 points and 1.8 points, respectively, and slightly below our current annual expectations. We successfully renewed all of our ceded reinsurance programs that incepted January 1st. Increased reinsurer appetite allowed us to improve coverage and terms across our programs, while adding new reinsurance partners to improve counterparty diversification.

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

Eric Martin
Thank you, Julie. We are very pleased with the strong improvement we've made with our investment portfolio during 2024. Over the past three quarters, we have taken actions to improve the risk-adjusted returns of our investment portfolio, which improved our annualized book yield more than 80 basis points with a minimal amount of realized losses.

Over the course of 2024, we invested nearly $900 million of fixed maturity assets, or approximately 45% of our fixed maturity portfolio with an average new money yield of approximately 5.5%, which was more than 150 basis points higher than the annual total portfolio yield. At the same time, we improved the quality of the portfolio from AA- to AA, while maintaining the duration of our portfolio by approximately four years.

As a result, total net investment income was $23.2 million in the fourth quarter, up $4.1 million or 21% compared to the fourth quarter of 2023 due to strong improvement in fixed maturity income. Full-year net investment income grew to $82 million in total, supported by 24% growth in annual fixed maturity income that increased to $70 million. We expect that to grow by $10 million to $80 million in 2025 with potential for further improvements from reinvestments at higher rates. In addition, the results from our limited partnership portfolio performed well during 2024 returning approximately 8%.

Turning to the expense ratio. As we've discussed previously, the company has made investments in talent and technology to support long-term profitable growth. Improved business performance in the current year resulted in increased performance-based compensation costs for employees and agents that began impacting our expense ratio in the third quarter and drove the year-over-year increases seen in the fourth quarter and full-year underwriting expense ratio.

While we are happy to share the company's success with our employees and agents, in no way do these results diminish our intense focus on improving the expense ratio. Fourth quarter net income was $1.21 per diluted share and $2.39 for the full year. Non-GAAP adjusted operating income was $1.25 per diluted share for the fourth quarter and $2.56 for the full year. This year's earnings improved book value per common share to $30.80. Adjusted book value per share, which excludes the impact of unrealized investment losses, grew $1.95 in 2024 to $33.64 at year-end.

From a capital management perspective, during the fourth quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of November 29, 2024.

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 then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you'd like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Paul Newsome with Piper Sandler. Please go ahead.

Paul Newsome
Good morning and congratulations on the fourth quarter and the year. I want to start off with looking at just the fourth quarter as kind of a run rate for profitability. Anything that we should be calling out either way that would be an important adjustment? And on that topic, you did mention there was a $3.2 million reversal of the contingent. Was that actually in the fourth quarter? So, would that be an example of a one-time benefit that we would have had in the quarter?

Eric Martin
Good morning, Paul. This is Eric. That's right. We do have a benefit of $3.2 million pretax in the fourth quarter here, which I would call out as a one-time item. Otherwise, really not. I think the other things are pretty well run rate as we see it. We've called out the expense ratio as being a little bit elevated here, but we will continue to work on that as we go through time here.

Paul Newsome
Great. And maybe as a second question, a lot of conversations about trying to get ahead of social inflation on casualty reserve, which is obviously an issue for the entire industry. But I was thinking about this from an appetite perspective for new business. Does this push you more towards property or less casualty? I realize you're a packaged product company, so I don't know if this changes the business mix given your more conservative view on casualty trends.

Julie Stephenson
Hey, Paul, it's Julie. Certainly, it has an impact on our choices around appetite. We find ourselves leaning in the casualty space towards less public-exposed risks. We're very careful with limits management and capacity management when it comes to those risks we think are more likely to see social inflationary impacts. We certainly want to grow the property portfolio, and through this last reinsurance cycle, actually achieved greater property capacity in our treaty, which we're really pleased about that will allow us to take on some more sophisticated property risks. So, I think its efforts on both fronts. So appropriate mix and appropriate appetite with social inflation always on our sights.

Paul Newsome
Then maybe final question. Could you talk a little bit about your appetite for the reinsurance business? Talk about January 1st renewals being a little bit weaker for the whole industry. How do you think about your current appetite in the reinsurance business?

Julie Stephenson
Paul, I think you're asking about our alternative distribution appetite?

Paul Newsome
Yes, I think that's all reinsurance [overlapping voices].

Julie Stephenson
Yes, I didn't know if you're asking about our ceded reinsurance program or about alternative distribution. We feel really good about that. Go ahead.

Paul Newsome
I tend to think of it all as one big pot. But yes, go ahead, please.

Julie Stephenson
Sure. As you know, our alternative distribution portfolio is made up of seven channels. And we are looking to grow all seven of those channels, but for probably the retrocession channel. Certainly, in standard treaty, which is the largest channel in alternative distribution, we feel good about the opportunities available to us in the marketplace where we can get the margin that we're looking for. It is our second largest business unit at UFG currently, and we feel good about our prospects.

Paul Newsome
I appreciate the help as always. Thank you.

Operator
Again, if you have a question, please press star than one. Seeing that there are no further questions in the queue, this concludes our question-and-answer session. I would like to turn the conference back over to Kevin Leidwinger, Chief Executive Officer, for any closing remarks.

CONCLUSION

Kevin Leidwinger
Thank you. As you can tell from this morning's discussion, we're quite excited about the progress we're making at EFG, and we look forward to talking with you again next quarter. Thank you.

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