United Fire Group, Inc.

2025 First 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 2025 First Quarter 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 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, 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 and United Fire Group assumes no obligation to update any forward-looking statements. 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 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 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.

2025 is off to a promising start. Through the continued execution of our strategic business plan, we achieved our third consecutive quarter of underwriting profitability, record net written premium and a significant increase in net income despite elevated industry catastrophe losses and a higher expense ratio in the quarter.

Turning now to the specifics, net written premium grew 4% to $335.4 million. However, our growth rate

was not reflective of the disciplined pricing, stable retention and increased new business production we achieved across the portfolio as a few unusual, seated reinsurance premium adjustments reduced net written premium growth by three points.

First quarter combined ratio was 99.4%, a half a point increase over the first quarter of 2024. The underlying loss ratio improved 2.9 points to 56.5% as a result of ongoing strong earned rate achievement that exceeded loss trends, improving frequency trends and disciplined portfolio management.

Prior year reserve development remained neutral overall for the fifth quarter in a row. Catastrophe losses contributed 5 points to the combined ratio and include $8.2 million of losses from California wildfires. The outcome is just below the midpoint of the $7 million to $10 million range we provided in February and is consistent with what we know to be our exposure to this event.

The underwriting expense ratio increased 3 points to 37.9% and includes additional costs associated with the final stages of development of our new policy administration system, as well as increased performance based compensation for agents as a result of strong prior year performance. Net investment income improved to $23.5 million in the first quarter. The majority of this improvement was due to a sustainable increase in fixed maturity income that grew to $21 million in the quarter while we also benefited from improved valuations on our limited partnership portfolio. Reported book value per share improved to $32.13 in the first quarter as a result of positive earnings and a decrease in interest rates, with adjusted book value per share growing to $34.16 on continued positive earnings.

Before I turn the call over to Julie Stephenson, just a word about tariffs. We continue to monitor the issue closely, and while there is significant uncertainty with respect to the ultimate outcome, we expect any impact from tariffs to be manageable on our business.

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

Julie Stephenson
Thank you, Kevin. Let me begin with how pleased I am to say UFG is in the final stages of development of a new policy administration system for our core commercial business units. Small business is fully deployed across all 32 states. Middle market and construction will begin deployment for new business in July and renewals in November. The finalization of this investment is a key milestone in improving process efficiency and product management at UFG.

Written premium growth on a gross basis was nearly double-digit, with all businesses contributing on strong underwriting fundamentals, including both pricing and risk selection. Net written premium growth in the quarter of 4% was suppressed relative to gross written premium as a result of some increased seated reinsurance premium relative to prior year. We experienced some prior year adjustments and business mix impacts that uncommonly aligned to increase seated premium for the quarter. We expect the impact of additional seated premium to diminish in the remaining quarters.

For the first time, we have included rate retention and new business details for each of the business units within core commercial, small business, middle market, and construction in our earnings call presentation. Net written premium in our core commercial businesses grew 6% in the first quarter compared to prior year. Renewal premium change in core commercial remains strong at 11.7% with rates up 9.7% and continuing to exceed our view of loss trends.

The moderation in rates from prior quarter was largely driven by middle market commercial property, where rate change came down slightly from the fourth quarter, but remained strong at over 10% and still

comfortably exceeding loss trends. Rate achievement for general liability exceeded 9% in the quarter, continuing the momentum built over the last 4 quarters. Automobile and umbrella continue to produce rate changes in the double-digits. Our overall net loss trend remained consistent in the mid-single digits. Severity trends remain elevated but stable, while we continue to see ongoing frequency improvement across the portfolio. Retention remains steady and within expectations.

Core commercial new business production continued to grow over prior year to an all-time high, with small business, construction and middle market all contributing as we continue to increase our presence in the evolving distribution landscape. We remain diligently focused on ensuring the quality and rate adequacy of new business and are pleased with writing more business in our most attractive customer segments, as well as successfully building a pipeline of more sophisticated risks that offer better economics. Our growing specialty and surety businesses continue to perform in line with our expectations, as we remain focused on ensuring long term profitability while gaining traction in the marketplace.

Alternative distribution continues to provide UFG with diversifying and profitable business through three primary channels— treaty, programs, and funds at Lloyds. Turnover in our program business for the quarter led to a higher seated premium ratio. So, although growth was strong on a gross basis, net written premium was lower than the prior year's first quarter. Standard treaty business was down slightly as we non-renewed business, primarily casualty, in the face of challenging market conditions. We remain selective in how we deploy capacity in this space and while overall market pricing is down slightly this year, we are still meeting our profitability objectives in this business unit.

The first quarter underlying loss ratio of 56.5% improved 2.9 points from the first quarter of 2024 continuing the improvement seen throughout 2024 from strong earned rate achievement and favorable frequency trends observed across our portfolio. Severity trends remain stable and show some signs of moderating in a few lines where we have made progress in reducing risks with high severity exposure. We remain cautious, however, and continue to underwrite and price the business to the elevated severity trends prevalent in the market today.

Prior reserve development was flat overall in the first quarter, continuing the trend seen throughout 2024. In general, we saw similar patterns with claim emergence within or better than our expectations. We saw favorable indications in most lines of business, enabling us to further strengthen liability reserves in light of the ongoing uncertainty of social inflation. The additional strengthening this quarter was more modest than we had demonstrated throughout the prior year as we believe our reserve position against underlying liability trends is well positioned across our entire portfolio.

The catastrophe loss ratio of 5% included approximately 2.6 points of impact from the California wildfires. Losses from the wildfires were $8.2 million, including $4.8 million within the alternative distribution portfolio and $3.4 million from our core commercial book. Our conservative limit deployment and stringent underwriting criteria in our alternative distribution business allowed us to experience a strong underwriting profit in light of this event. Additionally, the remaining non-wildfire catastrophe losses reflected our lowest first quarter result for severe convective storms since 2019 despite an elevated number of events in the quarter. We are pleased our disciplined catastrophe management efforts produced this manageable outcome from such a difficult quarter for the industry.

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

Eric Martin
Thank you, Julie. We continue to experience strong and sustainable improvement in our investment portfolio results in the first quarter. Our fixed income portfolio is well positioned against the heightened

uncertainty in the current market. The actions we've taken and discussed over the past year not only improved income and risk adjusted returns, but also improved diversification within the portfolio, improved the average quality from AA- to AA and maintained duration at approximately four years.

In addition, in the first quarter, we executed targeted sales on approximately $25 million of assets to further improve the credit quality of our portfolio. These actions generated less than $1 million of realized losses and will be accretive to income.

New purchase yields in the first quarter of 5.3% exceeded the overall portfolio yield by approximately 100 basis points. The elevated interest rate environment contributed to the approximately 70 basis point increase in book yield since first quarter of last year and continues to provide favorable tailwinds for ongoing, sustainable earnings growth.

Outside of our fixed income portfolio, the current market reinforces our decision to exit our equity portfolio a year ago to lock in attractive fixed income yields that reduce volatility in our overall results. Our portfolio contains roughly $100 million of investments in limited partnerships that generated a favorable first quarter result with $1.8 million of income. Many of these limited partnership investments contain equity like exposure and are at increased risk of volatility in the currently turbulent market.

Turning to the expense ratio, as previously mentioned, the company has made a number of investments in talent and technology to support long term profitable growth. The first quarter expense ratio included approximately one point of additional cost associated with the final stages of development of our new policy administration system that we do not expect to recur. We also experienced continued elevated performance based compensation for agents as a result of strong 2024 performance that will normalize over time.

First quarter net income was $0.67 per diluted share with non-GAAP adjusted operating income of $0.70 per diluted share. This quarter's earnings improved book value per common share to $32.13. Adjusted book value per share, which excludes the impact of unrealized investment losses, grew $0.52 to $34.16 at quarter end.

From a capital management perspective, during the first quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of March 7, 2025.

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. 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 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 is from Matthew Erdner with Jones Trading.

Matthew Erdner
Could you talk a little bit about your current pricing power and the ability to kind of counter potential greater loss expenses due to material and labor cost inflation and just kind of talk about what you're seeing there?

Julie Stephenson
Sure. Thanks for joining, and thanks for the question. We are watching the situation closely, just like others in our industry. Our underwriting and our actuarial and finance and claims teams are staying very closely connected and monitoring any potential impact, but in anticipation of any impact and frankly, on our normal course of business, our actuaries re-evaluate trend every quarter. We take a conservative view that allows us, hopefully, enough cushion in our estimates, giving us time to react but also, as we mentioned in the transcript, our rates are currently exceeding our view of net loss trends. So, we think that that combination of monitoring, making sure that the trends are being evaluated every quarter and keeping our pricing disciplined is really the path forward in trying to stay ahead of this.

Matthew Erdner
Then kind of as a follow-up to that, I'd like you to talk a little bit about the underwriting expense ratio and what the levers are that you kind of have to pull there to bring that in a little bit.

Eric Martin
First off, thanks for your coverage. Appreciate having you guys here with us on the call. We mentioned in our prepared remarks here; we're a little bit elevated this quarter by about one point related to some of the final costs with the deployment of our policy administration system. We're happy with that— to get that system on board. This has been a long road for us and we're happy to get that moving forward here. Our small business team is already on that platform and over the next few months, we're going to get middle market and construction on that.

So, if you look at from a year ago, we're up about three points and one of the things we've said is that we're going to invest in talent and technology. We brought a lot of new folks on board in the early part of last year and we're happy with that. We feel it's moving us forward here.

Our performance was better last year as well and to some extent, we're sharing that with some of our agents through performance comp. Those three items have really pushed our expense ratio up. So, we feel good about our progress here. The one point is going to go away. That was a one-time item with some of the final cost for the platform. We're going to continue to grow here, and there's going to be some leverage with our premium growth compared against fixed costs here. So, that's how we're thinking about our expense ratio going forward.

Matthew Erdner
Then, as a follow-up to that, as you guys kind of continue to grow, you'd expect this to normalize over time, once all the people are onboarded and kind of as those agents, kind of go back to historical averages in terms of production.

Eric Martin
If you look at our total cost, about a third of them are fixed costs. Two thirds are variable. The agent performance comp is within that variable comp, but overall, particularly on the fixed cost, there's some good leverage there with premium growth.

CONCLUSION

Operator
At this time, there are no further questions. So, this concludes the question and answer session.

I would like to turn the conference back over to Kevin Leidwinger, CEO, for any closing remarks.

Kevin Leidwinger

Thank you for joining us today, and we look forward to talking with you again next quarter.

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