United Fire Group Insurance

2025 Second Quarter Conference Call

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CORPORATE PARTICIPANTS

Tim Borst – *VP, Investor Relations*

Kevin Leidwinger – *CEO*

Julie Stephenson – *EVP, COO*

Eric Martin – *EVP, CFO*

PRESENTATION

Operator
Good morning. My name is Drew, and I will be your conference operator today. At this time, I would like to welcome everyone to the UFG Insurance Second Quarter of 2025 Financial Results Conference Call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing star, then zero on your telephone keypad. 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.

Thank you. I will now turn the call over to UFG Vice President of Investor Relations, Tim Borst.

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 the company 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 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'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.

UFG delivered strong results in the second quarter, growing net written premium to a record $373 million with the highest second quarter underwriting profit in more than 10 years. The benefits of our ongoing strategic actions continue to materialize in our results with improved underwriting and investment income delivering a 10% return on equity through the first half of the year, a significant milestone in the company's ongoing transformation. Second quarter net written premium growth of 14% was driven by improved retention, record new business production and rate increases that continue to exceed loss trends. The second quarter combined ratio improved 9.2 points to 96.4%, with all components of the combined ratio contributing favorably. Underlying loss ratio improved 1.3 points to 57.6%, reflecting the ongoing benefits of strong earned rate achievement and moderating loss trends from continued underwriting discipline.

In the second quarter, we recognized modest favorable prior year reserve development of $5 million following our annual review of loss adjustment expenses while continuing to strengthen our overall loss reserve position against the uncertainties of social inflation. Our second quarter catastrophe loss ratio of 5.5% was considerably below historical averages as well as our quarterly expectation of 8.9%. Catastrophe losses through the first half of the year remained below our expectations despite unusual first quarter wildfires. We continue to actively manage our exposure and believe the strategies we've implemented in recent years are favorably impacting the catastrophe loss ratio and are reflected in our annual plan of 5.7%. The underwriting expense ratio improved just over half a point to 34.9% in the quarter. The improvement from prior year reflects the benefits of growth funding strategic investments in talent and technology necessary for sustained success.

Net investment income increased 20% from prior year with sustainable improvement in fixed maturity income as we continue to invest at yields well above the portfolio average. We're pleased with our performance in the second quarter and through the first half of 2025. We remain committed to executing our strategic business plan to achieve superior financial and operational 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 grew 14% in the second quarter with gross written premium increasing 12% and exceeding $400 million for the first time in our company's history. Net written premium in our core commercial business, which includes small business, middle market and construction, grew 20% in the second quarter compared to prior year on continued strong production results. Second quarter rate achievement of 7.6% moderated somewhat from the first quarter. We are comfortable that overall price levels are still contributing to profitability with this quarter's rate achievement continuing to exceed our view of loss trends.

As our results mature, favorable frequency trends are holding and recent results show continued improvement. Additionally, although we are subject to the same severity pressures as the rest of the industry, our underwriting efforts are starting to manifest in more stable and moderating severity outcomes.

Commercial property rate achievement slowed in the quarter but remains strong, just under 10%. Commercial auto, umbrella and general liability all experienced rate increases in the upper single digits. Retention improved almost 5 points to 86% in the second quarter, most notably in small business and middle market. This higher retention figure is reflective of our increasing

comfort level with the portfolio we have built over the past several years. During that time, we improved risk selection and accelerated our pricing to reflect the exposures in the portfolio.

We've built a robust analytical framework to more confidently underwrite, price and manage our business. As our improved loss ratio suggests, we believe our current portfolio is well positioned to serve as a foundation to achieve our objective of producing consistent profitable growth over the long term. We've worked tirelessly with our agency partners to align our evolving capabilities to attract a more expansive customer base, and we are building momentum. This is evident in new business production that eclipsed $100 million for the first time with all business units experiencing double-digit increases. Construction in Middle Market led the way with the most new business in the quarter with average account size increasing in line with our enhanced capabilities to respond to more complex exposures.

Our specialty E&S business showed strong new business growth for the quarter in both property and excess casualty. Retention moderated due to some nonrecurring builders risk accounts, but rate achievement remains strong. Surety growth was strong and double-digit for the quarter in response to continued profitable results demonstrating excellent underwriting discipline. Alternative distribution continues to provide UFG with profitable business through three primary channels - treaty, programs and funds at Lloyd's. Growth was more modest in the second quarter as we chose to non-renew a handful of treaties that no longer met our profitability standards, along with some turnover in our program business. We remain selective to ensure the capacity we deploy in this space meets our profitability objectives.

The underlying loss ratio improved 1.3 points to 57.6% in the second quarter and improved 2.1 points to 57% through the first half of 2025 compared to the same period last year. The portfolio continues to benefit from consistently strong earned rate achievement and favorable frequency trends observed across our portfolio.

In the second quarter, we completed our annual review of adjusting and other, or A&O expenses. This analysis of the fixed portion of our loss adjustment expenses resulted in $5 million of favorable prior year development associated with lower-than-anticipated loss adjustment expenses paid in 2024. This represents a partial release of the indicated amount, limited to lines with more predictable claim activity. Although A&O reserves are related to our loss reserves, we do not believe they are subject to the same degree of uncertainty and impact from social inflation.

In addition to the annual review of A&O expenses, we completed our quarterly review of loss reserves. We continue to build a conservative position in our loss reserves as we've consistently increased our position in the actuarial range of indications. Favorable results across several lines of business, including auto, property and BOP, were partially offset by some individual umbrella loss activity in older accident years. Although more selective underwriting criteria have been in place in recent years, we remain guarded with our results in umbrella due to its inherent exposure. We strive to position our reserves in the upper end of our actuarial estimates across all accident years, including the current year.

The catastrophe loss ratio of 5.5% was well below both the five-year and ten-year averages of 13% and 11.5%, respectively. We are pleased with our results this quarter given the level of storm activity observed, and we believe our recent underwriting and portfolio management efforts have contributed to this favorable outcome. As an example, year-over-year, our modeled all perils gross average annual loss decreased 11% due to the underwriting guideline improvements, such as increased deductibles, while premium increased by 2.6%. I'm pleased to

be able to show continued progress in improving our property catastrophe risk profile over time. Our current year-to-date catastrophe loss ratio of 5.3% is below our expectations at this point in the year. If we continue on this path, we'll realize a favorable result relative to our full year expectations of 5.7%.

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

Eric Martin
Thank you, Julie. We continued to deliver sustainable improvement in net investment income in the second quarter. Our high-quality fixed income portfolio generated 34% more income than in prior year. Our extensive portfolio repositioning actions in 2024 continued to generate favorable tailwinds, while second quarter new purchase yields of 5.4% continued to exceed the overall portfolio yield by approximately 100 basis points. The elevated interest rate environment continues to provide opportunities to sustainably grow fixed maturity income and overall earnings. Outside of fixed income, our portfolio of approximately $100 million of investments in limited partnerships generated a positive but lower return than in recent quarters. Many of these limited partnership investments contain equity-like exposure are at increased risk of volatility in the currently turbulent market.

Turning to the expense ratio, the second quarter result of 34.9% represents a return to a more normalized result following a couple of recent quarters with elevated results. The year-over-year improvement of 0.6 points reflects the benefits of disciplined management actions and profitable growth. We expect our ongoing actions on these fronts to continue to benefit the expense ratio over time. Second quarter net income was $0.87 per diluted share with non-GAAP adjusted operating income of $0.90 per diluted share. This quarter's earnings improved book value per common share to $33.18. Adjusted book value per share, which excludes the impact of unrealized investment losses, grew $0.77 to $34.93 at quarter end.

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 June 6, 2025. On July 10, we successfully issued $30 million of Series B notes to fill out our 2024 capital raise. We appreciate the investment community's continued support of UFG's strategies to deliver profitable growth.

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 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 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 comes from Jason Weaver with Jones Trading. Please go ahead.

Jason Weaver
Hi, good morning, guys. Thanks for taking my question. I see that the non-variable part of underwriting expense declined by about $4 million or 1.6% thereabouts. Can you talk about your trajectory on, sort of improving your expense ratios there and what we should expect going forward for run rate?

Eric Martin
Yeah, good morning, Jason. Thanks for calling in. Thanks for the question. You're right. We are down a pretty decent amount from Q1. And I think in our first quarter call, we talked about that being a little bit of an unusual quarter, a little higher than normal. So right now, we're around 35%. And as we've got a good growth trajectory going forward, that's going to help us get some fixed leverage or some leverage on fixed costs. So this is a pretty normal quarter for us. There wasn't anything unusual. I think this is a good run rate as you look forward for the next few quarters here.

Jason Weaver
All right, thanks. That's helpful. And I wonder, just given the positive reserve development, if you have any visibility into that for the second half?

Julie Stephenson
I mean, I would say we're not in a position to predict what will happen in the second half of the year. Hopefully, the trends that we're seeing will continue, but not in a position to predict.

Jason Weaver
Got it. Well, thank you for taking my questions.

Operator
Again, if you have a question, please press star, then one.

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

Paul Newsome
Good morning. Congratulations on the results. Maybe some thoughts on the competitive environment, and as you sort of see it into your business -- a lot of talk this quarter amongst the public companies that are worrying about sort of an acceleration of competition, but it's been very sort of spot dependent. It seems to be more property; also more reinsurance maybe. Anyway, love -- as you kind of look at your portfolio of businesses, are you seeing similar, different? And maybe you could just kind of give us an overview in general how you see the incremental changes in the competitive environment.

Julie Stephenson
Yeah, I mean, I think that, certainly, it remains a competitive market. When isn't it? I do think that we're seeing some moderation in rates, but it wasn't terribly unexpected. It's been building, I think, for the last few quarters, especially in property, and we certainly saw it even in our own results. I would say that, even in light of that rate moderation, we still feel very confident that we can compete in the market and we can continue to grow. We're seeing a greater percentage of our portfolio made up of accounts we've written in the last couple of years, and we feel like that we have made the right risk selection and the right pricing moves on those risks that position us well to compete in the marketplace. So, yeah, we see the moderating, but we feel good about the future and continued growth throughout the rest of the year.

Paul Newsome
Any differences between the reinsurance business versus the primary business?

Julie Stephenson

I think the reinsurance business has been softer. Certainly, we have -- seeing the pricing deteriorate a little bit. You will have noticed that we actually decided to non-renew a few treaties in this period that no longer met our profit expectations. And so we'll watch that carefully coming into conference season to see how the reinsurance market is going to react as we prepare for 1/1.

Paul Newsome
Great. And maybe some further comments about the work you've done with the catastrophe management [sp]; It's been definitely trending in the right direction. The second quarter historically is the most volatile quarter for the catastrophe result for United Fire, I believe. And just wondering how much -- if you could -- is there any way to parse what happened here between the sort of underlying improvements that you've been making versus what maybe is a little bit of good luck, favorable--

Julie Stephenson
--We ask that question all the time, Paul. We ask if we're lucky or good, and we try to make -- distinguish between the two. I'd say that we're really confident that we're managing our cat exposures far better today than what is reflected in our historical averages. I think that's what gives us the confidence to set the annual catastrophe plan where we've set it. And so if we look under the hood of that to say, okay, well, why are we managing it better today, we're getting considerable traction on deductibles and severe convective storm. That's our largest exposure, as you know, as a company. We've improved our risk profile of the risk that we're putting on the books, and we feel like we're getting sufficient pricing, and that's terrific as far as setting the right tone for managing cat going forward.

And on the hurricane side, we really took a hard reset on our risk profile, especially in Florida. And we did that about a year ago now, and we also see that coming through in improved modeled outcomes. So we're feeling good about where we're headed from a cat perspective, and we hope that the trends that we're seeing over the last eight quarters or so of our cat loss ratios being below those historical averages will continue.

Paul Newsome
Great. Thank you. Appreciate the help, as always; much appreciated.

CONCLUSION

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

Kevin Leidwinger
Well, thank you for joining us this quarter, 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.