UFCS Earnings Call Transcript

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Quarter: 3

Operator: Good morning. My name is Gary, and I'll be your conference operator today. At this time, I would like to welcome everyone to the UFG Insurance Third Quarter 2025 Financial Results Conference Call. [Operator Instructions] Please note this event is being recorded. I will now turn the call over to UFG Vice President of Investor Relations, Tim Borst. Please go ahead.

Timothy Borst: Good morning, and thank you for joining this call. Yesterday afternoon, we issued a press release and 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 believes and assumptions made by management. The company cautions investors that any forward-looking statement includes 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 thank you for joining us today. We had an outstanding quarter as reported in our press release yesterday. Our third quarter net income increased to $39.2 million, nearly doubling from prior year and is the highest net income we've produced in the quarter in at least 20 years. We also achieved a 91.9% combined ratio in the quarter, our best third quarter underwriting result in nearly 20 years, and we grew net written premium to a third quarter record of $328 million. While prior period development was neutral overall in the quarter, favorable development in several lines of business afforded us the opportunity to once again advance our reserves to a more conservative position in our range of actuarial estimates, continuing to reinforce the portfolio and strengthen our balance sheet. Finally and equally important, through the first 9 months of 2025, we've achieved a return on equity of 12.7%, the company's best year-to-date financial performance in nearly 2 decades. These milestones reflect the progress we've made over the past 3 years and the work we've done to transform the company by deepening our underwriting expertise, evolving our capabilities to serve a more expansive customer base, driving better alignment with our distribution partners, improving investment returns and stabilizing reserves. Before I turn the call over to Julie Stephenson to discuss our underwriting results in more detail, let me say just how immensely proud I am of our people who have embraced change, develop new skills and shown great resilience

as we've evolved the company and pursue a superior financial and operational performance. We are well positioned through the continued strategic execution of our business plan, to carry our momentum through the end of the year and into 2026 when we will probably mark the company's 80th year in business. Julie.

Julie Stephenson: Thank you, Kevin. I'd like to start this quarter's commentary by highlighting our exceptional loss ratio results. The underlying loss ratio improved 1.9 points to 56% in the third quarter and improved 2 points to 56.7% year-to-date, compared to the same periods last year. These excellent results are the outcome of consistently strong earned rate achievement, disciplined and specialized underwriting and favorable frequency trends across our portfolio. Additionally, we achieved these results while continuing to position ourselves conservatively within our actuarial estimates for the current year. Overall, prior year reserve development was neutral in the third quarter. Favorable results across several lines of business, including auto, property and BOP were offset by strengthening in certain casualty lines to guard against the uncertainties associated with higher levels of observed severity and inflation. We continue to take opportunities to build a conservative position in our loss reserves that has gradually increased over time within the actual range of indications. We experienced another exceptional outcome this quarter with a catastrophe loss ratio of 1.3%, which was well below our expectations and both the 5-year and 10-year averages. While we certainly got some help from Mother Nature this quarter, we believe our recent underwriting and portfolio management efforts have contributed to this favorable outcome. As we mentioned last quarter, we have made significant progress in improving our deductible profile across the property portfolio. This shift has a material benefit on an accumulation of claim outcomes associated with catastrophic events. I'm pleased to be able to show continued progress in improving our property catastrophe risk profile and reported results. Turning our attention to an equally strong production quarter. Net written premium grew 7% in the quarter, led by growth in our core commercial business of 22%. Core commercial, which includes small business, middle market and construction continued to deliver excellent production results with a strong contribution from new business, accounting for 27% of our third quarter premium. As we deepen relationships with our distribution partners, expand our capabilities and demonstrate the depth of our underwriting expertise, we see a wider range of new business opportunities that have been submitted previously. Not only have these new opportunities provided additional growth, but the performance of this business is also proving to contribute favorable margins to core commercial. Retention was 86% in the third quarter, consistent with results achieved in the second quarter and reflective of our confidence in the portfolio while still allowing for continued refinement of the book. As indicated by our underlying loss ratio, our current portfolio is well positioned to support our objective of consistent profitable growth over the long term. Third quarter rate increases of 5.8% moderated, but continue to offer strong returns across all core commercial business units. While some downward pressure on rate is evident, our portfolio is less subject to the more dramatic swings in rate being reported for larger risks. Our portfolio is expanding to include more complex risks. However, we remain committed to the small business and middle market space, with less than 1% of our accounts above $500,000. Our view of loss trends is fairly consistent from prior quarter. Favorable frequency trends continued with recent results showing further improvement. While we are subject to industry severity pressures, our underwriting efforts are delivering stabilizing and moderating severity outcomes. Overall, we are pleased with the current margins across the core commercial business and continue to maintain a disciplined poster in managing this portfolio. Specialty excess and surplus lines premiums were down slightly compared to prior year after strong growth in the first half of the year. Competitive pressure persists in the E&S; market as casualty pricing remains robust, while property rates continue to moderate. We continue to actively pursue moderate hazard opportunities in both property and casualty to balance the volatility of the portfolio over time. Surety continued to grow in the quarter while demonstrating the underwriting discipline necessary for ongoing success. The construction industry remains strong. We continue to be vigilant for the impacts of tariffs, material cost inflation and labor supply on the sector. Alternative distribution continues to provide UFG with profitable business through 3 primary channels: treaty; programs; and funds at Lloyd's. Premium volume was relatively steady in the third quarter compared to the 2 prior quarters of 2025, but down compared to an elevated quarter last year. Net written premium is slightly down year-over-year as we remain selective to ensure the capacity deployed in this space

meets our profitability objectives. In 2025, we have chosen to non-renew a small number of treaties that no longer met our profitability standards along with some turnover in our program business. We will continue to prioritize generating target returns ahead of growth. I'll 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 third quarter with our high-quality fixed income portfolio generating 17% more income than in the prior year. Extensive portfolio repositioning actions in 2024 have generated favorable tailwinds, while the third quarter new purchase yields of 5% exceeded the overall portfolio yield by approximately 60 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 limited partnership investments generated a strong return of $2.7 million in the quarter, an annualized return exceeding 10%. Turning to the expense ratio. The third quarter result of 34.6% improved 1.3 points from prior year, reflecting the benefits of ongoing growth and disciplined management actions. While there will be occasional lumpiness in the expense ratio, we expect our ongoing actions to result in a gradual reduction of the expense ratio over time. Third quarter net income was $1.49 per diluted share with non-GAAP adjusted operating income of $1.50 per diluted share. This quarter's earnings improved book value per common share to $35.22. Adjusted book value per share, which excludes the impact of unrealized investment losses, grew $1.41 to $36.34 at quarter end. From a capital management perspective, during the third quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of August 29, 2025. This concludes our prepared remarks. I will now have the operator open the line for questions.

Operator: [Operator Instructions] Our first question today is from Paul Newsome with Piper Sandler.

Jon Paul Newsome: Congrats on the quarter. I was hoping you could start off with kind of a big picture question. We are clearly entering into a soft market. And I was wondering if you had any thoughts about how United Fire would be adjusting its strategy into the soft market? I'm afraid, I can't hear you.

Operator: Pardon me, this is the conference operator. Please stand by, the speaker's line as apparently having some audio issues. [Technical Difficulty]. Pardon me, this is the conference operator. We've rejoined the speakers into the call.

Kevin Leidwinger: Paul, it's Kevin. Sorry for the brief technical delay there. But just to restate your question, you were looking for some broader perspective about UFG's strategy as we transition into a moderating or softening market. So let me just take the sort of high-level perspective, and then we can talk about how that might evolve into the changes that you might be looking for. So from a strategic point of view, we've been taking the steps necessary to, I think, achieve 2 fundamental things. The first is to deliver superior financial and operational performance. And then the second thing is to increase relevance with our distribution partners that will gain us access to a wider range of business opportunities. So when we think about superior financial and operational performance, we really focus on 5 key elements: And that's delivering consistent profitability over an extended period of time; diversifying growth across the entire landscape of our portfolio; attracting our training talent; innovation and expense management. And we believe if we focus on those things, that will result in our ability to deliver 15% ROE over an extended period of time. With respect to relevance, it's an interesting dynamic for the company because we've been evolving from a generalist to a specialist. And in some quarters, we were also considered the last stop before E&S.; And so from my vantage point, being a generalist and the last stop from E&S; is a bad combination. And that takes us down the path of evolving into the business unit contract that we've been talking with you about over the last several years. And through that process, that allows us to deepen our underwriting expertise, align risk control claims capabilities and then position the organization to develop additional capabilities around product and service to meet the specific needs of those customers. Now I share all that with you as background for how I think the company is really well positioned to navigate through the evolving market dynamics. And clearly, we're positioning ourselves in a way where the deep expertise and the capability expansion are affording us the opportunity to see a wider range of business, allowing us to compete for a wider range of opportunities. And we've got now also the actuarial capabilities behind all of that to help us understand the pricing dynamics and the profitability dynamics that will allow us to continue to deliver long-term profitability. And so Julie, if you have any additional color you want to add?

Julie Stephenson: The only thing I'd add to that is just as the composition of the portfolio has changed. If you look at the book today, over 45% of the core commercial book is made up from policies that we wrote between '23 and Q3 of '25. And so if we think about that business and how much of that portfolio was written -- underwritten under our tight underwriting guidelines and we feel are appropriate pricing levels, it just gives us a greater degree of confidence that we'll be able to navigate as the market continues to moderate.

Jon Paul Newsome: I guess the related question would be any thoughts or potential changes in capital management philosophy and buyback sector, I think or shift towards M&A; or anything that you think from a capital management perspective as we go into a different environment?

Eric Martin: Thanks, Paul. This is Eric. Really no changes on our end. We've had a focus here on making sure we've got the right amount of capital to continue to grow. That's going to be our first priority. And after that, we're going to make sure we continue with our dividend philosophy as we move forward here. So really no changes in our overall capital management approach.

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, thank you. And as we've all mentioned, I think throughout the course of the morning, we had an outstanding quarter, and we are well positioned to carry the momentum through the end of this year and into 2026. And so thank you for joining us this morning, and we look forward to speaking with you next quarter.

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