United Fire Group, Inc.

2023 Fourth Quarter Conference

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CORPORATE PARTICIPANTS

Tim Borst – *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 2023 Fourth 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 a touchtone phone. To withdraw your question, if need be, please press star then two. Please note, this event is being recorded.

And now, I would like to turn the conference over to Tim Borst. Please go ahead.

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. The company cautions investors that any forward-looking statements include risks and uncertainties and are not a guarantee of future performance. 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.

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 in more detail and Eric Martin will discuss our financial results.

I'm pleased with our fourth quarter results as the incremental improvement in profitability, continued growth and progress we've made to deepen our expertise, as well as drive operational efficiency further position UFG to deliver superior financial and operational performance over time.

In the fourth quarter, net written premium grew 5% to $247 million, led by our core commercial and assumed reinsurance business units. Core commercial production remained strong with increased new business and improved retention compared to the fourth quarter of 2022. In addition, average renewal premium increases accelerated to 11.6%, exceeding loss trends. On a full year basis, increased production trends led to net written premium growth of 8%, just over $1 billion, the highest level since 2019.

The combined ratio in the fourth quarter was 99.2%, the lowest in the last 7 quarters. Catastrophe losses contributed 1.5% to the combined ratio, well below historical averages. Prior period reserves increased

$8.8 million or 3.3% on the combined ratio due to a few late developing property claims, as well as severity pressure in a few casualty lines.

The underlying loss ratio was 60% in the fourth quarter, the lowest of 2023. Core commercial results show early signs of improvement resulting from our strategic efforts to deliver consistent long-term profitability and helped to offset elevated surety loss activity, bringing our full year underlying loss ratio to 62.2%.

Expense ratio in the fourth quarter was 34.4%, the lowest in 2023, as we continue to sustainably reduce expenses. In addition to ongoing disciplined vacancy management, we completed a voluntary early retirement program in the fourth quarter that contributed to a 22% decline in enterprise workforce and will provide more impactful benefit to our expense ratio in 2024. Our reported 2023 expense ratio was slightly elevated to prior year on both a quarterly and full year basis, largely due to one-time items that benefited 2022 expense ratio, offsetting the impact of our actions to reduce expenses in 2023.

In addition to the incremental improvement in profitability and continued growth, UFG also benefited from capital market conditions in the fourth quarter. Increases in fixed maturity income and higher valuation on limited partnership investments increased fourth quarter net investment income to $19.1 million, the highest since exiting the life insurance business in 2018.

Improved bond valuations reduced UFG's unrealized loss position by over 40% in the fourth quarter, improving book value per share by over $2 per share compared to the third quarter of 2023.

In the fourth quarter, we continued to evolve the company through strategic investments and leadership talent to increase the depth of our underwriting, actuarial and claims expertise. We also continue to enhance our organizational structure to improve specialization and achieve a higher level of efficiency with more streamlined processes. More recently, we successfully placed our 2024 reinsurance programs on January 1, 2024. In addition, we announced the partnership with New England Asset Management to manage our investment portfolio.

As we enter the new year, I'm proud of the progress we're making at UFG. While these actions are not yet fully reflected in our financial results, we remain confident in the path forward and committed to achieving superior performance over time by delivering deep underwriting expertise with the personal relationships and responsive service that are so greatly valued by our agency partners.

With that, I'll hand it over to Julie Stephenson, our Chief Operating Officer, to discuss our underwriting results in more detail.

Julie Stephenson
Thank you, Kevin. Starting with growth, net written premium in our core commercial business, which includes small business, middle market and construction, grew 7% to $162 million in the fourth quarter compared to prior year with all dimensions of production contributing. Improved production trends supported growth on a full year basis as well, with core commercial net written premium growing 7% to $724 million.

Renewal premium change in our core commercial business continued its quarter-over-quarter acceleration to 11.6% in the fourth quarter, as we remain focused on price adequacy across all lines of business. Commercial property recorded a fourth quarter renewal premium change of 24%, with rate increases of 19% and exposure increases of 5%. Workers' compensation price change was negative, but to a lesser degree than the first three quarters of 2023.

Retention in our core commercial business was 80% in the fourth quarter and approximately 83% for the full year, which supports healthy growth, but still allows for responsible pruning of accounts that no longer meet our pricing needs or risk profile.

Core commercial new business of $28 million in the fourth quarter of 2023 remained well above prior year compared to $22 million in the fourth quarter of 2022. I remain pleased with the quality of accounts and the line of business and industry segment mix we're adding to the portfolio.

Our alternative distribution portfolio grew net written premium 9% in the fourth quarter and grew 27% for the full year as we continue to execute our strategy to deliver diversifying profitable growth to the organization. Specialty excess and surplus lines net written premiums declined from a year ago for the fourth quarter and full year, as we continued repositioning our portfolio to reflect a mix of business that will produce more sustainable, consistent profitability.

Surety net written premium declined in the fourth quarter and the full year compared to prior year because of increased reinsurance costs, while direct written premiums increased for both the quarter and full year, despite short-term staffing challenges. In the fourth quarter, we introduced a new regional underwriting structure and made additional investments in surety leadership to enhance underwriting governance and consistency and strengthen distribution relationships.

The underlying loss ratio declined sequentially from the third quarter to 60% in the fourth quarter, which was flat to prior year due to property large losses coming in better than expected, frequency improving across our core commercial lines and continued rate achievement delivering more noticeable benefits on our results. These improving core commercial lines results brought our full year underlying loss ratio to 62.2%. The approximately three-point increase in the full year underlying loss ratio from prior year was primarily driven by the increased surety loss activity discussed in previous quarters. However, our core commercial business shows improvement over prior year, reflecting underwriting actions to improve this portfolio.

In the fourth quarter, we experienced $8.8 million or 3.3 points of prior-period development. The majority of this impact came from our property portfolio, where we saw a few late developing large losses from 2022. There were some smaller increases in umbrella and construction defect as we continue to see increasing pressure on liability severity driven by factors influencing social inflation and modest increases in medical costs. There was also a small benefit from stabilizing auto severity trends in recent accident years.

Workers' compensation shows adverse results this quarter as we reflected a modest increase in our outlook on severity. Although early observations of severity for 2023 and 2022 are still within our expectations, we've updated our prospective view of trend, resulting from an observed increase in medical and indemnity pressure in accident years 2018 to 2021.

Our adjustment to recent periods reflects a proactive stance to moderate the effect of potential emerging trends. While this adjustment shows a material impact on the loss ratio for the quarter given the relatively small premium volume for this line, the year-to-date result is a better reflection of our ongoing expectations and supports a continued profitable outlook.

The catastrophe loss ratio was light in the fourth quarter at 1.5%. Despite our full year cat loss ratio at 6.2% being below 5- and 10-year historic averages, we continue to take action on severe convective storm and hurricane risk by improving our risk profiles, raising deductibles, driving pricing increases in high-risk geographies and non-renewing accounts that do not meet our expectations.

In the fourth quarter, we continued to make strategic investments in talent and evolve our organizational structure. We created a new Head of Field Operations role focused on driving underwriting execution and fostering productive distribution relationships in the field. We welcomed a new Chief Underrating Officer and a new Construction Business Unit Leader to deepen our underwriting expertise and drive profitable growth.

Our Chief Actuary continued to build out his actuarial team, adding new leaders for pricing, reserving and reinsurance. Earlier this month, we combined Information Technology and Business Enablement teams under a new Chief Administrative Officer, to evolve how we leverage technology across our business, improve processes and drive efficiency across UFG.

Finally, we are pleased with the successful renewal of our multiline catastrophe and surety reinsurance programs on January 1. Overall, we reduced the retention on our cat excess of loss treaty to $20 million by fully placing the first layer and improved other terms and conditions with a modest increase in risk-adjusted pricing that outperformed our expectations.

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

Eric Martin
Thank you, Julie. I will first provide some additional commentary on the expense ratio. As you know, we've been intensely focused on reducing the expense ratio as part of our broader corporate strategies to deliver sustainable, profitable growth. The most significant of these impacts is a significant decline in headcount since the beginning of the fourth quarter of 2022.

Due to thoughtful management of attrition and the completion of a voluntary early retirement program in the fourth quarter, our headcount has declined from more than 1,100 to around 850 at the end of 2023. These reductions will provide more impactful benefits to our expense ratio in 2024.

Our actions to reduce the expense ratio through expense management and operational leverage from premium growth reduced our run rate fourth quarter expense ratio by over a full point and full year expense ratio by over two points. While this positive momentum builds, our reported expense ratio of 34.4% for the fourth quarter and 34.9% for the full year were both a few tenths of a point above prior year levels, primarily because of a favorable one-time impact to 2022 results from a change in design of employee post-retirement benefits that we have previously discussed.

Turning to the investment portfolio, invested assets ended the fourth quarter at $1.9 billion, approximately 90% of which is allocated to a high-quality fixed income book. Net investment income was $19.1 million in the fourth quarter, up 48% compared to the fourth quarter of 2022. We continue to realize the benefits of investing in a higher interest rate environment with new money yields exceeding 6% in the fourth quarter.

We also experienced positive valuation impacts on our limited partnership portfolio of $3 million in the fourth quarter, along with realized gains of $4 million as favorable equity market returns increased the value of our core equity portfolio. These favorable trends benefited full year net investment income as well, which increased 33% to $60 million as compared to 2022.

Earlier this month, we announced a partnership with New England Asset Management to manage our investment portfolio, providing UFG with a cost-effective and scalable way to manage assets. We intend to maintain a consistent investment strategy with a high-quality portfolio.

Fourth quarter net income was $0.77 per diluted share and non-GAAP adjusted operating income of

$0.65 per diluted share. Fourth quarter earnings and the significant improvement in our unrealized loss position increased book value per common share to $29.04.

During the fourth quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of December 1, 2023, continuing our 55-year history of paying dividends back to March 1968.

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

QUESTIONS AND ANSWERS

Operator
Thank you very much. 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.

Our first question comes from Paul Newsome from Piper Sandler. Paul, please go ahead.

Paul Newsome
Good morning. Thanks for the call. Congratulations on the quarter. I was hoping you could talk a little bit more about the headcount decline. Is there any sort of areas of the firm that it was more pronounced than other places?

Eric Martin
Thank you, Paul. Good morning. This is Eric Martin. Really not more pronounced anywhere in one area or the other. As we mentioned, we offered an early retirement program late in 2023 and we had about 120 people take us up on that. That was pretty well across the board. We also had a small downsize in our IT team, that was maybe about 40 people that came also late in the year. So, maybe a little bit heavier there, but overall, just kind of across the organization.

Paul Newsome
Great. Maybe we could delve a little bit more into the reserve development. Certainly, the question of the quarter for the industry has been related to casualty reserves and particularly social inflation kind of questions. Looks like you had a little of that yourself in the umbrella and construction defect. Could you talk a little bit about sort of how you're thinking about the claims cost inflation in those areas? I think you are fairly heavily casualty-focused book in general. So maybe some thoughts there.

Julie Stephenson
Thanks, Paul. Hey, it's Julie. From a liability perspective, I think we see this move— it's not terribly extreme in magnitude. We do see that continued pressure on severity in our construction defect and umbrella, but this is really our move to stay ahead of it. We can certainly point to the increased severity in accident years 2016 and 2019 that were certainly driven by social inflationary effects, but we think that the prior actions we took earlier in the year leave us in a good position for those accident years.

So, this movement for the quarter is really more about updating our view of trend in the most recent accident years, so 2022 and 2023. So, we see this as more of a proactive stance, sort of staying true to our philosophy of getting ahead of adverse news quickly and responding slowly to favorable news, but we don't see anything really here that we would see as problematic.

Paul Newsome
That makes sense. Where do you peg loss trend for these sorts of types of books at this point?

Julie Stephenson
Yeah, I think we see it in the mid-single digits for now and certainly, are focused on making sure that our ongoing pricing is keeping pace with trend and our liability lines. That's a focus.

Paul Newsome
Turning to the workers' comp piece, was there any change in sort of the— it seems like every year, there's a decline in frequency for workers' comp in general. Any change in your book from a frequency perspective for workers' comp?

Julie Stephenson
No, we still see the frequency trends coming down and certainly, pleased to do that. So even though we're experiencing persistently decreasing rates there, that negative frequency is outpacing that trend. So, we're pleased with that. I think what we saw is some upward pressure on severity, which is what you see reflected in our decision to proactively update our view of trend in the most recent accident years.

Paul Newsome
And last one, I'll let other folks ask the question. I missed the comments you made on the assumed reinsurance book. What's going on with that business at the moment?

Julie Stephenson
I'm sorry, Paul. Can you repeat the question? We're having a little hard time hearing you.

Paul Newsome
Sorry. Could you talk a little bit about the assumed reinsurance book? I missed the comments you made on that and how that book is performing of late?

Julie Stephenson
Absolutely. So, I can tell you a little bit about our most recent renewal. We feel pretty good about that program coming into 2024. We did see growth. About 70% of our assumed book renewed at 1/1 and we felt very good about the terms and conditions and the growth that we were able to achieve in that book. So, still staying very consistent to our goal of keeping that portfolio about 25% of our overall portfolio and count on it to continue to provide diversifying impact across the whole book.

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

Operator
Just a reminder that if you want to ask a question, press star one and if you want to withdraw, star two.

CONCLUSION

Operator
We are finished then with the question and answer session. I will turn the conference back over to Kevin Leidwinger, CEO of UFG, for some closing remarks. Thank you.

Kevin Leidwinger
Yes. Thank you and thank you for joining us today. We'll talk to you next quarter. Thank you.

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