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AFG.N - Q3 2025 American Financial Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2025 third quarter results conference call. (Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Diane Weidner, Vice President, Investor Relations. Please go ahead.

Diane Weidner - *American Financial Group Inc - Vice President of Investor Relations*

Good morning, and welcome to American Financial Group's third quarter 2025 earnings results conference call. We released our results yesterday afternoon. Our press release, investor supplement, and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group, and Brian Hertzman, AFG's CFO. Before I turn the discussion over to Carl, I would like to draw your attention to the notes on slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause our actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or in responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release.

And finally, if you're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, and as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Good morning. I'll begin by sharing a few highlights of AFG's 2025 third quarter results, after which Craig and I will walk through more details. We'll then open it up for Q&A, where Craig, Brian, and I will be happy to respond to your questions.

We're pleased to report an annualized core operating return on equity of 19% for the third quarter. Our underwriting margins in our Specialty Property and Casualty insurance businesses were strong. Net investment income increased by 5% year over year, despite muted returns from our alternative investment portfolio when compared to the long-term historical performance of those investments.

Our compelling mix of specialty insurance businesses, entrepreneurial culture, disciplined operating philosophy, and an astute team of in-house investment professionals continue to position us well for the future and enable us to continue to create value for our shareholders. Craig and I thank God, our talented management team, and our great employees for helping us to achieve these results.

I'll now turn the discussion over to Craig to walk us through some of the details.

Craig Lindner - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Thank you, Carl.

Please turn to slides 3 and 4 for third quarter highlights.

AFG reported core net operating earnings of $2.69 per share, compared to $2.31 per share in the prior year period, a 16% increase.

I'll begin with an overview of AFG's investment portfolio, investment performance, and share a few comments about AFG's financial position, capital, and liquidity.

The details surrounding our $16.8 billion portfolio are presented on slides 5 and 6. Net investment income in our Property and Casualty insurance operations for the three months ended September 30, 2025, increased 5% year over year as a result of higher interest rates and higher balances of invested assets.

As shown on slide 6, nearly two-thirds of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 5.25%. The duration of our P&C fixed maturity portfolio, including cash and cash equivalents was 2.7 years at September 30, 2025. The annualized return on alternative investments in our P&C portfolio was approximately 6.2% for the 2025 third quarter, compared to 5.4% for the prior year quarter.

Although the overall return on our multi-family investments continued to be tempered by challenges within the broader economic environment, we're seeing evidence of recovery. Strong occupancy, a return to historical levels of lease renewals, and more stability in the overall rental rate environment contribute to improving conditions, despite a prolonged softer market caused by excess supply of new properties in several of our targeted regions.

Importantly, a large portion of our portfolio of multi-family properties is located in desirable geographies with strong job and wage growth. Although the supply of properties in these locations is elevated as compared to historical levels, new starts have declined significantly and at a faster pace than in other regions. We believe that tightening supply and a significantly reduced development pipeline will drive higher rental and occupancy rates and improved results by the end of 2026.

Longer term, we continue to be optimistic regarding the prospects of attractive returns from our overall alternative investment portfolio, with an expectation of annual returns averaging 10% or better.

Please turn to slide 7, where you'll find a summary of AFG's financial position at September 30, 2025.

During the third quarter, we returned $66 million to our shareholders through the payment of our regular quarterly dividend. In October, AFG's regular quarterly dividend was increased 10% over the previously declared rate to $0.88 per share and paid on October 24, 2025.

In conjunction with our earnings release, we declared a special dividend of $2.00 per share, payable on November 26, 2025, to shareholders of record on November 17, 2025. The aggregate amount of the special dividend will be approximately $167 million. With this special dividend, the company has declared $54.00 per share, or $4.6 billion, in special dividends since the beginning of 2021.

Carl and I consider these special dividends to be an important component of total shareholder return. We expect our operations to continue to generate significant excess capital throughout the remainder of 2025 and into 2026, which provides ample opportunity for acquisitions, special dividends, or share repurchases over the next year. We evaluate the best alternatives for capital deployment on a regular basis. We continue to view total value creation, as measured by growth in book value plus dividends as an important measure of performance over the longer term. For the nine months ended September 30, 2025, AFG's growth in book value per share excluding AOCI plus dividends was nearly 11%.

I will now turn the call over to Carl to discuss the results of our P&C operations.

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Thank you, Craig.

Please turn to slides 8 and 9 of the webcast, which include an overview of our third quarter results. Our commitment to underwriting discipline and prudent growth was evident in the solid performance of our Property and Casualty businesses in the third quarter. We're finding attractive opportunities to grow our Specialty Property and Casualty businesses despite walking away from challenging market conditions in a few markets or poorly performing accounts.

I'm pleased with the overall underwriting profitability in our Specialty Property and Casualty businesses in the third quarter of this year, and we remain confident about the strength of our reserves. A continued favorable pricing environment, increased exposures, and new business opportunities enabled us to selectively grow our Specialty Property and Casualty businesses, although the timing of reporting of crop acreage by our insureds shifted some crop premium from the third quarter to the second quarter, as we discussed on last quarter's call. This tempered premium growth in the third quarter. We continue to expect premium growth for the full year in 2025 in the low-single digits. In addition to organic growth opportunities and evaluating acquisitions, we always try to maintain a pipeline of start-ups that have the potential to become new business units in our portfolio of specialty businesses. Taking an early look at next year, we currently project 2026 premium growth to rebound as we're optimistic about the growth from these start-ups and the near completion of numerous underwriting actions taken in our Specialty Casualty businesses.

Turning to slide 8, you'll see that underwriting profit in our Specialty Property and Casualty insurance businesses grew 19% and generated a 93.0% combined ratio in the third quarter of 2025, an improvement of 1.3 points from the prior year period. Results for the 2025 third quarter include 1.2 points related to catastrophe losses compared to 4.4 points in last year's third quarter. Third quarter 2025 results benefited from 1.2 points of favorable prior year reserve development, compared to 0.8 points in the third quarter of 2024. Third quarter gross and net written premiums were down 2% and 4%, respectively, when compared to the third quarter of last year. Excluding our crop business, gross written premiums grew 3% and net written premiums were flat year-over-year. Average renewal pricing across our Property and Casualty group was up approximately 5% in the third quarter, both including and excluding workers' comp. We've reported overall renewal rate increases for 37 consecutive quarters and we believe we are achieving overall renewal rate increases in excess of prospective loss ratio trends to meet or exceed our targeted returns.

Now I'd like to turn to slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. Details are included in our earnings release, so I'll focus on summary results here. The businesses in the Property and Transportation Group achieved a solid 94.1% calendar year combined ratio in the third quarter of 2025, an improvement of 2.7 points from the comparable 2024 period. This group's third quarter 2025 combined ratio included four tenths of a point attributed to catastrophe losses, compared to 3.7 points in the 2024 third quarter, which was the primary driver of the improved year-over-year profitability.

Third quarter 2025 gross and net written premiums in this group were 6% and 9% lower, respectively, than the comparable prior year period. As mentioned before, the earlier reporting of crop acreage by insureds impacted the timing of the recording of crop premiums and contributed to the year-over-year decrease, particularly when compared to later reporting of acreage the previous year. Excluding the crop business, gross written premiums in this group grew by 2% and net written premiums were flat. We continued to see new business opportunities, a favorable rate environment, and increased exposures in our transportation businesses.

Overall renewal rates in this group increased 6% on average in the third quarter of 2025. We continue to remain focused on rate adequacy, particularly in our commercial auto liability line of business, where rates were up approximately 11% in the third quarter. In our crop business, harvest pricing for corn and soybeans settled 10% and 2% lower, respectively, than spring discovery pricing, which is well within acceptable ranges, and yield expectations are steady. Based on these factors, we continue to anticipate an average crop year.

Our third quarter results reflect an element of seasonality, as most of our crop insurance premiums are earned in AFG's third quarter but booked at a more conservative combined ratio until the fourth quarter. Over the coming weeks, we'll have better visibility into actual yields and claim activity in our MPCI businesses, and we'll also have a clearer indication of the performance of our private products business. With this more complete picture, we'll record the majority of our calendar year crop profitability in the fourth quarter, as is our standard practice.

The businesses in our Specialty Casualty Group achieved a 95.8% calendar year combined ratio overall in the third quarter, 3.7 points higher than the 92.1% reported in the comparable period in 2024.

Third quarter gross written premiums increased 3% and net written premiums were flat compared to the same prior year period. The primary drivers of growth included new business opportunities and favorable renewal pricing in several of our targeted markets businesses and an increase in M&A activity that contributed to growth in our mergers and acquisitions business. This growth was tempered by lower premiums in our excess and surplus, executive liability, and social services businesses.

Overall renewal pricing in this group was up approximately 7% during the third quarter, an increase of about a point from the previous quarter. Average renewal pricing excluding workers' comp was up approximately 8%, in line with pricing in the second quarter. And I'm pleased that we again achieved renewal rate increases in the mid-teens in our most social inflation-exposed businesses, including our social services and excess liability businesses. In addition, our workers' compensation businesses collectively achieved a modest pricing increase during the quarter, a favorable trend. Several businesses in this group, particularly our excess liability businesses, have been navigating the challenges of social inflation for several years and have demonstrated their nimbleness and resilience through this cycle. Over the last five years, one of our largest excess liability businesses has decreased aggregate limits by 25%, while more than doubling premium, primarily as a result of rate increases.

We're continuing to exercise discipline through the use of predictive analytics, risk selection, and careful coordination between our underwriting, actuarial, and claims professionals to ensure that our businesses are earning targeted returns.

The Specialty Financial Group continued to achieve excellent underwriting margins and reported a combined ratio of 81.1% for the third quarter of 2025, 11.2 points better than the comparable period in 2024. These results reflect 4.1 points related to catastrophe losses, compared to 14.4 points in the prior year period, contributing to higher year-over-year underwriting profitability in our financial institutions business.

Third quarter gross and net written premiums in this group were up 3% and 1%, respectively, when compared to the prior year period. The growth is primarily attributed to our growth in our financial institutions business and our Great American Europe business, which designs and delivers a broad portfolio of innovative and customized insurance programs across the UK and Europe. Net written premiums were tempered by our decision to cede more of the coastal-exposed property business and our lender services business. Renewal pricing in this group was down approximately 2% in the third quarter, reflecting the strong margins earned overall in these businesses.

Craig and I are proud of our history of long-term value creation. We have years of experience navigating economic and insurance cycles. Our insurance professionals continue to exercise their Specialty Property and Casualty knowledge and experience to successfully compete in a dynamic marketplace. And our in-house investment team has been both strategic and opportunistic in the management of our $17 billion investment portfolio. One of our greatest strengths is finding opportunities in times of uncertainty. We're well positioned to continue to build long-term value for our shareholders for the remainder of 2025 and beyond.

Now we'll open the lines for the Q&A portion of today's call, and Craig and Brian and I will be happy to respond to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Mike Zaremski of BMO Capital Markets.

Mike Zaremski - *BMO Capital Markets - Analyst*

Hi, thanks. Good morning, everybody. First question on capital management. We clearly saw the special dividend announcement, but curious why there were no buybacks or not material buybacks in the quarter? Last quarter, you had done buybacks and valuation wasn't too dissimilar from the average this quarter, is my understanding. So just curious, any color there and do you expect repurchases to resume, depending on your, I guess, your answer?

Craig Lindner - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Yeah. Mike, this is Craig. What I would say is if you look at our history of purchases, we become very active when the stock is trading at a very significant discount to what we believe is the appropriate value. There have been periods when we have repurchased very large amounts of shares or a period back in I think it was 2008 through 2010, we repurchased around 30% of our shares at a very attractive level. So I wouldn't read too much into one quarter's repurchases or lack of repurchases. What I would say is, we've retained a lot of dry powder to be able to take advantage of the opportunity to repurchase shares if it presents itself.

Mike Zaremski - *BMO Capital Markets - Analyst*

Okay. That's helpful, Craig. Pivoting to the operating environment on the P&C side, I thought it's a good comment to hear, but I thought it was a bit surprising. At least we got some reaction last night from investors when you said that pricing was about 5% with and without comp, and you believe you're achieving rate in excess of prospective loss trends, just because most -- many companies, and I think if you look at triangles too, would kind of estimate loss trend is north of 5%. Any commentary you'd like to elaborate there on in terms of my assumption there?

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

I can't speak for other companies. I can speak for us, and an overall 5% price increase is still exceeding our prospective loss ratio trends. We have a decent chunk of our business in workers' comp where loss ratio trends are really pretty benign. And a lot of other businesses -- we have a very diverse portfolio, so not all of our businesses reflect a casualty loss ratio trend. So I can only speak for our own mix of business and what our own actuaries tell us.

Mike Zaremski - *BMO Capital Markets - Analyst*

Got it. And so just that's helpful, Carl. And so sticking to kind of loss trend and pricing, if we can kind of try to laser in on some of the lines of business that have been causing more friction over the past year for you all and the industry. Obviously, appreciate your ROE. AFG's ROE is industry-leading. But if we think about the social inflationary lines of business, are we seeing pricing which had been accelerating, kind of stopping its acceleration trend? And do you believe loss cost trend is kind of remaining stable? Or are we continuing to see some upwards bias? It's looking at the underlying loss ratio in Specialty Casualty, for example, the trend line there, moving a bit north? Thanks.

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Again, with 30 plus businesses, we adjust loss ratio trends every quarter. We do actuarial evaluations and evaluations in the business, and some loss ratio trends improve. Other loss ratio trends, particularly in social inflation exposed businesses, we're very careful about trying to be conservative enough to consider pricing. So I think not a lot of changes. I don't think, over the past couple of quarters, in overall loss ratio trends, but some businesses would have improved. Some businesses would have increased a little bit.

In our case, the part of our business where we had a slight decline was in our Specialty Financial business and particularly in our lender-placed property business, which at the big margins that business have earned for us. And after multi years of pretty significant rate increase, it's not surprising, that there was some plateauing of price on that business.

So compared to what a lot of the E&S market and some of the large property guys are seeing with price change, I'll take a couple percent decline on our lender-placed property business over the chunk of business that's seeing double-digit declines, if you understand what I'm saying. So I think that was one of the main drivers of our pricing being a little bit lower.

I think what I am happy about is the pricing in our Specialty Casualty excluding comp is still up 8% in the quarter. And to boot, yeah, I'm very pleased that we saw some price increase in our overall workers' comp book, particularly being led by California, clearly. And I think that California will probably only get better. Brian, you were telling me that they're going to be taking an 11% increase in, was it September?

Brian Hertzman - *American Financial Group Inc - Senior Vice President and Chief Financial Officer*

Effective September 1.

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Yeah, so I think that's the price increase there in California should just get better. I hope that gives you a little color.

Mike Zaremski - *BMO Capital Markets - Analyst*

That's great color. Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Andersen of Jefferies.

Andrew Andersen - *Jefferies LLC - Analyst*

Hey, good afternoon. Good morning. Maybe just back on the workers' comp, it was good to see that price tick up, and it sounds like California could see some further momentum. But perhaps we could touch on some other geographies. Are you seeing some pricing tick up a little bit elsewhere?

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

In our Strategic Comp business, which is a fairly sizable business, there was some positive price change there also. I think in the Southeast and the Summit business, it continues to be some kind of a mid-single-digit price decline.

Andrew Andersen - *Jefferies LLC - Analyst*

Okay. And maybe a bigger picture macro question just on crop. Pricing on corn and soybeans has been coming in for a couple of years, and I suppose that could partially be due to some change in trade policies. But I'd be interested in hearing your thoughts just kind of on the outlook, maybe intermediate term for crop premium and crop pricing as kind of trading with global partners changes?

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Well, I think you probably need a pretty good crystal ball trying to figure that out. You would think that probably, the trade aspect of soybeans is probably being reflected in the futures prices at this point, which would lead you to believe that premiums should be stable or maybe even increase. Corn, when you look at futures prices into '26, it looks to be pretty stable against spring discovery prices this year.

That said, we don't know until the actual 30-day average in the first quarter next year establishes spring discovery prices. But what I've seen so far, it seems like prices should be stable. Or if there's an improvement in the China relationship with the US, maybe soybean pricing continues to improve more.

Andrew Andersen - *Jefferies LLC - Analyst*

Thank you.

Operator

(Operator Instructions) Our next question comes from the line of Meyer Shields of Keefe, Bruyette & Woods. Your line is now open.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Great. Thank you so much. I also had two questions on crop. The first, I completely understand the comments about written premium having moved to the second quarter. I'm wondering whether there was a higher percentage of earned premiums in Property and Transportation this year rather than last year as a contributor to the higher attritional loss ratio?

Brian Hertzman - *American Financial Group Inc - Senior Vice President and Chief Financial Officer*

Hi, this is Brian. So if you remember, last year at this time, we were feeling pretty optimistic about the potential for above-average crop year. And then in the fourth quarter, there was some variation in harvest by county that caused us to end up at more of an average crop year. So we booked a little bit more crop income last year in the third quarter than we did this year in the third quarter.

So this year in the third quarter, we have about half of our crop premium earned for the year in the quarter, booked at close to a 100% combined ratio. If you pull out all the noise from crop, our accident year loss ratio for Property and Transportation actually improved due to lower frequency in our transportation and marine businesses. So if you kind of put the noise of crop to the side, we could see an improvement there in the loss ratio.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Okay, that's very helpful. Thanks. And I'm just wondering, bigger picture in crops, so there's a new participating insurance company over the last couple of years. Is that having any impact on the amount of premium you're getting from agents or maybe some agents moving along? I don't know how mobile we should think of that premium as being?

Carl H. Lindner III - *American Financial Group Inc - Co-Chief Executive Officer and Director*

Well, I think it probably impacted us marginally. What our guys would say is, they're probably getting some of the business that we'd be least excited about.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Okay, that's helpful. Thank you so much.

Operator

(Operator Instructions)

Okay, I'm showing no further questions at this time. I'll go ahead and turn the call back over to Diane Weidner for closing remarks.

Diane Weidner - *American Financial Group Inc - Vice President of Investor Relations*

Thank you all for participating today. We appreciate your questions and look forward to talking to you again next quarter when we share our fourth quarter results. Hope you have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.
