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Everest Group Ltd. (EG)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Matt Rohrmann

Senior Vice President, Finance/Investor Relations, Everest Group Ltd.

Good morning, everyone, and welcome to the Everest Group Limited First Quarter of 2024 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I'll preface the comments on today's call by noting that Everest SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I'll turn the call over to Juan.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

Thank you, Matt. Good morning, everyone. Thank you for joining us. We had a strong start to 2024. Our first quarter results included record underwriting profit and significant increases in operating income, net income and

investment income. This resulted in a total shareholder return exceeding 18% and an operating return on equity of 20%.

We drove margin expansion through rate increases that are meaningfully in excess of loss trend, targeted risk selection, portfolio and cycle management, exposure growth and with underwriting discipline. We accomplished this while consistently and purposefully maintaining conservatism in our loss picks. We are confident in how we have shaped our portfolio.

In reinsurance, we built on our preferred lead market position at the January 1 renewals and continued to distinguish Everest in the accelerating flight to quality. Our reinsurance portfolio is well-positioned and driving strong risk adjusted returns.

In insurance, we advanced our disciplined expansion in targeted markets while remaining focused on prudent risk selection and the bottom line. We are focused on our primary objective of delivering consistent, leading financial returns. With a three-year strategic plan, we laid out in the November 2023 Investor Day, Everest has entered a new chapter of profitable growth and opportunity, and we are well-positioned for the future with a focused strategy and great talent.

Now, I'll turn to the first quarter financial highlights, beginning with our group results. We delivered \$709 million in net operating income, a 60% increase from the prior year. Gross written premium increased by over 17% in constant dollars. Our growth in the quarter was broad based and reflects Everest diversification by segment, geography, business lines and distribution.

Growth was supported by best-in-class execution and our ability to take advantage of market conditions in reinsurance and insurance, particularly in property and specialty lines. Our underwriting performance was strong in the first quarter. We delivered \$409 million in underwriting profit. The group combined ratio was 88.8%, a significant improvement from last year. This is despite the industry incurring approximately \$20 billion in catastrophe losses in the quarter.

For Everest, pre-tax catastrophe losses, net of estimated recoveries and reinstatement premiums were \$85 million or just 2.3 points, a year-over-year decrease directly resulting from our portfolio optimization efforts. Everest catastrophe losses were primarily driven by the Francis Scott Key Bridge Collapse in Baltimore. With regard to investments, we generated net investment income of \$457 million, a new quarterly record.

Now turning to our reinsurance business. Reinsurance delivered significant top and bottom-line growth. Our success at the January 1 renewal gave us a running start to the year, delivering a higher quality, higher margin portfolio. We grew the reinsurance business in the first quarter over 20% on a constant dollar basis, with \$3.2 billion in gross written premiums. We increased underwriting profit to \$345 million with an 87.3% combined ratio. The attritional loss ratio and attritional combined ratio also [improved] to 57.2% and 84.4% respectively.

This quarter included pre-tax catastrophe losses of \$80 million net of estimated recoveries and reinstatement premiums. Both rate and terms and conditions remained at attractive levels, resulting in a portfolio that should continue to achieve excellent risk adjusted returns. We grew our total property portfolio significantly, building on meaningful increases in 2023. We expanded our portfolio in attractive specialty lines of business, particularly marine and aviation. We remain disciplined and surgical in our approach to certain casualty lines.

Our responsiveness, creativity, and constructive approach to the market once again set Everest apart. We deepen relationships with top two clients globally, while capturing incremental demand and growing share on

oversubscribed deals. We continued this positive momentum through the April renewals, resulting in high quality, broad-based growth, particularly in property lines, and excellent overall risk adjusted returns.

We capitalized on strong demand, expanding with core cedents, while also growing with targeted new partners. Consistent with the January renewal, we maintained discipline in certain casualty lines, non-renewing business that did not meet our thresholds.

Overall, the market remains disciplined, the trading conditions continued to be favorable, particularly in property and specialty lines. We continue to see incremental demand from cedents, and we are leaning into these opportunities. We expect risk adjusted returns to remain attractive through upcoming renewals and into 2025.

Now turning to insurance. We continue to unlock value in our primary insurance business, making solid strides in bringing our capabilities to new markets globally. We grew the insurance segment by 10% in constant dollars and generated over \$1.2 billion in premiums for the quarter.

Growth was diversified with 37% growth in property and 36% in specialty lines such as aviation, energy, surety and marine. We see strong rate and terms and conditions in these lines. Also due to strong rate increases, we saw modest growth in some casualty lines.

With a consistent emphasis on profitability, we focused on lines of business with favorable pricing and strong profit trajectories. We achieved a 12% rate increase across the portfolio, excluding workers' compensation and financial lines. Loss trends in casualty remain elevated, but they're stable, and pricing continues to meaningfully outpace our trend.

We continued to see rate acceleration across casualty lines, excluding financial lines. This was most pronounced in commercial auto liability, general liability and excess casualty lines. The rate increases in these three lines averaged mid-teens overall. The combined ratio at 93.1 resulted in an underwriting profit of \$64 million. The attritional loss ratio was 64%, reflecting our discipline and continued loss pick conservatism in casualty lines of business.

We also continued our proactive shift to our short tail lines, which we expect will benefit underlying margins throughout the remainder of the year. As I've said in the past, we will recognize bad news quickly and the good news from our positive portfolio rate actions will season overtime. We are focused on profitably growing in geographies and lines of business we find attractive while continuing to drive rate in excess of loss unit.

Our first quarter continued to demonstrate the strengths of Everest franchise and the results of our actions over the past four years. We see significant opportunities for our underwriting businesses globally and trading conditions remain favorable. I'm excited about the journey ahead for our business and our ability to continue delivering leading financial returns.

With that, I'll turn it over to Mark to review the financials in more detail.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

Thank you, Juan, and good morning, everyone. Everest is off to a strong start to 2024. We delivered significant growth in underwriting income, net investment income, operating income and net income for the first quarter. The strove operating EPS of \$16.32 and an operating ROE of 20%. The annualized TSR or total shareholder return was strong at 18.1%, despite modest foreign exchange headwinds.

The company's strong performance in the first quarter was led by our team's high level of execution and ability to capitalize on attractive opportunities. We have significant momentum behind us across both of our franchises, driven by excellent outcomes of recent renewals and our disciplined insurance expansion into target global markets.

Looking at the group results, Everest reported gross written premiums of \$4.4 billion, representing 17.2% growth in constant dollars and excluding reinstatement premiums. The combined ratio was 88.8% for the quarter, driven by an improved underlying loss ratio and lower cat losses. The cat losses in the quarter were largely driven by the Baltimore Bridge collapse, which contributed \$70 million to cat losses.

The group attritional loss ratio was 58.9%, a 90 basis point improvement over the prior year's quarter, with both segments contributing to the improvement. The group's commission ratio was 21.4%, consistent with the prior year. The group expense ratio improved 30 basis points to 6.1% in the quarter, an excellent result as we continue to invest in talent and systems within both franchises.

Moving to the segment results and starting with reinsurance. Gross written premiums grew 20.4% in constant dollars when adjusting for reinstatement premiums during the quarter. Growth in the quarter was consistent with the trends seen throughout the prior year, with strong and broad-based growth in property and specialty lines, while we continue to remain disciplined in certain casualty lines.

Property lines grew 31% in the quarter, while casualty lines grew 11% in the quarter. And we continue to see the written premium mix shift towards property and short tail lines, which now stands at 54% property and 46% casualty versus 50% property and 50% casualty in the prior year.

Growth will continue to favor short tail business as we trend throughout the year, which will be more pronounced on an earned basis. The combined ratio was 87.3%, an improvement of 350 basis points from the prior year. The attritional loss ratio improved 80 basis points to 57.2%, as we continue to achieve more favorable rate and terms, particularly in property and specialty lines. The attritional combined ratio improved 150 basis points to 84.4% during the quarter. Both the commission ratio and underwriting expense ratio improved modestly to 24.6% and 2.6% in the quarter, respectively.

Moving to insurance. Gross premiums written grew approximately 10% in constant dollars to \$1.2 billion. We continue to methodically scale our primary franchise globally, while proactively focusing our North American portfolio towards the most accretive lines of business led by retail property and short tail specialty lines.

The growth in casualty and professional lines was driven by rate increases, as a number of lines saw a continued price acceleration in the quarter. The attritional loss ratio stood at 64% this quarter, an improvement of 40 basis points from the prior year. The commission ratio was consistent with the prior year, while the underwriting-related expense ratio increased to 16.6%, driven by the continued investment in our global platform.

Moving on to investments. Net investment income increased nearly \$200 million year-over-year to \$457 million for the quarter, driven primarily by higher assets under management and higher new money yields versus maturing assets. Alternative assets generated \$74 million of net investment income, an improvement from the prior year as equity markets have continued to rebound.

Our overall book yield improved from 3.8% to 4.7% year-over-year, and our reinvestment rate remains north of 5% which is in excess of maturing security yields. We continue to have a short asset duration of approximately

3.4 years, given the attractive level of short rates. The investment portfolio remains well-positioned for the current environment and is supported by the compounding effect of strong underwriting income and cash flow. Our high-quality portfolio is built to generate strong returns on a consistent basis.

For the first quarter of 2024, our operating income tax rate was 12.2%, which was broadly in line with our working assumption for the year. Our capital strength gives us ample capacity for 2024 and positions us well for profitable organic growth. We opportunistically repurchased 90,000 shares in the quarter, amounting to \$35 million, with an average of \$387.64 per share. Shareholders equity ended the quarter at \$13.6 billion or \$14.5 billion when excluding net unrealized depreciation on available for sale fixed income securities.

At the end of the quarter, net after tax unrealized losses on the available for sale fixed income portfolio equates to approximately \$876 million, an increase of \$153 million as compared to the end of the fourth quarter resulting from interest rate increases. Cash flow from operations was \$1.1 billion during the quarter. Book value per share ended the quarter at \$313.55, an improvement of 3.6% from year-end 2023, when adjusted for dividends of \$1.75 per share year-to-date.

Book value per share, excluding net unrealized depreciation on available for sale fixed income securities stood at \$333.70 versus \$320.95 per share for year-end 2023, representing an increase of approximately 4%. Net debt leverage at quarter end stood at 15.8%, modestly lower on a sequential and year-over-year basis. In conclusion, Everest had an excellent start to the year. Market fundamentals remain attractive, and we have strong momentum across both underwriting franchises.

And with that, I'll turn the call back over to Matt.

Matt Rohrmann

Senior Vice President, Finance/Investor Relations, Everest Group Ltd.

Thanks, Mark. Operator, we are now ready to open the line for questions. We ask that you please limit your questions to one question plus one follow up and rejoin the queue if you have additional questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] Our first question comes from David Motemaden from Evercore ISI. David, please go ahead.

David Motemaden

Analyst, Evercore ISI

Q

Hi. Thanks. Good morning. I just had a question on the premium growth in property cat. I was a little surprised at the 4% growth. I thought it would have been more than that, just given how attractive market conditions are. Could you elaborate on what you're seeing? And it looks like you may have shifted a little bit more towards property pro rata. Maybe just talk about why you chose to grow that instead of property cat.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Sure. David, this is Jim Williamson. Thanks for the question. First of all, just on the property cat XOL growth that you're seeing printed in the quarter, that's really a premium recognition timing phenomenon. And so, if you look back at the June 2023 property cat renewal which was the Florida renewal, that was really the only renewal last year that we did not grow. And so, you're seeing that roll through the numbers in this quarter. All of the other renewal dates that we've experienced recently have shown strong growth.

And just to give you some of that perspective, at the January 1 renewal of this year, we grew our property cat business by 24%, which was just excellent. We did that at outstanding risk adjusted returns. And then we were able to continue that growth at the April 1 renewal where we grew, you know, globally just about 10%. And in our North America property business, we grew property cat by 76% again at outstanding risk adjusted economics. So, it's a little bit of a blip that way and my expectation obviously is it will work itself out as we go forward.

In terms of the Property Pro Rata part of your question, it's really not a matter of saying, okay, we now like Property Pro Rata better than Property Cat XOL for the reasons I just described. What it is, is starting really in the back half of last year, we saw just terrific economics in the primary property market, particularly in E&S space in North America. We leaned into that with our core clients and wrote bigger lines with some of the best underwriters in the market. And that's now flowing into our financials and we're picking it up in meaningful growth this quarter.

And then the other major contributor to Pro Rata Property growth is the expansion of our business in Asia, where we've traditionally been underweight. We're growing very nicely, again, with best-in-class underwriters in that market. And that market does tend to be more of a pro rata market and very much a property market. And so, you're seeing the effects of selecting some really outstanding deals in the Asia market.

David Motemaden

Analyst, Evercore ISI

Q

Got it. Understood. Thanks for that. Thanks for that clarification on the property cat growth. I appreciate it. And then maybe Juan, just on the attritional loss ratio in the insurance business. So, I caught that you're expecting that to come down over the course of the rest of the year as you shift to more short tail lines or that should benefit underlying margins throughout the remainder of the year.

Could you just elaborate on that a little bit and just maybe talk about what drove the 64% this quarter? I think you mentioned conservatism, but I was just wondering if you can just talk about that. And maybe also what sort of impact that has on your view of the 2020 through 2023 accident year, if at all?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Yeah. Thanks, David. This is Juan. Let me start and then I'll ask Mark Kociancic to add some color as well. I think the most important thing is really start with sort of the framework, right? So, we have been essentially running between a 63 and a 64 attritional loss ratio in insurance over the past two years. And so, there's couple of things.

One, in every quarter, you're going to have some timing and mix noise, but the fundamentals to our approach have remained consistent. And that's really the fact that we have been very disciplined underwriters, and we continue to remain conservative with our loss picks for casualty lines in both divisions, not only in insurance. And this is something that we have talked about in prior venues.

So, we're holding our loss picks longer across all lines of business, even if we see favorable loss experience in any given quarter, and we're going to continue to do that in a very disciplined and systematic manner. And so that's basically what you're seeing as far as the 64% here in the quarter. But let me ask Mark to add a little bit more on that.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Yeah. Thanks, Juan. Just a couple of things, Dave, to add to the equation. So, in addition to the conservatism and the prudence in the loss picks, we feel very good about the margin that we're building in the lines that we're writing. We're obviously tracking loss trend. I'll give you a couple high level points on that. But essentially, it's been elevated for a while for several quarters, but stable, broadly stable and rate has been meaningfully in excess of trends, and we feel good.

No issue on our side to have the extra, what we would call, level of prudence in those loss picks given the loss environment that Juan spoke about, spoke about during the Investor Day. I do think mix of business will eventually push the loss ratio mechanically lower as we are a bit more short tail lines to the mix overall. And that should happen, you know, throughout the year and a little bit more overtime over the three-year plan.

David Motemaden

Analyst, Evercore ISI

Q

Great. Thank you.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Thanks, Dave.

Operator: And our next question comes from Brian Meredith from UBS. Brian, you may proceed.

Brian Meredith

Analyst, UBS Securities LLC

Q

Yeah. Thanks. Juan, I was hoping you could talk a little bit more about your expectations for midyear renewals. We're hearing some signs from brokers that, you know, there's ample capacity and maybe we're seeing property reinsurance pricing kind of peaking out. Is that your perspective on things?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

So sure, Brian, let me get started and I'll ask Jim to give you a little bit of extra color on all of this. Look, I think, as we've said both in my prepared remarks and in Jim's question -- answer to David a few minutes ago, we had a terrific 1/1 renewal, and we had an excellent 4/1 renewal. So, at this point in time, you got close to 70% of our book that's been renewed at what we believe are excellent, excellent risk adjusted returns.

You know, the market for us continues to be pretty good. If you think about it from a pricing perspective, you would expect some of the pricing to moderate, given that we've had rate on rate on rate, particularly in some of these geographies overtime. But I think more importantly is the fact that attachment points and terms and conditions have continued to hold. And I think that is a critical point to keep in mind going forward for the future.

The other thing is what I said in my prepared remarks, which is our competitors remain disciplined. So, the trading conditions from that perspective continue to be favorable. But let me ask Jim to give a little bit more color on how he views Florida at 6/1 and then some of the 7/1 renewals as well.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Sure. Brian. Thanks for the -- thanks for the question. You know, just to maybe reinforce some of the points Juan made, which I think are spot on, you know, we have seen really terrific results from the most recent renewals, including April.

And you would certainly have expected given how much rate the market took last year, that that more underwriters are going to be interested in writing the business. And while that's true, we've also seen just a floor under the discipline that people are applying to this market, which is what's sustaining terms and conditions, keeping risk adjusted rate on the upward trajectory, which is resulting in the economics that we find so attractive.

The other thing to keep in mind is, we're still experiencing elevated losses around the world. And while we had a terrific Q1 cat result, the fact is cats remain elevated whether it's weather, quake, man-made disasters, et cetera, those things are happening. And I think that's keeping a focus on the discipline that the market is pursuing.

And then the other factor to keep an eye on is we see some really strong increasing demand from some of our best clients. And given Everest's position as a preferred and lead market, we have opportunities to deploy incremental capacity at really attractive rates. And I think that's happening both at the major renewals, but also between those renewals. And there's a lot more in that pipeline that I think will help to sustain the market.

And so, our perspective is as we roll into the rest of 2024 with the Florida renewal in June and then the 7/1 renewal primarily driven by Australia, we expect discipline to be maintained. Risk adjusted economics should be terrific. And then I would further say that our expectation remains that that will continue into 2025.

Brian Meredith

Analyst, UBS Securities LLC

Q

That's really helpful. Thank you. And then I just want to pivot back to the insurance underlying, call it, loss ratio just quickly here. I know there were -- last year, you had some major stop loss one-off. So, year-over-year, you know, it looks like about 150 basis points up year-over-year.

But I'm just curious, how much of maybe that conservatism you built in is due to perhaps financial lines and Workers' Comp? I know you gave us rate of 12 ex-financial lines in comp. I'm curious if that is you kind of put everything all in and if that is one of the contributing factors to the three-year increase?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Yeah. Brian, it's Mark. I don't think it is. I think workers' comp is broadly stable last few years. So that's not driving it. You're right. We had 100, roughly 150 basis points of delta last year because of A&H. There is a bit of mix that drove the delta from last year down to something that was sub-63% attritional loss ratio, but I'd say our run rate is more in the 63 to 64 range.

And I think what you're seeing here is, is just a mix of business that is skewed a bit more to longer tail casualty. And we're keeping those loss picks at a healthy level, a prudent level on our side.

Brian Meredith

Analyst, UBS Securities LLC

Q

Did you have the all-in number for kind of what rate looked like in the first quarter when you include A&H comp?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Yeah. That would be -- it's about a little bit over 7%.

Brian Meredith

Analyst, UBS Securities LLC

Q

Thank you so much. Appreciate the answers.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Sure.

Operator: And our next question is coming from Michael Zaremski from BMO. Michael, please go ahead.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning. Thanks. Follow up on the primary insurance pricing. I think you might have answered part of this, but so the rates [indiscernible] (30:58) in social inflation, I guess associated lines, and they decelerated in property. I think is how -- what kept that kind of the math flat at 12.

On the life -- on the social inflationary lines, do you feel that there's still kind of momentum in the marketplace potentially as the year progresses or is kind of the jump up into the low to mid-teens is that a kind of a -- is that a very healthy level to kind of protect against what looks like to be a inching higher of social inflationary trends?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Yeah. Mike, this is Juan. So let me give you a little bit of perspective and I think you can break it down sort of into different lines. If I look at, for example, auto liability, we have seen essentially rate trend up over frankly the last five quarters or so with a pretty consistent basis.

General liability has done the same for about the last four quarters. Umbrella in excess for about the last three quarters, right? So that gives you a sense that this is -- it's a trend, right? It's not a fluke per sale, just one quarter over the other. And look, I think the issues in the industry are well-known. It's something that obviously we have discussed with all of you competitors have discussed with all of you.

So, I would expect that that continues through the rest of 2024. Again, it's four to five quarters, depending on the line of business that you continue to see that momentum. You know, when I look at property, there's certainly been a bit more capacity that's come in, particularly to the E&S market, and we saw that in the first quarter. But the pricing is still good, and it's still significantly adequate and in excess of loss trend. So, we still feel very good about the property business on the primary side of things as well.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Okay. Got it. An encouraging trend on the liability side, given what we're seeing. I believe, my follow up, in the prepared remarks I think Jim Williamson said that property cat grew by 24%, I believe. Is that -- I feel like when we were looking at the disclosure in the earnings release, we see a much lower number for cat XOL. Am I thinking about something incorrectly?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. Mike, this is Jim. Yeah. An earlier question was about the fact that we had printed a lower cat growth number. You would have seen about a 4% growth number on cat XOL. And what I had indicated is, that's really the impact of the recognition of written premium flowing through the first quarter financials which included a renewal last year, the June 23 renewal, where we actually chose to step back a bit on Florida because of the stringent -- our own stringent financial underwriting approach.

And so, now that's kind of flowing into the financials. What I further commented on is that at the January 1st renewal, we grew our Property Cat XOL business by 24% for the renewal at really terrific risk adjusted economics. And then further said, we did also very well at the April renewal, growing about 11% overall. We grew our North America property business at 4/1 by 76%. And so, just outstanding growth rates and you'll see that show up in future quarters.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Okay. Thanks for the clarification.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Thanks, Mike.

Operator: And the next question comes from Josh Shanker from Bank of America. Josh, please go ahead.

Joshua David Shanker

Analyst, BofA Securities, Inc.

Q

Yeah. Thank you. A lot of property questions. So, on the Big Pro Rata growth, can you talk about what that means for your exposures and how that affects your capital utilization?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Sure. Josh, this is Jim. So, a couple of things. One, if you look at our gross PML and then further our net PMLS as they've projected over the last several renewals, they're up modestly. I would say, that's being driven more by taking advantage of the Property Cat XOL market. We've been pretty cautious on how much cat exposure we're taking in the Property Pro Rata book. Obviously, it exists, but we're being thoughtful about that balance.

I would further say, there's no constraint given our available capacity where we are relative to our risk appetite, as you would have seen in the investor presentation. We still have plenty of room to maneuver. And so, there's not going to be a point where the fact that we've taken advantage of some really exciting opportunities in the Property Pro Rata space where we then can't go and grow where we want to, with key clients on the Property Cat XOL. That is definitely not a tradeoff we're making, and we would not disadvantage the cat book for any other opportunity.

Joshua David Shanker

Analyst, BofA Securities, Inc.

Q

And capital utilization?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Are you referring in terms of how we put the capital to work?

Joshua David Shanker

Analyst, BofA Securities, Inc.

Q

Yeah. As you've grown that book, does that – I mean obviously more efficient, I guess, use of capital. But does that – is there a binding constraint on how much of this Property Pro Rata you can write?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

No. Josh, it's Mark. The answer is no. Despite the large level of growth, very manageable, full degrees of freedom to underwrite, as we see in the market going forward, no issue on that side.

Joshua David Shanker

Analyst, BofA Securities, Inc.

Q

And then, switching gears to casualty reinsurance, can you talk about what you're seeing in terms of incurred loss activity versus claims as disclosed by your customers on the reinsurance side for the older accident years, as they deal with social inflation? Have they taken their picks up enough or are you losing – or do you think that they're playing a game of sort of catch-up based on picks that you've set in the space?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. Josh, it's Jim again. Look, I'm not going to comment on the approach that other companies are taking to loss pick selection. What I would say is and this is true of older accident years and more recent accident years, we take a very prudent approach to ultimate loss ratio selection. We certainly did that over the last few years as we've strengthened reserves in reinsurance casualty. You saw us do that. We took a very conservative approach to how we set those ultimate loss ratios and put ourselves in a position to ensure that that's in the rearview mirror.

And then we do the same thing on more recent accident years, which in some cases means that we have a different view of the ultimate loss ratio than our clients have. And you would have heard us describe in the last earnings call that we stepped back from some casualty in the – at the January 1 renewal. We reduced our expiring book by about 15% due to portfolio management actions. And in many cases, that was due to the fact that we had our own independent view of the expected loss pick, and that may have been higher than what our clients expected.

So, we're absolutely applying our own discipline and analytics to what others are reporting, whether they're reporting it in their financials or reporting it to us in their submissions. And we think that puts us in good stead.

Joshua David Shanker

Analyst, BofA Securities, Inc.

Q

Okay. Thank you for all the answers, and good luck for the rest of the year.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Thanks, Josh.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Thanks, Josh.

Operator: Thank you. And now we have a question from Elyse Greenspan from Wells Fargo. Elyse, please go ahead.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thanks. Good morning. Sorry to follow up again on the property cat question, but just going back to the 4% reported growth. And Jim, I know you said that the Property Cat XOL book grew 24%, sorry, at 1/1. I understand that that premium earned lags as you write business.

I just didn't, I guess, appreciate that there's a lag on a gross or net premiums written basis on business that you would have written in the middle of last year. Can you just, I guess, kind of explain that just that concept to me, just like the lag on the written that would, I guess, flow through six months later?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. Sure. Elyse, it's Jim. Yeah. We've recognized written -- we don't recognize written premium on a reinsurance contract the way you might on a primary insurance contract where you recognize all of the written premium in the period that you originally incepted the deal.

Instead, the written recognition of premium is spread out in the case of property cat, it would typically be over a four-quarter period, whereas something like Casualty Pro Rata is typically recognized over an eight-quarter period and you don't recognize all the premium in a straight line, particularly for Casualty Pro Rata. And you may recall, you know, earlier in the year and last year, we talked a lot about this relative to the recognition of growth from the Jan 1, 2023, renewal relative to casualty.

And so, there are going to be these effects. But as I indicated earlier, you know, we're seeing -- we've seen strong growth pretty much at every renewal since January of 2023 and actually going back into June of 22 as the market started to grow. The only renewal that we've had in that entire time that showed a reduction was the June 2023 renewal, because we stepped back a bit in Florida because a lot of smaller clients weren't able to meet our quite stringent financial underwriting approach.

So, to give you some statistics, we talked about January 2024, July 2023, almost 25% growth; April 2023, 30% growth; January 2023, almost 50% growth. And it was only June 2023 where we actually reduced the book by about 2.3%. So, it just gives you a sense of the fact that we are delivering strong growth at terrific economics at all of these renewals. Got a little bit of a blip in this quarter, and we expect that to correct.

Now, the other thing I would indicate, of course, as you'll see in the financials, is earned premium for Cat XOL was up almost 20%, which is a much more consistent with what you might expect.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. And then on the capital side, you guys started to buyback a little bit of your stock this quarter. I think you used the word opportunistic around that. So, can you just give us a sense of just kind of capital return thoughts from here, just balancing growth and I guess obviously as we get closer to one season?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Yeah. Hi. Elyse, it's Mark. So, you're right, we did start some modest share buybacks in the first quarter. Really, really no change from what we've been saying all along for privileging the organic growth. No reason we can't do capital management actions like share buybacks. At the same time, we demonstrated that in March and no reason it won't continue going forward. It's an attractive level.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: And our next question comes from Gregory Peters from Raymond James. Gregory, go ahead, please.

C. Gregory Peters

Analyst, Raymond James

Q

Good morning, everyone. So, for the first question, I'm going to pivot back to the TSR target that you guys have rolled out. And I'm just curious, if there's been an updated view on the risks to hitting your TSA -- TSR target,

excuse me. And in that regard, I was looking at your slide deck and I noticed your, you know, you disclose your 1-in-100 PMLs. I'm wondering how that might look when we get to 7/1/2024?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

So, it's -- Greg, it's Mark talking. Let me kind of split this into two pieces, PMLs and TSR ways of getting there. So back in the Investor Day, one of the points that I made during the presentation was that we had lots of different avenues to achieving leading financial returns as measured by total shareholder return.

So, it doesn't matter really from our standpoint, if there's pluses and minuses coming from different underwriting markets, pricing and rate. We have a very well-developed and diversified set of franchises to manage cycle management, portfolio management and really drive growth of the franchise combined with strong investment income, that's unchanged in terms of achieving the target that we set out.

PMLs, I'll hand it over to Jim and maybe I'll add a little bit of color at the end.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. Greg, it's Jim. So, referencing your question and the PMLs that you would have seen in the investor presentation. So, a couple of things. One, look, the peak zones that are represented there, we certainly have seen a little bit of growth in our net PMLs from July of last year to 1/1 this year. That's a couple of factors.

One, we've taken advantage of the market as I've talked about on this call, and we've grown our portfolio at great economics which is fantastic. We've also optimized our hedging, and we're taking more of our cat risk on a net basis, and that's contributed to the growth in the net PMLs. Now those particular peak zones that are featured in the investor presentation, you know, we'll see a little bit more growth, I would expect, southeast wind through the June renewal, assuming that Florida pricing terms and conditions hold, which we expect.

Cat quake is pretty much in the bag for the year where you will see us continue to lean into the market at the 7/1 renewal is outside of our peak zones. And so, we have plenty of capacity both in our PMLs and our capital and really any other way you want to think about risk to continue to grow.

And I think that's best illustrated by the other exhibit on that page, which shows our earnings and capital at risk and our current position. And you see there that, we have plenty of room to maneuver within our stated risk appetite to take advantage of great market conditions and grow where we need to.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Greg, this is Juan. And I would just essential really reinforce two points that Mark and Jim have made. So, number one, we absolutely see no change to the 17% target. And you see where we started the year at the 18.1%. But I think the second point is probably the more critical one, which is the one Jim just made that we are well within our cat underwriting appetite. And so that gives us confidence to be able to maneuver and frankly keep growing the property cat book given the frankly, the excellent risk adjusted returns that we're seeing in that book right now.

C. Gregory Peters

Analyst, Raymond James

Q

Thank you for the detailed answer. I guess my follow-up question, just more specific. Can you talk a little bit about how the facultative market is evolving? Because we started hearing mixed messages out of the market and value your perspective on that.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Sure. Greg, it's Jim again. Yeah. So, in terms of facultative, we had a terrific quarter in our facultative business. We were able to grow that business very nicely, about 14% over prior year, and that's really on the back of significant demand by our seeds and in particular in short tail lines where they had to increase their Cat XOL attachment points last year to manage the market cycle.

That means that in some cases they're feeling exposed on larger risks. Their per risk limits might be uncomfortable. And so, they're coming to Everest to try to manage that exposure. And so, we're getting really great results that we're excited about, and I expect we'll continue to lean into.

That said, like all parts of this business, we need to be very thoughtful in our risk management approach. And so, there are parts of the portfolio, none of this would surprise you where we're being very cautious and very prudent. And certainly, commercial auto would be an area where we're being prudent with.

We've pretty much exited or significantly reduced any exposure to professional or financial lines. We're being very, very careful about limit deployment in excess casualty. So, we are writing some terrific deals there, but we're being careful about limits, obviously ensuring we're getting paid adequately. So, like any business, whether it's reinsurance or primary insurance, need to manage the cycle carefully. But we continue to see really strong opportunities in fact.

C. Gregory Peters

Analyst, Raymond James

Q

Got it. Thanks for the answers.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Got it. Thank so much, Greg.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Thanks, Greg.

Operator: And our next question is coming from Bob Jian Huang from Morgan Stanley. Bob, you may proceed.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Good morning. So, first question is on reserving. So, looking at the last year's reserve charge, a large portion of that came from the accident year 2016 to 2019 cohort. Understand that you will probably do more reserve studies later on in the year, but just curious if there are any new developments or update at this particular point regarding the current reserving positions and as well as that 2016 to 2019 cohort as well.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Bob, it's Mark. So, we did do our Q1 quarterly review process. It's quite comprehensive. You're right. No real reserve studies to go through in the first quarter, but plenty of anecdotal data that we're looking at, all kinds of information. And so, after we did a review of not only those years, but really across the board, we don't see anything that's altered our view of our reserve portfolio. So, steady as she goes.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's very helpful. Thank you. Second one is more of a modeling question. So, understand that your expense ratio for the insurance segment was elevated a little bit due to international buildout. How should we think about maybe a near-term run rate on this? Is this something that'll persist for next few quarters, next few years? Is there a good way to think about the expense element on the insurance segment?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Bob, it's Mark again. So, I think it will be elevated for several quarters. So, we're adding talent, technology. The premium, as you can see, is growing meaningfully. The earned is trailing and obviously earns in overtime and so, we're still in a process of scaling. And you can see just in the Q1 comparatives, we're coming in for the insurance division of 16.6% expense ratio versus something closer to 15% a year ago.

So, our North American operations are fairly stable and the expense ratio, the international is what's got this trailing effect. The good thing on our side is the -- I think the growth is quite accretive. We're seeing very nice technical ratios from the business that we're writing there, diversified as well, good margins that are embedded and we like the pace that we're going at. So, I can see that being elevated for several quarters, but eventually trending down as the scale starts to catch up with the size of the foundation we're building.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Bob, this is Juan. Let me add a couple of comments as well to what Mark just said. I think one important thing to keep in mind is really the hallmark expense discipline of Everest. And if you look at the group expense ratio really at that low 6% range, 6.1%, 6.2%, we've been able to maintain that throughout the entire buildout of that international component because of our expense discipline and our ability to prioritize things that matter and say no to things that don't.

So, I think that is something you can expect for the company going forward is that, we continue to have one of the most competitive expense ratios in the industry, and that frankly is not going to change as we invest and build and grow the international component.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you very much. Really appreciate the answers.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Thanks, Bob.

Operator: And next in question is Yaron Kinar from Jefferies. Yaron, please go ahead.

Q

Hey. Good morning. This is [ph] Andrew (53:47) on for Yaron. Within insurance, it sounds like there could be some benefit on the underlying loss ratio for the remainder of the year. But does the guide of 90 to 92 for reported combined for full year 2024 still stand, considering the reported 93 this quarter?

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

A

Yeah. [ph] Andrew (54:06), it's Mark. The short answer is yes. I think there's several factors that are going towards that. You heard me in the previous question speak to some of the scaling benefits that we expect to get, particularly from the insurance franchise. So there's several factors, tailwinds that we have that I think will help us achieve that range.

I would start with; we've got a mix that's going to trend a little bit more short tail in terms of its proportion to the overall book that'll come with lower combined ratios. You're still seeing very strong margin that's being added to the portfolio across the board as we cycle manage through the different opportunities that we have.

The expense ratio, really the two points. So the earned is going to grow more quickly on the international side as it trails the gross written. So that's going to help mechanically when you do the math and then the expenses as a whole. I think given the fact we've spent over a year – well over a year of building the foundation, those benefits are going to start to pay off and expenses will start to level out as an overall ratio. So those factors overall are what's going to drive us back into that 92 to 90 range.

Q

Thank you. And maybe on reinsurance, some strong growth within Casualty Pro Rata and Casualty XOL. Can you talk about some of the opportunities there this quarter?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Yes. So, let me start and then I'll turn it over to Jim. This is Juan, [ph] Andrew (55:50). So, I think two things drove particularly that Casualty Pro Rata. Again, some of it is the timing of the business that was written at 1/1/2023 last year. And I think Jim has talked a little bit about how the earnings pattern on that business works. So, I think that's an important part of that. And we felt good about the pricing for that business as well.

The second part of it is, we saw some attractive opportunities in both Canada, in Europe, outside of the United States, where you don't have the social inflation issues that you have in the US. But Jim, maybe you can provide a little bit of additional color.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. I think that's right. On the pro rata side, it is largely timing of recognition. As we had indicated after the January 1, 2023 renewal, we earn Casualty Pro Rata, or I should say, recognize written premium over eight quarters. And it's really in the middle of that period that you see the largest recognition of premium.

And so, we're in that period. We had really strong printed numbers last quarter on Cas Pro Rata seen this quarter, et cetera. And there have been incremental opportunities as Juan indicated. And in particular, when those are taking place outside the US and in a very balanced way, we're more than happy to lean into those opportunities.

On the XOL side, not an entirely different story. I mean, we have chosen to grow in a targeted way with some of our top cedents. But the other thing that you'll see in that line in particular which is a relatively small part of our portfolio, is that the amount of rate that will be flowing through in that line is going to be elevated. That's our expectation. And that certainly helps to support the growth numbers that you're seeing in the quarter.

Q

Got it. Thank you.

Operator: And next, we have a question from Meyer Shields from KBW. Meyer, please go ahead.

Q

Hi. It's [ph] Jing (57:55) on for Meyer. Thank you for taking my question. I have question on the professional line growth kind of accelerated from 9.9 in 4Q, so stand up on 11.7. You mentioned rate acceleration. So, are you guys expecting more if rates continue? Can you give more color on that? Thanks.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

A

Yeah. It's Jim Williamson. Thanks for the question. Actually, for the most part, the acceleration you would have seen some of the growth in professional lines for the quarter in our insurance business was really related to one large fronting arrangement in our Canadian operation. So, it's not really a general trend that you can apply to the rest of our business.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

Yeah. The only other comment I would make, and this is Juan, is rates also had some implications into that as well. But the growth that you're seeing is really what Jim has described is that fronting deal in Canada.

Q

Got you. So, we won't expect that to continue for the rest of the year?

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

A

No, I don't think we would expect that to continue for the rest of the year. Again, that was just one specific deal in Canada.

Q

Okay. Got it. Thank you.

Mark Kociancic

Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.

Thank you.

A

Q

Just one more question on, just a broad question on reinsurance. I'm just curious, can you share any plans for buying reinsurance for the insurance segment?

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

Yes, sure. It's Jim Williamson again. Yeah, we've been a pretty consistent buyer of reinsurance for our insurance business. There are a lot of good reasons to procure reinsurance. Obviously, it helps us to manage volatility within that line in a number of cases, particularly our pro rata treaties in North America are quite accretive from a ceding commission perspective. So, I think that strategy of using reinsurance strategically to manage our exposure and our economics will continue.

I would expect as the business matures both in North America and, of course, over time in our international business, you could expect our net to gross ratio to increase as we retain more of our business. But I think those changes will be modest and will occur gradually over time. So, I wouldn't expect any near-term changes in our approach that way.

A

Q

Thank you so much.

Jim Williamson

Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.

Thank you.

A

Operator: And this concludes our question-and-answer session. I would like to turn the conference back over to Juan Andrade for some closing remarks. Please go ahead.

Juan C. Andrade

President, Chief Executive Officer & Director, Everest Group Ltd.

Great. Thank you for all the questions and the excellent discussion. And I'll end really where I started, which is, we're off to a very good start in 2024 with an 88% combined ratio for the quarter and a 20% ROE. And from the prepared remarks and the commentary that we found over the past hour; you see that we are still in a market with strong trading conditions generating that 17% growth that you saw overall for the first quarter. And then you

certainly heard about the opportunities we see in both reinsurance and insurance for the remaining part of the year.

And lastly, we're very focused on delivering our three-year plan. And I think you've heard from Mark and from us pretty clearly that we still see that ability to generate excess of about 17% TSR on an ongoing basis. So, with that, thank you very much, and we'll talk at the next quarter.

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

Editor's Note: Text in [] was added after the conclusion of the event at the request of the company to provide clarity to the readers.

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