

Donegal Group Inc. (DGICA; DGICB)

Q3'25 Earnings Call Transcript – FINAL

Karin Daly – Vice President, The Equity Group Inc.

Good morning and thank you for joining us today. This morning, Donegal Group issued its Third Quarter 2025 Earnings Release outlining its results. The release and a supplemental investor presentation are available in the Investor Relations section of Donegal's website at www.donegalgroup.com. Please be advised that today's conference was pre-recorded, and all participants are in listen-only mode.

Speaking today will be President and Chief Executive Officer, Kevin Burke; Chief Financial Officer, Jeff Miller; Chief Underwriting Officer, Jeff Hay; Chief Operating Officer, Dan DeLamater; and Chief Investment Officer, Tony Viozzi.

Please be aware that statements made during this call that are not historical facts, are "forward-looking statements" and necessarily involve risks and uncertainties that could cause actual results to vary materially. These factors can be found in Donegal Group's filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10-Q. The Company disclaims any obligation to update or publicly announce the results of any revisions that they may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

With that, it is my pleasure to turn it over to Mr. Kevin Burke. Kevin?

Kevin Burke – President and Chief Executive Officer

Thank you, Karin, and welcome everyone to our earnings webcast. We are pleased to provide an update today on our quarterly operating results and recent progress on our strategies and initiatives.

We are pleased with our profitability for the third quarter and first nine months of 2025, with a combined ratio of 95.9% for the third quarter and 95.1% for year-to-date, with solid underwriting and investment income contributing to net income of \$20.1 million for the third quarter and \$62.2 million for the first nine months of 2025. We enjoyed relatively favorable weather in our operating regions for the third quarter, resulting in a weather loss ratio that was the lowest of any third quarter in the past 20 years. Our core loss ratio for the third quarter remained below our target level, with personal lines continuing to outperform as we have reached rate adequacy in that business segment.

As in prior webcasts, Jeff Hay and Dan DeLamater will provide further details about the ongoing factors that impacted our net premium written growth as well as highlight initiatives we have planned to improve premium growth. Our 2026 business plan will include numerous strategies and action plans to enhance agency engagement and optimize our staff's utilization of system and business intelligent enhancements that we expect will generate higher levels of new business. Our primary focus remains on delivering sustained excellent financial results, while also achieving profitable, controlled commercial lines growth by writing quality mid-market and small business accounts.

Following the successful deployment of our final major commercial lines systems release I reported in the second quarter, I am very pleased to report that, this past weekend, we successfully deployed the final personal lines release to facilitate conversion of all legacy personal auto and umbrella policy renewals to the new Guidewire platform. We continue to strive for stability in

our personal lines segment, seeking to write enough new business to offset natural attrition in order to maintain a stable, profitable book of personal lines business. Completion of the conversion of our legacy business to the new platform will allow our personal lines teams to focus their efforts on optimizing our personal lines portfolio.

With this final release now in production, all development and testing efforts have been completed for the multi-year systems modernization project that we began eight years ago. I extend my sincere appreciation and congratulations to all of the Donegal team members who have worked tirelessly to ensure the successful project completion. Although all of the software code has been deployed, we are continuing to follow a phased schedule for the conversion of all remaining legacy commercial and personal lines policies that will continue through mid-2026. Our business teams will be closely monitoring that conversion activity over the next several months.

Our technology teams will be shifting their attention to several exciting initiatives made possible by the successful systems transformation and the completion of a comprehensive cloud-based data repository and infrastructure. We are already working with industry-leading vendor partners on several Generative AI projects that we expect will help us improve operational efficiencies, and more importantly, provide enhanced data-driven insights to our claims and underwriting staff. We are also preparing to migrate our primary on-premise Guidewire applications to the cloud-based versions over the next few years. We plan to first migrate our billing and claims applications, followed by our policy administration application after the completion of our legacy policy conversion activities. Migrating to the cloud versions of the Guidewire applications will ensure that our future technology platform is scalable and remains current, and that we are able to take advantage of emerging innovations and product enhancements on a continuous basis. We look forward to the many competitive and operational benefits our successful systems transformation and ongoing technology initiatives will yield in the years ahead.

At this point, I will turn the call over to Jeff Miller for a review of our financial results for the quarter.

Jeff Miller – Chief Financial Officer

Thanks, Kevin. For the third quarter of 2025, net premiums earned of \$229.8 million decreased 3.4% compared to the third quarter of 2024. Net premiums written decreased by 5.4%, with similar drivers to those we experienced in the first half of 2025, as lower new business volume and planned attrition were offset partially by premium rate increases and solid retention levels. A 15.9% decrease in personal lines net premiums written was offset partially by 3.4% growth in commercial lines. Rate increases achieved during the third quarter of 2025 averaged 6.4% in total and 7.1% when excluding workers' compensation.

The combined ratio was 95.9% for the third quarter of 2025, reflecting modest improvement compared to 96.4% for the prior-year quarter. We experienced a slight 1 percentage-point increase in the core loss ratio compared to the prior-year quarter. The core loss ratio excludes the impact of weather-related losses, large fire losses and net development of reserves for losses incurred in prior accident years. Compared to the prior-year quarter, we had a 5.5 percentage-point increase in the commercial lines core loss ratio, offset partially by a 5.9 percentage-point decrease in the personal lines core loss ratio.

Weather-related losses of \$14.3 million, or 6.2 percentage points of the loss ratio for the third quarter of 2025, decreased substantially from \$24.4 million, or 10.3 percentage points for the prior-year quarter. Commercial property losses from severe

weather totaled \$3.6 million and contributed 6.6 percentage points to the quarterly commercial multi-peril loss ratio, down compared to 10 percentage points of the loss ratio for that line of business in the third quarter of 2024. The weather impact to the homeowners line was \$8.3 million, or 25.3 percentage points of the homeowners loss ratio, which was much lower than the 45.2 points of weather loss impact in the prior-year quarter, which reflected significant impact from Hurricane Helene. In total, the quarterly weather claim impact was well below the previous five-year average for the third quarter of 10 percentage points. Our insurance subsidiaries did not incur losses from any catastrophic weather events in the third quarter of 2025, compared to \$6 million in net losses from Hurricane Helene in the prior-year quarter. As we highlighted in the earnings release, the weather loss impact of 6.2 percentage points of the loss ratio for the quarter was the lowest of any third quarter in the past 20 years.

Large fire losses (which we define as over \$50,000 in damages) contributed 4.4 percentage points to the loss ratio for the third quarter of 2025, compared to 3.7 percentage points for the prior-year quarter. A moderate increase in homeowners fire losses during the quarter was partially offset by a slight decrease in commercial fire losses.

Our insurance subsidiaries experienced minimal net development of reserves for losses incurred in prior accident years for the third quarter of 2025, compared to \$6.2 million of net favorable reserve development for the prior-year quarter. Specific line of business detail for the third quarter of 2025 primarily included unfavorable development of \$2 million for personal auto and \$1.4 million for other commercial (which is primarily umbrella liability) in accident years 2022 through 2024, offset partially by favorable development of \$1.6 million for commercial multi-peril and \$818,000 for workers' compensation.

The expense ratio of 33.5% for the third quarter of 2025 decreased compared to 34.5% for the prior-year quarter. The modest decrease primarily related to ongoing impacts of expense reduction initiatives and lower underwriting-based incentive costs for agents and employees. Incentive costs for the prior-year quarter were somewhat elevated due to the improvement in underwriting results for that period compared to the first half of 2024.

Net investment income increased 28.8% to \$13.9 million for the third quarter of 2025 compared to the prior-year quarter due primarily to an increase in average investment yield. Tony will provide further details about our investment income later in the call.

Combining the favorable impacts of underwriting and investment performance, we achieved net income of \$20.1 million for the third quarter of 2025, an increase of approximately 20% compared to the third quarter of 2024. For the first nine months of 2025, net income of \$62.2 million increased by approximately 131% compared to \$26.9 million for the first nine months of 2024. As we generate capital through consistent profitability, we will continue to invest in our people and operations to steadily grow premiums and increase scale, which we believe will create sustainable value for our stockholders over time. We are also committed to our long-standing practice of returning a portion of our profits to stockholders in the form of cash dividends. We recently declared quarterly cash dividends of 18.25 cents per share of our Class A common stock and 16.5 cents per share of our Class B common stock, payable on November 17th to stockholders of record as of November 3rd.

With that, I will turn the call over to Jeff Hay to provide more details about our commercial and personal lines segment results.

Jeff Hay – Executive Vice President and Chief Underwriting Officer

Thank you, Jeff. Our favorable underwriting results drove bottom-improvement this quarter, and I'm confident that this was a direct outcome of the strategies and diligent action plans we have put into place in recent years to transform our systems, data analytics and operational processes.

Within our commercial lines of business, net premiums written for the third quarter of 2025 saw a modest increase of 3.4%. While the market selectively softens for new business, we continue to stand firm on underwriting and pricing discipline and to execute on targeted geographic and class strategies. Of the commercial lines new business we wrote in the third quarter, 68.7% was within highly-targeted classes where we achieved levels of profitability that exceeded our expectations.

Our overall commercial rate and exposure increase remained steady at 11.0%, excluding Workers' Compensation, during the quarter. As we strive to retain quality accounts, we also continue to emphasize driving the most rate in areas where the intersections of class, line of business, and geography are the most challenged.

Turning now to loss trends that we observed for commercial lines in the third quarter, we experienced similar frequency and severity trends as in the first half of 2025. When compared to the prior-year third quarter, the commercial multi-peril line of business loss ratio impact from large fires decreased by nearly 2 percentage points, driven by lower severity of large fire losses, offset partially by a modest increase in their frequency.

We enjoyed historically favorable weather conditions during the quarter, with below-average storm activity across our operating regions that resulted in commercial weather-related losses decreasing significantly -- down 24% compared to the prior-year quarter.

Commercial lines prior-year reserve development was modestly favorable overall, contributing a 0.5 percentage point decrease in the loss ratio for the third quarter.

We were pleased that our commercial lines core loss ratio, which excludes the impact of large fires, weather, and prior-year reserve development, remained lower than our target for the third quarter of 2025. However, the core loss ratio increased by 5.5 percentage points over the prior-year quarter, driven primarily by higher frequency of workers' compensation losses.

The market introduction of our new and greatly improved commercial package product was the culmination of the most significant investment in middle market capabilities in our company history. We're confident that the enhanced product coverages, increased service capabilities, and the future innovations these modernized systems will enable will set Donegal apart in the marketplace and fuel profitable growth in the years ahead.

Now, turning to our personal lines segment: For the third quarter, personal lines net premiums written decreased 15.9% compared to the third quarter of 2024.

The shrinking of our personal lines book is a direct result of two deliberate actions: 1) the significant slowing of new business; and 2) the targeted cancellation of certain segments of our portfolio for underwriting or operational reasons. Both actions were intentional and necessary to improve portfolio quality, reduce property concentrations and stabilize loss ratios.

As an example of the targeted cancellation of certain segments, we completed the exit of a legacy Maryland book of business at the end of the third quarter. This action had a meaningful impact on the personal lines retention rate over the past year. However, excluding that impact, our real retention rate was a very healthy 88.7% for the third quarter.

Intentional new business controls continued to limit new business to approximately \$1.0 million in the quarter, which was similar to the second quarter of 2025 and remained well below historical levels. Having achieved rate adequacy in personal lines across our footprint, we have now strategically and intentionally released some of those new business controls in order to become more competitive for accounts that meet our underwriting criteria.

Moving to personal lines loss trends: Within the personal auto line of business, the loss ratio decreased by 4.5 percentage points for the third quarter of 2025, compared to the third quarter of 2024. This decrease was driven by a 9.3-point improvement in the core loss ratio, partially offset by adverse prior year reserve development related to a handful of liability claim reserve increases in the quarter.

The homeowners loss ratio saw an improvement of 11.6 percentage points for the third quarter of 2025, compared to the third quarter of 2024. Driving that improvement were 19.9 points of lower weather-related loss impacts, which was attributable to a substantial 49% decrease in weather losses compared to the third quarter of 2024, when Hurricane Helene inflicted substantial damage to homes we insured within the state of Georgia. That weather loss ratio improvement was partially offset by a 3.3-point increase in the core loss ratio and 6 points from additional large fire losses. Compared to the prior-year quarter, we experienced a 33% increase in large fire losses in our homeowners line, due primarily to an increase in the severity of large fires.

In summary, we were pleased with the overall profitability of our commercial and personal lines segments for the first nine months of 2025, and we are excited to be able to shift our strategic emphasis from profit improvement to capitalizing on opportunities to grow profitably.

I will now turn the call over to Dan DeLamater for an update on our operational strategies and developments.

Dan DeLamater – Executive Vice President and Chief Operating Officer

Thank you, Jeff. I will start my commentary by providing an update on our efficiency initiatives and the expense reduction efforts we have discussed in previous calls. For the third quarter of 2025, we operated at an expense ratio of 33.5%, which continued to follow an excellent trajectory. By comparison, that represented a 100-basis-point improvement from the comparable period last year.

We are pleased that we continue to realize significant improvement from our investments in automation and various ongoing expense management initiatives. Together, these efforts have allowed us to operate at an expense ratio of 33.4% through the

first nine months of 2025. Despite the impact of higher projected incentive payments for agents and employees based on our strong underwriting performance this year, this compares favorably to our expense ratio of 34.0% through the first nine months of 2024, and 34.9% through the first nine months of 2023.

We are coming down off of the 2024 peak expense impact of our multi-year systems modernization project, and with the substantial capital expenditures related to software development tapering off by the end of 2025, we expect to achieve gradual reductions in this project's impact to our operating expense metrics, as allocated depreciation costs subside over the next few years.

Additionally, we are pleased with the alignment and clarity of focus that was evident in our recently completed state strategy workshop. This annual, multi-day planning summit brings together a cross-departmental mix of several dozen Donegal professionals – including executive, departmental and regional leadership, along with important contributors from our business units. Together, this group refines our product mix, rate strategy, marketing strategy, and growth objectives for every line of business and every state in which we write. This strategic session in August marked the fifth consecutive year for the event, and I believe it was our best to date.

As we work to complete our 2026 business plan, increasing new business and total growth will be a top priority for next year. We are proud to operate from a place of bottom-line strength, but we also recognize the need to increase new business volume, particularly in small and middle-market commercial. Rate adequacy is clearly important, and we are not interested in chasing underpriced new business. We continue to proactively engage our marketing teams, our independent agents, and our analytics & underwriting teams to identify profitable new business opportunities in states and classes that match our objectives.

We continue to respond to shifting dynamics within the independent agency system due to mergers and acquisitions that have been fueled in part by private equity investments. Many of our independent agents have found value in joining a network group for various reasons. On the other hand, there is a significant segment of our agents who remain committed to operating independently. We have a dedicated National Accounts team that interacts with the leadership of national and regional agency groups and serves as a valuable resource for our regional marketing teams as they work with our agents at street level where business is transacted. Regardless of an agency's ownership or group affiliation, we are committed to providing a distinctive business experience and creating unique value for each independent agency relationship.

As we further refine our focus on our core lines and classes of business in our well-established geographic footprint, we decided to exit the farm line of business and have recently entered into a renewal rights agreement with a farm-focused Pennsylvania-based mutual insurance company to provide a continuation option for our existing policyholders. We determined that the costs required to modernize our legacy farm product and systems were higher than the projected return on investment for a non-core line of business that we report in "other commercial" lines. We will non-renew approximately \$6 million of premiums upon farm policy expirations beginning in the second quarter of 2026.

In closing, we are very pleased to have achieved five consecutive quarters of underwriting profitability. Coupled with our organizational alignment, we are confident that this profitability sets a solid foundation for our performance in the remaining months of 2025 and into 2026.

I'll now turn it over to Tony Viozzi for an investment update. Tony...

Tony Viozzi – Senior Vice President and Chief Investment Officer

Thanks, Dan. During the third quarter of 2025, we saw a significant rise in net investment income, driven primarily by increased reinvestment cash flow and active bond swaps that allowed us to lock in higher-yielding bonds at longer durations.

Our net investment income for the third quarter rose to \$13.9 million, an increase of 29% from \$10.8 million in the third quarter of 2024. Year to date, net investment income totaled \$38.5 million for the first nine months of 2025 – up 17% from \$32.9 million for the first nine months of 2024.

The average tax equivalent yield for the quarter was 3.90%, up from 3.64% for second quarter 2025, and 3.28% for the prior-year quarter.

The improvement in yield during the third quarter of 2025 was driven by the investment of \$185 million derived from portfolio cash flow and excess operating funds that was yielding 3.97% and is now earning 5.25%. The 128-basis-point improvement on those funds is projected to boost annual investment income by \$2.4 million.

Net investment gains for the third quarter of 2025 totaled \$1.3 million, compared to \$1.9 million for the prior-year quarter. Equity gains of \$2.6 million on stocks held as of September 30 were offset partially by realized losses from strategic bonds swaps during the quarter that will improve future investment income by approximately \$1.6 million annually.

For the first nine months of 2025, our net investment gains were \$2.3 million, compared to \$4.7 million for the first nine months of 2024.

Our available-for-sale bond portfolio market value improved by \$6.8 million in the third quarter of 2025 as a result of bond swaps, declining market rates, and the tightening of corporate bond spreads.

As of September 30, 2025, our book value increased to \$17.14, a \$1.78 improvement over \$15.36 on December 31, 2024. This improvement was primarily driven by strong underwriting results and growing investment income, as well as gains in the value of our equities and available-for-sale bond portfolio.

In closing, we are projecting about \$115 million in portfolio cash flow over the next twelve months with an average yield of 3.95%. We will continue to focus on shifting into non-agency structured notes, mortgage-backed securities, and tax-exempt bonds.

With that, I will now turn it back over to Kevin for closing remarks.

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Kevin Burke – President and Chief Executive Officer

Thank you, Tony. As we conclude today's call, I want to express my appreciation for the commitment and engagement I see throughout the Donegal organization. We recently held all-employee meetings to reemphasize our key business strategies and to celebrate our accomplishments over the past few years that has led to our improved financial results. We highlighted our confidence that we are now operating from a position of strength, and challenged our team to build on that solid foundation by intentionally engaging with our independent agents to generate profitable growth and by leveraging technology innovations to further improve our workflows, service offerings and operational efficiency. I look forward to reporting on our progress in future calls.

Karin Daly – Vice President, The Equity Group Inc.

Thank you, Kevin. While we requested and received questions in advance of today's call, we have worked answers to these questions into our prepared remarks. If there are any additional questions, please feel free to reach out to us. This now concludes the Donegal Group third quarter 2025 earnings webcast. You may now disconnect.