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Everest Group Ltd. (EG)

Q3 2025 Earnings Call

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CORPORATE PARTICIPANTS

Matthew Rohrmann
Senior Vice President & Head-Investor Relations, Everest Group Ltd.

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

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

OTHER PARTICIPANTS

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Joshua Shanker
Analyst, BofA Securities, Inc.

C. Gregory Peters
Analyst, Raymond James & Associates, Inc.

Alex Scott
Analyst, Barclays Capital, Inc.

Andrew Andersen
Analyst, Jefferies LLC

Brian Meredith
Analyst, UBS Securities LLC

David Motemaden
Analyst, Evercore ISI

Ryan Tunis
Analyst, Cantor Fitzgerald & Co.

Hristian Getsov
Analyst, Wells Fargo Securities LLC

Tracy Benguigui
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Everest Group Limited Third Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matthew Rohrmann

Senior Vice President & Head-Investor Relations, Everest Group Ltd.

Thank you, Betsy. Good morning, everyone, and welcome to the Everest Group Limited third quarter of 2025 earnings conference call. The Everest executives leading today's call are Jim Williamson, President and CEO; Mark Kociancic, Executive Vice President and CFO. We're also joined by other members of the Everest management team.

Before we begin, I'll preface the comments by noting that today's call will include forward-looking statements. Actual results may differ materially, and we undertake no obligation to publicly update forward-looking statements. Management comments regarding estimates, projections and future results are subject to the risks, uncertainties and assumptions, as noted in Everest's SEC filings.

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Management may also refer to certain non-GAAP financial measures. Available explanations and reconciliations to GAAP can be found in the earnings press release, investor presentation and financials supplement on our website.

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

Jim Williamson

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

Thanks, Matt, and good morning, everyone. Since becoming CEO of Everest nine months ago, I've been focused on resolving the legacy issues surrounding our US insurance casualty book, evaluating how and where capital is allocated in the group and assessing the results, opportunities and challenges facing each of our businesses. Yesterday, we announced two strategic actions to position Everest as a more agile and profitable company with greater capital flexibility to invest in developing the group and return capital to shareholders.

First, we are exiting global retail insurance. The teams running that business have done an exceptional job improving performance over the last two years. At the same time, it's clear to me the ongoing investments required in that business and the capital needed to support it are better placed in Everest's other opportunities.

Second, we have established a comprehensive adverse development cover for our North American Insurance Division, covering reserves for accident years 2024 and prior. With $1.2 billion of gross limit attaching at a strengthened carried reserve level, this cover will help ensure the results of prior poor underwriting decisions no longer overshadow our strong current performance. Long-term prospects in our core Reinsurance business and in the Wholesale and Specialty Insurance operations, we're retaining, are excellent.

I'll continue to set a simple standard for the businesses we operate. Capital deployed must be properly remunerated at acceptable levels of risk. We will operate in businesses with clear competitive advantage, strong economics and a well-defined forward path. This standard will be applied as we continue to develop our operations and evaluate opportunities to further diversify the company.

Turning now to performance in the quarter. Group gross written premium was $4.4 billion, down 1% from last year, largely reflecting targeted re-underwriting in Insurance and careful portfolio mix management in Reinsurance. Our combined ratio for the quarter was 103.4%. Excluding prior year development and net CAT losses, the attritional combined ratio was 89.6%, demonstrating the strength of our underlying book. Operating income was $316 million, compared with $630 million last year. The difference almost entirely attributable to the reserve adjustment I mentioned earlier.

Our Reinsurance business continue to perform exceptionally well in the quarter. Gross written premium of $3.2 billion was down 2% year-over-year, reflecting disciplined cycle management. The combined ratio was 87%, improving year-over-year, driven by lower CAT losses and favorable prior year development. Reinsurance reserves are in a strong position. Portfolio mix in Reinsurance continues to develop favorably with property and other short tail lines increasing by almost 5% year-over-year, while casualty and financial lines decreased by over 10%. This reflects our consistent strategy of reducing exposure to US casualty in the face of persistent legal system abuse.

I would also highlight the strong performance of our global specialties business, which produced almost $500 million of gross written premium and over $100 million of underwriting income in the quarter. We're investing in this business and expect it to deliver top and bottom line growth in the coming quarters and years.

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Market conditions in the Reinsurance business, particularly in our cat-exposed lines, should remain favorable through the January 1, 2026 renewal. While market capacity is increasing, Everest is a preferred partner and we see no barriers to continued attractive capital deployment in this market. Make no mistake, though, where deals do not offer attractive and appropriate returns, we will cut back.

Moving to Insurance, the team's execution of our 1-Renewal Strategy remediated the North America casualty book in record time. We're maintaining pricing momentum, improving risk selection and exiting underperforming accounts, all of which position the go-forward Insurance portfolio for increased profitability. In the quarter, 45% of our US casualty business did not renew. We believe AIG is ideally positioned to maximize the value of this portfolio going forward, and we were pleased to conclude our renewal rights transaction with such a close partner.

We're now reorganizing our Insurance operation to focus on our Global Wholesale and Specialty Insurance capabilities and expertise. This is a strategic move that directly aligns Everest with the evolving needs of the market. Historically, our go-forward Wholesale and Specialty businesses outperformed our retail business by approximately 10 combined ratio points. Year-to-date, total written premium was approximately $1.7 billion.

The long-term profitability and growth outlooks for the market segments we're focused on are excellent, while Everest current share is measured in basis points. I have more to say about that business in future quarters.

To summarize, I would characterize this past quarter as one of action and clarity. We've confronted our legacy casualty issues head-on, optimized the portfolio, and positioned Everest for a new chapter. Our core business engines, Reinsurance, as well as Wholesale and Specialty Insurance are performing well. Our balance sheet is strong and generating meaningful net investment income. Our capital is flexible and we're moving to a position of significant excess capital to deploy. And our team remains intensely focused on disciplined execution.

Before I hand it over to Mark, I want to thank my Everest colleagues around the world. These past months have required both focus and resolve, and our team has handled them with the utmost professionalism and integrity. We're all driving toward a unified goal of a more nimble, resilient and profitable enterprise.

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

Mark Kociancic

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

Thank you, Jim. And good morning, everyone. The transformative actions we announced this quarter helped drive certainty into Everest's insurance reserve adequacy and positioned the company to focus on well-developed and more profitable lines of business. We expect these moves to yield improved returns on capital for Everest and value creation for shareholders.

As Jim mentioned earlier, we sold the renewal rights of our US, UK, European and Asia-Pacific Commercial Retail Insurance business to AIG. These businesses collectively totaled approximately $2 billion in gross written premiums. The transaction will result in meaningful total value to Everest, and significant capital will be released over time. We expect to take a pre-tax non-operating charge in the range of $250 million to $350 million associated with the transaction, with the charge being recognized over 2025 and 2026. The transaction meaningfully streamlines Everest's operating model and bolsters our focus on core Reinsurance and Specialty and Wholesale Insurance businesses.

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We took further action to fortify our US casualty reserves, strengthening reserves by $478 million on a net basis or 12.4 points on the combined ratio. This was split between the Insurance and other segments and follows the acceleration of our global reserve studies into the third quarter.

We also entered into an adverse development cover, providing $1.2 billion of gross limit with Everest having co-participation of $200 million. The ADC covers $5.4 billion of North American Insurance subject reserves for accident years 2024 and prior. With an effective date of October 1, 2025, Everest will be transferring $1.25 billion of in-the-money reserves. As a result, we expect net investment income to be lower by approximately $60 million per year over the next several years. We will be paying approximately $122 million of premium upon closing of the transaction, which is expected to be in the fourth quarter.

Starting with group results. Everest reported gross written premiums of $4.4 billion, representing a 1.2% decrease in constant dollars, while excluding reinstatement premiums from the prior-year quarter. The combined ratio was 103.4% for the quarter, reflecting the net reserve strengthening I mentioned a few moments ago. The Reinsurance business had favorable reserve development of $29 million and this was more than offset by reserve strengthening of $361 million in our Insurance segment and $146 million in our Other segment.

The quarter benefited from relatively light catastrophe losses, which contributed 1.3 points to the group combined ratio. The group attritional loss ratio increased 1.4 points to 59.9% in the quarter, with the increase largely driven by our conservative approach to setting initial loss picks in US casualty lines. The attritional combined ratio increased 3 points to 88.8%, when excluding the impact of $34 million in profit commissions related to prior year loss reserve releases and mortgage lines, largely due to contingent commissions also associated with our mortgage lines business.

Moving to Reinsurance. Gross written premiums decreased 1.7% in constant dollars, when adjusting for reinstatement premiums during the quarter. Consistent with prior quarters, we exhibited solid growth in property and specialty lines while remaining disciplined in casualty lines. The combined ratio improved 4.8 points from the prior year to 87%. The improvement was largely driven by lower catastrophe losses, which amounted to $45 million or 1.6 points on the combined ratio versus 9.1 points on the combined ratio in the prior year quarter.

Net favorable prior year development also contributed 1 point to the improvement. Our Reinsurance reserve studies yielded minor development in casualty lines with continued strength in property, mortgage and international lines. Overall, we believe we are continuing to build upon our embedded reserve margins. The attritional loss ratio increased 60 basis points to 57.5% as we proactively embedded conservatism into our US casualty loss picks. The attritional combined ratio increased 180 basis points to 85.3%, when excluding the impact of $34 million in profit commissions associated with favorable mortgage reserve development.

And moving to Insurance. Gross premiums written increased 2.7% in constant dollars to $1.1 billion. Strong growth in other specialty and accident and health was largely offset by the aggressive actions we are taking in US casualty lines. The underwriting-related expense ratio was 19%, with the increase driven by reduced casualty earned premium growth from our 1-Renewal Strategy. The attritional loss ratio increased to 67% this quarter, reflecting our disciplined approach to setting and sustaining prudent loss picks in our US casualty lines portfolio, given the elevated risk environment due to social inflation.

As I mentioned earlier, we strengthened our Insurance reserves in the quarter, largely driven by US casualty lines in accident years 2022 through 2024. And this was due to an acceleration of large loss activity, particularly in excess casualty and management liability, and higher frequency in general liability and management liability, resulting in more conservative assumptions. We believe that increased prudence in loss development factors in

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2025 loss picks, in conjunction with the ADC transaction we entered into, will help us turn the page on the US casualty reserving issues experienced over the past several years.

Reserve strengthening in the Other segment was largely driven by US casualty lines, primarily the sports and leisure business. Most other segment reserves are also covered in the ADC, excluding asbestos, amongst other minor items.

Moving on to investments. Net investment income increased to $540 million for the quarter, and this was driven by higher assets under management and strong alternative asset returns, which generated $112 million of net investment income in the quarter versus $72 million in the prior year quarter. Overall, our book yield decreased slightly to 4.5%, given the large component of non-US dollar assets. Our current new money yield is approximately 4.8%, and we continue to have a short asset duration of approximately 3.4 years. And the fixed income portfolio benefits from an average credit rating of AA-.

For the third quarter of 2025, our operating income tax rate was 9.4%, which was below our working assumption of 17% to 18% for the year, due to the jurisdictional mix of profits in the quarter and a $23 million onetime benefit from our 2024 US tax filing. Shareholders' equity ended the quarter at $15.4 billion, or $15.5 billion, excluding $87 million of net unrealized depreciation on available-for-sale fixed income securities.

Book value per share ended the quarter at $366.22, an improvement of 15.2% from year-end 2024, when adjusted for dividends of $6 per share year-to-date. We will also realign our reporting segments beginning in Q1 2026 and communicate that once it's finalized in the coming weeks. We did not repurchase any shares in the quarter. However, we continue to view share repurchases as an attractive opportunity to deploy capital, and we expect to resume meaningful share repurchases going forward.

With that, I will turn the call back over to Matt.

Matthew Rohrmann

Senior Vice President & Head-Investor Relations, Everest Group Ltd.

Thanks, Mark. Betsy, we're now ready to open the line for questions. We do ask you to please limit your questions to one question plus one follow-up and then rejoin the queue for additional questions.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Josh Shanker with Bank of America. My apologies. The first question comes from Meyer Shields. Please go ahead.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I'm sorry. Am I coming through?

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

A

Yeah.

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

A

Josh, we hear you.

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

A

No, it's Meyer.

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

A

Oh, that's Meyer.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. It's actually Meyer, but I'm glad you can hear me. Yeah. So doing some very quick math on the 10-percentage-point differential between the specialty and retail business in Insurance, it suggests that it's running at a 95% combined ratio, excluding cat. So I was hoping we can get a sense as to what the CAT load is for the specialty business, whether 2025 or 2026.

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

A

Meyer, it's quite modest, actually, almost de minimis, definitely very low relative to the overall Insurance division burden that we currently have.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Fantastic. And when I look at the transferred reserves and the fact that $2 billion of insurance gross written premiums is going to be non-renewed one way or the other, is there any way of ballparking what that ultimately means in terms of capital liberation?

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

A

So, Meyer, just I want to make sure I understand your question. So the $2 billion of retail business that we transferred to AIG and any other non-renewal of subject premium over the one renewal, you're interested in the capital release from that?

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes.

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

A

Is that accurate or – yeah. Okay.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah, that's exactly right.

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

A

Yeah. So, there's multiple components to that. We do expect it to be substantial over time. Let me just put a few things on the table because I think it's more of a timing issue than anything else. So, the renewal process will take place, broadly speaking, over the coming 12 months. So, over that time we will benefit from non-renewing that premium on our own paper and we will start to reduce the capital intensity associated with the premium itself.

In the meantime, we will have meaningful net earned premium continue to show up in our P&L from 2025 writings as you would expect. And that will be accompanied with traditional P&L items. So commission expense, loss expense, G&A, et cetera. And so those loss reserves will also attract some capital charge over that time.

In addition to that, we will have the existing set of reserves which have been enhanced by roughly $0.5 billion of casualty reserves running off over time. And that will release capital as well. However, we do have, as a result of the extra $0.5 billion charge, principally in casualty, a significantly higher level of casualty reserves, which means we'll have less diversification benefit in the coming few quarters of that reserve run-off. So I would expect capital relief from this transaction, the remediation, the run-off, et cetera, to become more visible in the back half of 2026. But we certainly see it coming.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Understood. Thank you so much.

Operator: The next question comes from Josh Shanker with Bank of America. Please go ahead.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

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Yeah. Thank you for taking my question. There's a lot of moving parts in the announcement. There's the ADC, there's the renewal rights transfer, obviously, there's the charges, the latest. The one thing that haven't been announced is a plan of what to do with capital. I think investors might have felt some comfort if there were some announcements that we plan a large repurchase or there was a commitment from management to want to own the shares here? Stock is trading below book, how should we frame the appetite for returning capital to shareholders over the one-, two-year period?

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

So Josh, it's Mark, we obviously view capital repatriation, share buybacks very attractively for the several of the points you mentioned, clearly trading at a discount to book makes it attractive. We're in a lower growth period of the cycle, and so, as we're generating returns, we certainly foresee meaningful retained earnings accumulation. I would say that the kind of activity that you saw in the first half of the year, this year would represent a floor on buybacks as we pursue Q4, and then, into 2026. And to my earlier point to Meyer, we do expect the transactions that we've entered into to unlock more capital for that purpose over time.

Joshua Shanker
Analyst, BofA Securities, Inc.
Q

All right. And then trying to understand the sort of chronology. Obviously, a little less than a year ago, there was a plan for one year renewal and obviously the decision that Everest is not the appropriate owner for a lot of this retail risk. When did the company come to understand that and of the underwriting that it had done in like the past six months, do we have any concerns that Everest wasn't the right underwriter for that risk and we need to worry about 2025 reserves?

Jim Williamson
President, Chief Executive Officer & Director, Everest Group Ltd.
A

Yeah. Josh so let me start by talking a little bit about the re-underwriting process and where we are in that process, and then, I'll come on to the timing of the decisions around the go-forward business. So just to refresh memories, I took on leadership of the Insurance business last year, 2024. At the sort of end of the spring, we had really ramped up the remediation process that you've seen play out that we've called the 1-Renewal Strategy in July of 2024, meaning it essentially began to complete itself in July of 2025 and with a little bit of tail in the third quarter. And so that re-underwriting is complete. There is no further re-underwriting in the casualty book other than normal portfolio management that is required as we go forward. One statistics that I will share with you and this is going to be relevant to how you think about the 2025 loss picks. But if you look at the development that we've observed in 2025, that led us to an additional strengthening of our back book reserves, 80% of that development in US casualty came from policies that were eliminated from our portfolio during the course of the remediation and I think that's a good early indicator that we were over the right target, that we dealt with the remediation decisively and that the go-forward portfolio will perform extremely well.

Now, that said, we still booked it at very, very prudent loss picks. We're not taking credit for any of that, but we do expect it to play out. And then to the broader question you asked, which I think is an important one, and I'm going to spend a couple of minutes on it, if you'll indulge me, in terms of how we got to the decision and the chronology of getting to the decision around the go-forward portfolio, that was a comprehensive process. It was not driven by what we observed in the reserves. It was a process that was led by the management team, included a number of outside strategic advisors, and ultimately included our board of directors in a very thorough process and the purpose of that process was to determine what are our best opportunities to drive shareholder value and compounded book value per share growth over time.

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We didn't bring any biases into that process around businesses we had built, businesses that we otherwise liked, et cetera was purely a strategic review to get it at those critical answers. And during the course of that process, as I shared in my opening comments, it became really clear to me, to the rest of the management team, to our advisors and to our board, that our best opportunities are in our – our reinsurance business, which is a leading market-leading franchise and in our Wholesale and Specialty Insurance operations, which perform at a very high level, which allow us to very nimbly manage the market cycle, which require much less investment in terms of people and technology, and therefore have less execution risk. And we talked a little bit about the performance gap in the combined ratio. And so, therefore, the decision was to focus on those businesses. And as a result, we determined that it was best to exit retail insurance, and that's how we got to the transaction that we announced yesterday. But that gives you a comprehensive sense of how these things play together.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:26:35) thank you for the answers. Appreciate it.

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

A

Thanks, Josh.

Operator: The next question comes from Gregory Peters with Raymond James. Please go ahead.

C. Gregory Peters
Analyst, Raymond James & Associates, Inc.

Q

Good morning. So one of the questions that seems to pop up on a recurring basis as you've cleaned up your Insurance operation casualty reserves is the potential risk of spill over into the Reinsurance bought on your casualty business. And since you've completed your full year reserve review a little early, maybe you can give us some perspective on why you're confident the casualty reserves inside your Reinsurance business are going to hold off?

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

A

Yeah. Greg, I certainly understand the question, but I think I would really begin by resetting the premise because these are two very different portfolios. And one of the things I've been really honest about during the course of this process is where our insurance casualty book performed on a historical basis. And I would characterize it bluntly as squarely in the bottom quartile of performance in our industry. And whether you – whether I observe our own results, if you talk to brokers who have a fair bit of data, industry observers, there is a huge distinction in performance between bottom quartile underwriters and top quartile underwriters. And I think that's played out over all market cycles in all lines of business. So we were bottom quartile. Now we fixed that. And I think over time, that portfolio is going to perform really well and I think will be an asset to our partner AIG as they take it on. So that's one point.

The other is, I would not expect, based on the fact that we write a top quartile Reinsurance portfolio. There's no basis to expect that portfolio to perform in the same way that a bottom quartile portfolio would perform. But yes, it's subject to the same issues around social inflation and things of this nature. But the top quartile underwriters, they were consistently doing what we've done over the last year in insurance, which is very closely managed limits, ensure that you're getting top pricing for the exposures you're taking, carefully selecting classes of business

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to right, leaning on loss sensitive features to align interests with your clients. All of those things that we've talked about as part of the remediation, that's what our reinsurance clients have consistently done throughout the cycle. And so, there's just – there's just no reason to expect those portfolios to operate in a similar fashion over time.

C. Gregory Peters
Analyst, Raymond James & Associates, Inc.

Q

Thanks for the clarification there. And then can we can we just talk about property Reinsurance pricing conditions going forward, considering the light year? I noted in your presentation that European models are inching upwards and that you grew your property cap and non-cap Reinsurance business in the quarter. How are you thinking about that business in the 2026 period of time, considering what looks to be like a lot of pricing pressure?

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

A

Yeah. Well, first of all, I would characterize it in general as still a very favorable environment. And one of the points that I made on the last quarter's call was that if you didn't know that prices had corrected up by 50% at 1/1/23, and you just looked at the rate level that's currently persisting in the market and compared it to prior historical rate levels, let's say in the 20, teens. You would say this is a great cap market and people should be writing it. And I think that's true and I think that's why you're seeing the competition. People recognize that it's well priced and they want to write it. Prices will likely come down. There are various estimates, if you believe, let's say, a 10% expectation of price decreases at 1/1, I still think that means that Property CAT is well priced. And so I think it's still a risk that we will be looking to take now.

As I said in my prepared remarks, when the market moves down 10%, that's going to mean there's going to be some clients where we view the pricing and we don't think it's adequate and we'll adjust accordingly. In terms of the noncash or the pro rata growth you saw in the quarter, that was really – that's more the flow through of growth that's occurred over the last couple of years as we've leaned into that market correction. We've been very selective in terms of where we are growing that portfolio and [indiscernible] (00:31:13). And so I feel I feel very, very good about that book. The one thing I do want to just say, though, and I think this is important when people talk about a light year, nothing we're going to do, at 1/1/2026 or in any renewal has anything to do with the fact that it was a light year.

First of all, I didn't feel that light. We started with a major wildfire. We've got a CAT 5 hurricane churning in the Caribbean right now. We don't react to one good year and say, well, we're going to do one thing or the other based on that. We're making long-term bets based on where we see the pricing trajectory of the business. And you will not see us be afraid when the time comes, if it comes to begin pulling back, taking chips off the table, if we're not getting paid appropriately for the risks that we're being asked to bear.

C. Gregory Peters
Analyst, Raymond James & Associates, Inc.

Q

Thank you for the answers.

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

A

Thanks, Greg.

Operator: The next question comes from Alex Scott with Barclays. Please go ahead.

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Alex Scott
Analyst, Barclays Capital, Inc.

Q

Hi. Thanks for taking the question. I wanted to come back to the ADC and just see if you could talk a bit about how you thought about sizing the $1.2 billion gross protection. I mean, can you characterize that in terms of like standard deviations away from your point estimate and that kind of thing, just so we can get a sense for how protected this is.

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

A

Yeah, Alex, good question. Let me start with a little bit of the philosophy or the strategy behind it before we get into the actual ADC numbers. What we wanted to do was to put the issues of our historical casualty reserve challenges behind us. And you've seen this management team, I think, be pretty focused on making that happen and obviously have taken a couple of actions to do that. Obviously, the reserve strengthening that you saw in the quarter was all about getting ultimately to an ADC that would create finality around those issues. This is something we don't want to have to talk about again.

So in terms of sizing it, one of the things I would think about is, we've talked about reserve margin in the past and we talked about hundreds of millions of dollars of reserve margin. I would think about the ADC as $1.2 billion of reserve margin. It's about ensuring, again, that we create that finality. And so it's less about, well, I need to be at a certain percentage of the actuarial best estimate or a certain standard deviation. It's more about putting this out in the tail so that people don't have to worry about it anymore. So that's really what drove it more than trying to land anywhere on a particular curve.

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

A

Alex, I would add a couple of points to Jim's commentary. So, the subject matter reserve pool is approximately $5.4 billion. So when you take into context the $1.2 billion of cover on top of that, that is very substantial. So if you think about a distribution to the point you were making, I would call that quite broad, quite strong, certainly more than a traditional range of an ace, and certainly nothing that we would expect to blow through, to be quite frank with you, given the overwhelming nature of it. So, the underlying reserve base is also somewhat diversified with other lines of business. So the casualty reserves, I would say, are the ones that are currently in focus from a risk perspective. And so this $1.2 billion can really be seen, I think, as to Jim's point, finality on the subject for us.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Got it. Very helpful. Follow-up question is, on the Insurance segment, you commented a bit about the profitability of what you're retaining versus what's going in the renewal rights. You also mentioned several times just the conservatism that you're now embedded into loss picks. And so I just wanted to make sure I'm understanding the two things correctly. I mean, if it's sort of – I think Meyer mentioned 95% and you didn't correct him, on the go-forward, is there any kind of conservatism that needs to be sort of layered on top of that for a while before you kind of get to that level, or is that where it's running right now, even with the conservatism that you feel like you're embedding now?

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

A

Yeah, Alex. Look, I would say, one of the reasons I didn't correct the 95% is we don't give forward guidance. But I'd say, we have tried to create some clarity here by indicating this business performance well. I'd say the lower

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half of the 90s is a reasonable way of thinking about a conservative approach to booking that business. Given where we've come from, we want to make sure that we are being prudent in the loss picks. And so the way I'm talking about it assumes that we're going to keep some conservatism. The other key point to keep in mind, though, is if you think about the Wholesale and Specialty business on a go-forward basis, the share of that business that's US casualty exposed is something that we're managing very closely. And so the need for conservatism gets affected, obviously, by the mix of the portfolio you're writing, and that's certainly within our control. So I think you can see us print some very solid current period results while also being conservative in the picks, which to me is the best combination.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

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

A

Thanks.

Operator: The next question comes from Andrew Andersen with Jefferies. Please go ahead.

Andrew Andersen
Analyst, Jefferies LLC

Q

Hey. Good morning. I hear your comments on the difference between the Reinsurance casualty and Insurance casualty, but I think you did mention some movement on casualty reinsurance this quarter. Could you just expand a bit on what that was? And I just want to confirm this was effectively the reserve study for the year across both segments or is there still some studies in the fourth quarter?

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

A

No, Reinsurance is complete in terms of the reserve studies. There might be a couple of very small ones, but they'd be immaterial to this. Clearly, we did all the casualty studies. Very minor puts and takes. Nowhere close to the magnitude of what we had last year. Feeling very good about it. And it's fully reflected in our Q3 figures.

Andrew Andersen
Analyst, Jefferies LLC

Q

Okay. And on just growth, I suppose, if you don't have that favorable view on primary casualty, that somewhat reflects your Reinsurance casualty growth, but that line has been coming in for a while. What are you kind of seeing in the pricing environment on casualty reinsurance in your go-forward view there for growth?

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

A

Yeah. I mean, the main way that we participate in the casualty reinsurance market is on a quota share basis. And so the real price that we keep an eye on is rate relative to the trend line. I think that's been a pretty favorable story, really for the last year-plus. I don't really see that changing. It's compressed a little bit, but you still see our clients are still keeping rate in excess of trend across those casualty lines. I haven't seen any evidence of the quality of underwriting slipping, certainly not among our clients, where we've seen that. Those are folks that are no longer our clients.

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And then the last piece I would say is, there has been a persistent stickiness to ceding commissions that I don't think is really all that smart on the part of the reinsurance industry. And so, you've seen us act maybe a little counter to what some others are doing insofar as, if we're going to take these risks, we want to make sure that the alignment of the interest is there and that we're not overpaying for the business. So I don't really see that changing. So I think it's sort of status quo. I think there's plenty of good quality casualty reinsurance to write, maybe not as much as we would like, but plenty for us to focus on, plenty of great clients to participate with. And so, I think we're kind of in a – I think we're at the right level now. And from here it's just the usual portfolio management work that we're always doing.

Andrew Andersen
Analyst, Jefferies LLC — Q

Thank you.

Jim Williamson
President, Chief Executive Officer & Director, Everest Group Ltd. — A

Thanks, Andrew.

Operator: The next question comes from Brian Meredith with UBS. Please go ahead.

Brian Meredith
Analyst, UBS Securities LLC — Q

Yes. Thank you. Jim, first question, I think in your prepared comments, you talked about looking for ways to diversify the company more. Can you maybe elaborate a little bit on that, and why is that important? And why not just kind of stick with your kind of core competencies here right now in Reinsurance and Wholesale and Specialty businesses?

Jim Williamson
President, Chief Executive Officer & Director, Everest Group Ltd. — A

Oh, sure, Brian. Yeah. I mean, look, what I – I wouldn't read too much into that comment. We're always looking at opportunities. When we talk about diversification, I would always apply the clear priorities that I signaled or the standard that I set in my prepared remarks, which is. If we're going to deploy capital anywhere, it's got to get remunerated at acceptable levels of risk. It's got to be in the businesses where we see clear competitive advantage, where the economics are good, where the path forward around execution is strong. And so, look, it's a big world. We participate, I think meaningfully in a number of markets. We're still underweight in a lot of places.

And you've heard me talk about them in the past in the specialties, obviously, and I mentioned our Reinsurance specialty performance, $500 million of premium in the quarter, over $100 million a profit. It's a terrific business. Lots of room to grow there, which creates diversification because you're not that's not Property CAT. That's not core US casualty. We're still underweight in Asia. The team out there in Reinsurance has done a phenomenal job of growing that business. I think we can continue to play that out over time. We are organizing now around Global Wholesale and Specialty in a way that we haven't before. We've named Jason Keen, who was the co-CEO of our International Insurance business and CEO of that new division, he will definitely find interesting opportunities to grow again over time.

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And so, that's really what I'm referring to. And we evaluate those very carefully. And I think you can certainly feel confident that we've set a clear standard on how we're going to think about those opportunities as we move forward.

Brian Meredith
Analyst, UBS Securities LLC

Q

Great. That's helpful. Thank you. And then second question, just back on the ADC and just curious, any way you can provide maybe some details on how you think the ADC reinsurers arrive at the attachment point? I mean, look at that adverse development you in your insurance is about 2 times your risk margin at year end 2024, and 1 time on the Other segment?

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

A

Yeah. I mean, one thing that I would point out is I was really, really glad that we were able to do this transaction with Longtail Re, which I'm sure you're familiar with that team and Mike Sapnar, those are super credible underwriters. They did an excellent job evaluating the portfolio. And so it's a – I would describe it as more of a collaborative process than anything else.

Obviously, one of the features of this ADC that I think is really critical to focus on is the fact that there is no loss corridor. And clearly establishing a stronger reserve base is, I think, a precursor to getting $1.2 billion of gross limit on top of your carry position without a loss corridor. So that was an important characteristic of how we brought all this together.

And I think that was important to us because it now creates certainty and people now understand that 2024 and prior, North America Insurance development, if there is any, which, we set our ultimate hoping that there's not but if there is any it will be covered under the ADC. And so that's sort of the process they go through. It's a very rigorous process, a collaborative one. And I think it got to economics that will be very, very good for Longtail Re but are also quite reasonable from Everest perspective.

Brian Meredith
Analyst, UBS Securities LLC

Q

Thank you.

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

A

Thank you.

Operator: The next question comes from David Motemaden with Evercore ISI. Please go ahead.

David Motemaden
Analyst, Evercore ISI

Q

Hey. Thanks. Good morning. I had a question just on the casualty reinsurance reserves. Mark, you had mentioned there was some minor development there in the quarter that was offset by some of the shorter tail releases. I was wondering if you could just elaborate a little bit on what happened exactly there and some of the trend you're observing on the casualty re reserves.

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

A

Yeah. A couple of comments, so I would say it's, definitely subsided. You're looking at a few older years that were getting impacted from a few cedents. We're seeing good signs of adequacy overall. And when I compare it to the trends we saw, last year or the previous year, 2023 or 2024, really didn't see the same level of development that we saw there, particularly when we were bridging the data. So we felt quite comfortable with what we were seeing and the ability to offset it.

I think the other point that I would make is, so I mean, it's all US casualty based. There was nothing else from an international basis that was concerning us at all. It's obviously something we're focused on because it is so much in the spotlight with social inflation. So we do a lot of individual cedent reviews as we look at the data. But the other point that I made in my script is the overall strength of the Reinsurance segment and the embedded margin that we believe we're building in there, we continue to see very, very favorable signs of adding embedded margin waiting for it to season and then releasing it when it's ready.

David Motemaden
Analyst, Evercore ISI

Q

Got it. And the gross change on the casualty re side. Is that something you could size for us?

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

A

A few percentage points, very small on the base. So definitely on the low-end.

David Motemaden
Analyst, Evercore ISI

Q

Got it.

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

A

Yeah.

David Motemaden
Analyst, Evercore ISI

Q

And then just quickly, I think just staying on the casualty re reserves. I think when we had the reserve update at the end of last year, there was $180 million of risk margin in that book and you guys had said it was at the upper part of the actuarial best estimate range. I was wondering, has that improved? Is that in the 90th percentile now? I guess how big is the risk margin? Is that stayed the same? Any sort of detail on those metrics would be helpful.

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

A

Yeah. I want to make sure I understand which segment you're referring to. Was it sorry, was it Reinsurance or Insurance, just want to clarify?

David Motemaden
Analyst, Evercore ISI

Q

Yeah. The casualty – on the casualty re side.

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

On the casualty re side. Yeah. So we're definitely comfortable with it. I think what we did last year, the concept of the risk margin that we put into the management best estimate was really to deal with uncertainties that we foresaw from a management perspective relative to the actuarial central estimate. And so, as we observe the data coming in, the loss experience and how broad-based it was, we could see that, that uncertainty really wasn't crystallized into a loss experience that was more in line with our expectations. And so, the point that I would make is that the uncertainty on the higher end is not something that we see today. We're quite comfortable with the loss development factors that we put into our Q3 studies. We're benefiting from this extra data. We're seeing stabilizing trends. The loss picks are in a good spot. It's something we've also taken the time out of prudence to strengthen in the current year 2025. So from a Reinsurance perspective, we're in a good spot.

David Motemaden
Analyst, Evercore ISI
Q

Got it. Understood. Thank you.

Operator: The next question comes from Ryan Tunis with Cantor. Please go ahead.

Ryan Tunis
Analyst, Cantor Fitzgerald & Co.
Q

Hey. Thanks. Good morning. Just I guess, Jim, kind of broad question on just the ROE trajectory. At the beginning of the year, you've talked the ROE was ex, I don't know, call it, 14%, 15%. Just thinking through the moving parts on what that is now, I mean, we're losing $2 billion of Insurance premium, $60 million of investment income, but obviously we're getting some costs out and some elevated capital management. So, I'm just wondering how you're thinking about the ROE profile of this company?

Jim Williamson
President, Chief Executive Officer & Director, Everest Group Ltd.
A

Yeah. Ryan, thanks for the question. It's good to hear from you. Let me step back a little bit and paint a little bit of the broader picture and then get into the specifics of your question. Just in terms of the moving parts around the specific transaction and what it mean for the group. The first thing I would say is, as you'd appreciate, there's an embedded cost that is included in the P&L that's now going to be transferred, which involves obviously employee costs, technology, et cetera. We have a very clear strategy around how we rationalize that in 2026. And as market indicated earlier, we're still expecting and just done simple math and accounting, a fairly robust amount of earned premium to flow through our P&L from the portfolio that we're selling in 2026 is as it runs down.

And so I think the – on a very rough justice basis, the rundown of the cost and the rundown of the earned premium are moving in the same direction. Not to say there won't be some drag at certain points or things we'll have to manage, but I'm pretty confident we'll get to a good place around that. And so as we sort of exit the transaction and get the business right-sized, I don't expect that to be a long-term headwind for the group as you get out past 2026. The other thing I would say is obviously here we got a market cycle that is it's doing what market cycles do. It's ebbing and flowing right now, particularly in short tail lines. You see a little bit of a takedown both in the primary market and in reinsurance around property pricing, et cetera. But as I indicated in earlier questions, I still think it's very attractive.

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And so, are we still sort of in the mid-teens level of ROE for over the cycle, yes. Are we at a part of the cycle in 2026 where maybe it's just slightly below that, maybe. But lots of levers for us to pull, not least of them will be capital management actions, as Mark had indicated, to manage that over time in a really attractive way.

Ryan Tunis
Analyst, Cantor Fitzgerald & Co.

Q

Got it. And then just a follow-up on the decision to do the renewal rights deal. You're describing, I guess, first of all, I was a little bit surprised, but I just want to know if there's any overlap on the retail business and the remediation you did. So it seems reasonably clean from a reserve standpoint, and it's a sub-100% combined ratio business. So why do the renewal rights deal rather than pursue, like, sale opportunities?

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

A

Yeah. So fair question. So first of all, just to reiterate some things I said earlier, the decision around – the strategic decision that I made in conjunction with the management team, our advisors and the board was about focusing on our core reinsurance business and these really attractive Wholesale and Specialty businesses. That's the real primary decision that got made. And so the decision to exit retail insurance is a by-product of that. And then, the question becomes, once you've gotten there, what is the most effective way to create that? And I think from the perspective of a few factors played into why a renewal rights transaction. Well, one, the reality is we're going to need to and we have dealt with the back book of reserves from the ADC. But it's just not a practical thing to try to transfer that at this point.

A number of legal entities that support the retail business are also really important to the Wholesale and Specialty businesses that we're persisting, that's important. And then ultimately, we got to a place where we had the right partner to work with to get this deal done effectively, quickly with a lot of certainty. And there's also obviously the needs of your partner you got to think about. So all those things aligned, and ultimately it was really clear to me that a renewal rights transaction was the most efficient way to effectuate the strategic priorities that we had set during this process of focusing on our Reinsurance and Wholesale and Specialty Insurance businesses.

Ryan Tunis
Analyst, Cantor Fitzgerald & Co.

Q

Thanks, Jim.

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

A

Thanks, Ryan.

Operator: The next question comes from Hristian Getsov with Wells Fargo. Please go ahead.

Hristian Getsov
Analyst, Wells Fargo Securities LLC

Q

Hi. In the past, you've spoken about increasing the international component of the primary insurance book. I guess with all the moving pieces, particularly around the renewal rights and then your focus on the Wholesale and Specialty side, is there any change in that game plan? And then, I guess, sticking to that, is there enough runway for you guys to grow that business organically, or can M&A be a bigger part of the story moving forward?

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

A

Sure, Christian (sic) [Hristian] (00:53:50). Let me take the questions in turn. So, the growth in international, obviously, that was largely a retail strategy, although we also have a terrific wholesale business in our Everest Global Markets, which is our London market business. And I want to be really clear about something important, and I think this is true both on the international side, as well as North America post the remediation.

There was nothing wrong with the books of business and there was nothing wrong with the way the teams were executing their strategies. They were getting good results. But the question that we confronted strategically is what is the best use of our capital and our investments going forward. And clearly, as I've said a number of times, the opportunity in Reinsurance and in Wholesale and Specialty Insurance for us, at this point in our evolution, is just a much stronger proposition than continuing to invest in retail. So, yes, the decision to divest the retail business will blunt the international growth in the short term. But it's for strategic reasons that we've spent a lot of time explaining today.

So in terms of the business going forward and particularly that Wholesale and Specialty business which, as I've said, we've now reorganized into a single business under great leadership, I do think there will be growth opportunities. We're supremely focused on bottom line results. But as market conditions allow, I think there is organic growth that we can pursue. I will stress, probably being very repetitive at this point, but we can pursue those growth opportunities organically with far fewer investments in people and infrastructure than is required in the retail business, which I think is attractive for us.

And then could M&A be part of the plan? I think that's possible. But we've been pretty consistent on this point, which is if we do something like that in Wholesale and Specialty, it's going to be about bolting on capabilities that are attractive, that are consumable, that have modest execution risk. Those are the sorts of characteristics that I think you would want to think about if we were to do any M&A in the Wholesale and Specialty space.

Hristian Getsov
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you. And then, how are you thinking about pricing at the 1/1 renewal, just given what we know, through hurricane season to date? And does the ADC and renewal rights sale, does that increase your appetite for you to go and get new business now that you're done through the 1-Renewal Strategy and you're getting a bunch of capital alleviation over the next 12 months?

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

A

Yeah. So in terms of the pricing outlook, I think the market consensus is prices are going to come off a bit, probably in the range of 10%, depending on who you believe. I think the business is still well priced, if that happens, in terms of expected return. Now, having said that, I would not expect us to look to significantly grow from that point. When prices are coming down, I think it's more about being very selective.

Capital constraints were never an issue, as we've expanded the book. And we had excess capital before this transaction. We have more of it now. That is not a factor in determining how much CAT we're going to write. It's really more about the underlying dynamics of the CAT market and how it compares to other opportunities to deploy capital.

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Hristian Getsov
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you.

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

A

Thank you, Christian (sic) [Hristian] (00:57:19).

Operator: The next question comes from Tracy Benguigui with Wolfe Research. Please go ahead.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Thank you. Good morning. Just some clarification on your comment, there was no loss corridor. I mean, I see that in the schematic. But I just assumed that the $539 million of casualty reserve strengthening would have been your loss corridor have you not taken those actions. I'm just wondering, did Longtail Re come in and say, I will attach a $5.4 billion so you have to fill in the gap, or would they've done the deal at a lower attachment?

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

A

Well – yeah, Tracy, I'm not going to speculate on what they might have done, but what I would say is it was a collaborative process in terms of arriving at the structure of this deal, and we were sharing a lot of information, a lot of transparency was taking place. But remember, this loss is fundamentally driven by an appropriate actuarial process within Everest to arrive at what we think the ultimate loss ratios are going to be. And I think – and again, I'm not going to speak for a Longtail, but I think anyone looking at the approach that we've taken to those reserves would say we believe in the ultimates. And I think that's the real takeaway here. Those are the right ultimate loss ratios, given everything that's occurred in the external environment and the underwriting issues that we've had. And so, therefore, we can attach at that ultimate. And I think that speaks volumes about how people are feeling about what's going to happen next in terms of those ultimate loss ratios holding from here.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Got it. And I'm just curious, how wide of a search did you conduct? This is not a knock on Longtail Re, but just doing a deal with a non-rated reinsurer piqued my interest given the capital discussion on this call, I mean, there's less relief given higher counterparty credit risk.

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

A

Yeah. So just one thing in terms of the deal features and then I'll come into the process. We are facing off against two rated fronting carriers as part of the transaction. So we're not taking credit risk to Longtail Re. We have rated balance sheets very strongly rated balance sheets facing us as fronts in the transaction. So it's a good question and something we thought carefully about. We ran a very comprehensive process. We use Gallagher Re as our broker in the process. They were – and if you know, their casualty team is world class, they did a very comprehensive search. We worked with a number of parties but what I really liked about Longtail is a couple of things. One, we have a pre-existing relationship with Stone Ridge Asset Management through Mt. Logan. They've been very steadfast partners of ours. So that was a feature. And I think there's a lot our companies do together today and can do together going forward. And then I have enormous respect for Mike Sapnar personally, and I

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think he's a fantastic underwriter. And his – frankly, his seal of approval on all this was important to me. So I think this outcome is just fantastic for Everest, and I think it will prove to be a really good trade for Longtail as well.

Tracy Benguigui
Analyst, Wolfe Research LLC
Q

Okay. So you said there were two fronting companies, is it like retrocession, like if you could just share a little bit more detail behind that.

Jim Williamson
President, Chief Executive Officer & Director, Everest Group Ltd.
A

Yeah. So the deal, the transaction of $1.2 billion gross limit is split into two layers. The first layer is fronted by State National. The second layer is fronted by MS Transverse, Longtail sits behind those two carriers and has collateral arrangements, et cetera. But we face off. We are ceding to those two rated balance sheets.

Tracy Benguigui
Analyst, Wolfe Research LLC
Q

Thank you so much.

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

Yeah. Tracy, it's worth pointing out we have an 8-K with all the details on the ADC. I think we issued it yesterday. So, certainly you can get that structure from there.

Tracy Benguigui
Analyst, Wolfe Research LLC
Q

Thank you.

Operator: This concludes. This concludes our question-and-answer session and concludes our conference call today. Thank you for attending today's presentation. You may now disconnect.

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