Assured Guaranty Ltd. (AGO)
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First Quarter 2024 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our First Quarter 2024 financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results or other items that may affect our future results.

These statements are subject to change due to new information or future events. Therefore you should not place undue reliance on them, as we do not undertake any obligation to publicly update or revise them, except as required by law.

If you are listening to a replay of this call, or if you are reading the transcript of the call, please note that our statements made today may have been updated since this call.

Please refer to the Investor Information section of our website for our most recent presentations and SEC filings, most current financial filings, and for the risk factors.

This presentation also includes references to non-GAAP financial measures.

We present the GAAP financial measures most directly comparable to the non-GAAP financial measures referenced in this presentation, along with a reconciliation between such GAAP and non-GAAP financial measures, in our current Financial Supplement and Equity Investor Presentation, which are on our website at AssuredGuaranty.com.

Turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd., Rob Bailenson, our Chief Operating Officer, and Ben Rosenblum, our Chief Financial Officer. After their remarks, we will open the call to your questions.

As the webcast is not enabled for Q&A, please dial in to the call if you would like to ask a question.

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you, Robert, and welcome to everyone joining today's call.

I want to begin with a little history. Last month, we celebrated the 20th anniversary of our IPO. Since that time, through the end of the first quarter of 2024, we produced cumulative net adjusted operating income of almost $9 billion, increased our adjusted book value by 542%, returned $1 billion in dividends to our shareholders, and increased our share price by 385%. Of note, the increase in our share price over that period exceeded those of the S&P 500 Financials, the S&P 500, the Dow Jones Industrial Average and the New York Stock Exchange Composite Index.

We proved the effectiveness and prudence of our underwriting strategy, as well as the resilience of our business model through difficult circumstances. These included the 2008 global financial crisis - with its many high-profile municipal and corporate bankruptcies - the increased occurrence and scale of natural disasters, and the impacts of the COVID-19 pandemic – with its far-reaching global effects. During those periods, we maintained our ratings and claims-paying resources at high levels, and continued to write new business. We also reduced our insured leverage and our single-risk exposures, while at the same time returning more than $6 billion to our shareholders through share buybacks and dividends, and maintaining significant excess S&P capital.

And while we sought to preserve sufficient excess capital, we did not lose sight of our shareholders' need for appropriate returns on their investments. We began our share repurchase program in 2013, and since then, through May 7th of this year, we have repurchased a total of 75% of the shares that were outstanding at that time.

This year we are confidently ramping up our expectations for share buybacks to the level that prevailed in earlier years when we generally bought back about $500 million per year. In 2024, we have repurchased $129 million of common shares in the first quarter alone, which equals 2.7% of the shares outstanding when the year began, and positions us well to reach our $500 million target for 2024. Additionally, on May 2nd, our Board of Directors authorized an additional $300 million of share repurchases, in line with our target.

Which brings us to the other impressive results of the quarter.

Adjusted operating income per share came in at $1.96 for first quarter 2024, compared with $1.12 in the first quarter of last year. Our key non-GAAP valuation measures again reached new highs on a per-share basis, with adjusted operating shareholders' equity at $107.69, compared with $94.58 in the first quarter of 2023, and adjusted book value at $157.31, $14 higher than a year ago. Shareholders' equity per share at quarter-end was $102.19, also $14 higher - also a record.

New business production in the quarter was strong, and I'll let Rob give you more details in a moment.

Our strategic approach to asset management through our 30% interest in Sound Point is generating fee-based earnings consistent with our expectations, and our investment portfolio is benefiting from returns on our alternative investments through Sound Point.

As we have previously discussed, we resolved all of our non-paying Puerto Rico exposures with the sole exception of the electric power authority, PREPA, which is currently only $624 million of net par exposure.

In fact, PREPA plus all our other below-investment-grade exposures constitute just 2.1% of our current net par outstanding. We prefer to resolve PREPA consensually, if possible, but will continue to use the legal process to vigorously oppose any plan of adjustment that does not include a fair treatment of our bond claims.

Today, I firmly believe our insured portfolio and financial condition are stronger than ever.

When I reflect on how far our company has come, the development and evolution of our different business strategies, our proactive and strategic approach to running the company and the way we have protected investors, served issuers, and created value for both our policyholders and shareholders, I am extremely optimistic about not only the rest of this year but also our future for years to come.

Now I'll turn the call over to Rob.

Robert Bailenson
Chief Operating Officer

Thank you, Dominic, and good morning to everyone on the call.

Our financial guaranty new business production was strong in the first quarter of 2024, in which we closed $63 million of PVP.

U.S. public finance led the way with $43 million of PVP, approximately double its PVP for the first quarter last year, even though the corresponding gross par written closed was similar.

Supported by growth in the overall municipal market, total first-quarter primary market volume sold utilizing bond insurance was up 24% year-over-year. Primary market insurance penetration continued to exceed 7% of par sold, as it generally has since 2020, when the COVID-19 pandemic reminded investors of the value of bond insurance in an unpredictable world.

It's worth noting that in our target rating category of transactions with single-A underlying ratings from S&P and/or Moody's, insurance penetration was 27% of par sold and 63% of the number of transactions sold.

Assured Guaranty remained the market leader in U.S. municipal bond insurance, insuring approximately 53% of all primary market insured par sold during the first quarter of 2024. The $3.8 billion of new issue par sold with our insurance during the quarter was 12% higher than in first quarter 2023.

We continued to benefit from institutional investor demand for Assured Guaranty's insurance on larger transactions. During the quarter, we insured seven transactions with $100 million or more in insured par, totaling approximately $1.4 billion, including the two transactions sold with the largest insured par amounts during the quarter, the $340 million of insured revenue bonds for the North Carolina Turnpike Authority Triangle Expressway System and the $318 million of insured revenue bonds for the Lower Colorado River Authority.

We also continued to add value on double-A credits during the first quarter, as we insured $605 million of par on 23 such deals. We believe investors in these transactions are exhibiting both a high regard for our financial strength and an understanding of the range of benefits in our value proposition, including potential mitigation of downgrade risk.

The second quarter is off to a great start, including our participation in Florida's Brightline high-speed rail refinancing, expected to close on May 9th, where we will insure an amount exceeding $1.1 billion of senior bonds, representing more than half of the $2.2 billion of senior bonds to be issued.

The underlying project, a 235-mile high-speed rail system between Miami and Orlando, is the first private passenger rail system built in the United States in over a century. This transaction demonstrates the value investors place on Assured Guaranty's extensive due diligence, underwriting experience and financial strength. We have unrivaled capacity and transaction experience to guarantee large-scale, investment-grade municipal bonds and infrastructure financings.

We expect our public finance business to continue to perform well in the current environment as municipalities prioritize much-needed infrastructure repair and development. Our product can help them optimize their bond executions, so they can accomplish more with a lower financing burden.

In other financial guaranty business during the first quarter, global structured finance made a significant contribution of $19 million of PVP from 11 transactions across primarily the insurance securitization and subscription finance sectors. This group has expanded the application of our guaranty into various new sectors, and I believe they will continue to develop additional product applications to further support our business growth.

Non-U.S. public finance produced an additional $2 million from renewals of two liquidity facilities that involved no increase to our insurance exposure. We have a large pipeline of international infrastructure transactions, and we expect certain transactions to generate significant PVP, especially in the second half of this year. Outside of the U.S., we are working hard to extend our reach more broadly beyond the United Kingdom, with personnel in France, Spain and Australia focused on additional new business opportunities.

I'll now turn the call over to Ben.

Benjamin Rosenblum
Chief Financial Officer

Thank you, Rob and Dominic, and good morning.

I am pleased to report first quarter 2024 adjusted operating income of $113 million (or $1.96 per share), compared with $68 million (or $1.12 per share) in the first quarter of 2023. On a per-share basis, this represents a year-over-year increase of 75%.

The Insurance segment contributed $149 million of adjusted operating income in the first quarter of 2024, compared with $117 million in the same period last year. This segment is the largest component of adjusted operating income and had a few notable items driving the quarter-over-quarter increase.

- First, net earned premiums were $38 million higher compared with last year, primarily due to the refunding of one large transaction.
- Second, mark-to-market gains on Puerto Rico contingent value instruments were $26 million, compared with a loss of $2 million in the first quarter of 2023. Our remaining CVIs have a fair value of $272 million as of March 31, 2024.
- And last, equity in earnings from our alternative investments was a gain of $40 million, compared with a gain of $30 million in the first quarter of 2023. Investments in CLO equity tranches were the primary component of the alternative investment gains in both periods.
- Fair value changes of assets underlying the alternative investments may cause volatility in adjusted operating income from quarter-to-quarter, however, on an inception-to-date basis, they have generated an annualized internal rate of return of 14.4%.

These year-over-year increases in the insurance segment were partially offset by a decline in other income, which included a non-recurring benefit related to the release of a litigation accrual in the first quarter of 2023.

Our deferred premium and credit derivative revenue, which represents the storehouse of future earnings in the insurance segment, remains strong at $3.8 billion.

In the asset management segment, the 2023 partnership distribution from our 30% ownership interest in Sound Point was $17 million and was received in 2024.

On the capital management front, in the first quarter of 2024 we bought back 1.5 million shares for $129 million, at an average price of $84.07 per share. We continue to believe that this is one of our most accretive strategies. As a result, our Board of Directors last week authorized an additional $300 million of share repurchases, which brings our current remaining authorization to approximately $414 million.

In terms of our holding company liquidity position, we have cash and investments of approximately $239 million, of which $67 million resides in AGL.

The share repurchase program, along with adjusted operating income and new business production, collectively contributed to new records for adjusted operating shareholders' equity per share of over $107, and adjusted book value per share of over $157.

While adjusted operating income varies from period-to-period, the consistent quarterly increases in these book value metrics reflect how the successful execution of our key strategic initiatives build shareholder value over the long term.

One other positive development to note. On April 30th, Moody's upgraded the insurance financial strength rating of AGC and affirmed the rating of AGM, both with a stable outlook. In the report, Moody's cited AGC's strong risk-adjusted capital adequacy, the significant improvement in the credit quality of the insured portfolio, and an increased strategic role within Assured Guaranty. About AGM, Moody's noted AGM's strong capital profile and leading market position in the financial guaranty sector.

I'll now turn the call over to our operator to give you the instructions for the Q&A period.

QUESTION & ANSWER SESSION

[Operator Instructions]

Operator
Our first question today comes from Tommy McJoynt of KBW.

Tommy McJoynt, *KBW*
The first question is on the net investment income line. So it looks like it had been averaging – looking at the insurance segment around $99 million in third quarter in the second half of last year, and it dropped sequentially to $83 million, can you walk through some of the puts and takes for what drove that decline? And then how we should think about the run rate from that going forward?

Benjamin Rosenblum
Sure, Tommy. Thanks for the question. So this is Ben speaking. I think the answer is if you look back a couple of quarters before, and you'll see it was a little lower, what happened at the end of the last year, the last 2 quarters, we had income from some loss mitigation bonds that came through. I would say that what you're observing this quarter is probably a relatively consistent run rate of what I would expect throughout the year.

Tommy McJoynt
Okay. Got it. Thanks for that. And then can you remind me what is happening in the other segment in terms of the – I forget kind of mechanically how it works with the large negative equity and net earnings of investees, the last couple of quarters. I think that's offsetting some of the fair value gains on the CIVs. But can you just remind us mechanically what's happening there?

Benjamin Rosenblum
Sure. I think any way you're looking at it, you're looking at the impact of some of the consolidation of the FGs and CIVs are coming through with some of the volatility coming through that consolidation. There's a bottom-line impact on it.

Tommy McJoynt
Yes, that's what it looked like. Okay. And then just last question. I think there's still a special dividend request pending in New York for AGM. Is there any status update on that or anything you want to share there?

Dominic Frederico
Sure. As you know, we filed a request back in fall of last year and New York is going through its process to approve the dividend. We don't have any expectation of issues. So it's just them going through their process at this point in time. Hope we will hear something in the very near future.

Operator
[Operator Instructions] This concludes the question-and-answer session. I would now like to turn the conference back over to your host, Robert Tucker for closing remarks.

Robert Tucker
Thank you, operator. I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.

Operator
This concludes today's conference call. Thank you all for attending. You may now disconnect your lines. Have a great day.