



Second Quarter 2025 Earnings Call Transcript

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PRESENTATION

Operator

Good morning, and welcome to the Palomar Holdings Incorporated Second Quarter 2025 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference line will be open for questions and with instructions to follow. As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Chris Uchida, Chief Financial Officer. Please go ahead, sir.

Christopher Uchida

Thank you, Operator, and good morning, everyone. We appreciate your participation in our earnings call.

With me here today is Mac Armstrong, our Chairman and Chief Executive Officer. Additionally, Jon Christianson, our President, is here to answer questions during the Q&A portion of the call.

As a reminder, a telephonic replay of this call will be available on the Investor Relations section of our website through 11:59 PM Eastern Time on August 12, 2025.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about Management's future expectations, beliefs, estimates, plans and prospects. Such statements are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from those indicated or implied by such statements. Such risks and other factors are set forth in our quarterly report on Form 10-Q filed with the Securities and Exchange Commission. We do not undertake any duty to update such forward-looking statements.

Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in

isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to their most comparable GAAP measure can be found in our earnings release.

At this point, I'll turn the call over to Mac.

Mac Armstrong

Thank you, Chris, and good morning.

I'm pleased to discuss our second quarter results as they further demonstrate our success in building a Specialty Insurance Market leader as well as the execution of our Palomar 2X strategic imperative. We not only achieved exceptional top line growth of 29%, 45% on a same-store basis, but we also saw strong bottom line growth with adjusted net income increasing 52% year-over-year. This strong growth underscores the strength and diversity of our product suite and the effectiveness of our balanced book of property and casualty and residential and commercial risks.

Our financial metrics were equally impressive as we generated an adjusted combined ratio of 73% and a 24% adjusted return on equity. Our portfolio is one of a kind in specialty insurance and our second quarter results reflect its unique nature.

As I reflect on our results and the broader Specialty Insurance Market backdrop, there are five key themes that I hope you take away from today's call.

First, our ability to operate seamlessly across residential and commercial products and the Admitted and E&S markets is a core strength and differentiator. This flexibility allows us to respond adeptly to any shift in market conditions and deploy capital where the exposure and terms and conditions are most attractive. The strategy has proven the most opportune this quarter in our Earthquake and Inland Marine and other property lines of business.

Second, the breadth of our specialty portfolio provides ballast across insurance and macroeconomic cyclicality. Beyond the mix of E&S, Admitted, Residential and Commercial lines, products like Surety and Crop are not subject to traditional P&C insurance market cycles and as such, afford us distinctive earnings stability.

Third, Crop and Casualty are now not only meaningful growth engines, but moreover contributors to our near and long term success. Both product categories had strong quarters and have exceptional leadership orchestrating our business plans.

Fourth, we remain disciplined in our approach to underwriting and reserving. We are building reserves across the book and only releasing redundancies in short-tail mature lines of business. Furthermore, we are maintaining conservative gross and net line sizes as our books season in newer lines of business like Casualty and Surety.

Fifth, our June 1 reinsurance placements were executed from a position of strength, enabling us to meaningfully reduce volatility, improve risk-adjusted returns and importantly, ensure consistency in our earnings base for the remainder of the year and into 2026.

With that said, I will now offer further commentary on the performance and market conditions of our five product categories. Our Earthquake franchise delivered consistent results with gross written premium growth of 9% year-over-year. This performance highlights the strength of our purposefully structured portfolio of Residential, Small Commercial and Large Commercial Earthquake insurance products. The strategy, which has been in place since our formation in 2014, allows us to achieve steady growth and returns regardless of the market environment.

With an increasingly competitive Commercial Earthquake market, our current focus is directed towards the Residential Earthquake book. During the quarter, we wrote record new business premium that complemented the 87% policy retention and 10% inflation guard on the existing book. Residential Earthquake continues to see growth opportunities from both the Admitted and E&S markets as well as new distribution partnerships. We are seeing increased competition in Commercial Earthquake, most notably in large commercial accounts, which saw an average rate decrease above 20%, albeit from record levels. We remain disciplined on pricing in terms of conditions but are still allocating capital to large accounts business that meet risk-adjusted return targets.

Small Commercial business, which represents a third of the Commercial Earthquake book is more insulated to the pricing pressure exhibited in the large Commercial E&S market. That said, it is still seeing rate decreases above 10%. While the conditions in the Large Commercial segment have softened, the strength of our Residential book position us to sustain growth in 2025. For the remainder of the year, we expect high single-digit growth in our Earthquake franchise, driven by the continued strength in Residential Earthquake.

Our Inland Marine and other property category grew 28% year-over-year driven by a well-diversified mix of Residential and Commercial lines. Like the Earthquake book, Residential and Residential-oriented Admitted products were the best performers in the quarter. The Admitted nature of the Residential Earthquake, Hawaiian Hurricane and Residential Builders Risk business requires considerable investment in systems, distribution, process and infrastructure and therefore, has a more pronounced barrier to entry than Commercial E&S segments. Our Hawaii Hurricane line grew 39% as we continue to increase rates on the held book and selectively increase the exposure in our Laulima reciprocal.

Our Residential Builders Risk products performed well in the quarter, highlighted by our Admitted single location business, which grew 52% in the quarter as recently added underwriting talent was able to service new and existing distribution partners. The Residential Builders Risk market, both standard and high value, continues to present attractive opportunities.

In June, we also announced a strategic partnership with Neptune Flood to enhance our residential flood offering. The partnership with Neptune will expand our Flood exposure from geographically concentrated inland flood risk to a more diversified nationwide portfolio that leverages Neptune's market-leading technology and distribution reach.

Importantly, reductions in Wind exposure over recent years have freed the capacity to write Flood risk in coastal areas without stacking exposure and increasing earnings volatility. While Commercial Property rates have softened in the Builders' Risk and Excess National Property segment, we are still growing and generating compelling results. Builders Risk grew more than 30% and renewed its quota share reinsurance program at improved economics from the expiring treaty. Excess National Property grew over 50% in the quarter in the teeth of low teens rate decreases. The growth was driven by a 30% increase in submissions and a larger gross line. With significant prospects still available, we will continue to add underwriting talent in these commercial property lines.

Casualty had another strong quarter of growth as gross written premium increased 119% year-over-year in the second quarter. The strongest performers in the quarter were the E&S Casualty business led by David Sapia that continues to write buffer layer accounts that are seeing rate increases of 15%, Environmental Liability, which nearly tripled year-over-year, albeit from a modest base, and the Real Estate E&O franchise, which grew 87% year-over-year as we expanded our geographic reach and distribution footprint.

On the whole, rate momentum remains healthy and our risk appetite remains conservative, if not modest. In the second quarter, our average Casualty net line was less than \$1 million with our largest line of business, E&S Casualty, having a net line of approximately \$800,000. We also added stellar talent to our Casualty team in the quarter that will both strengthen our underwriting bench and also launch new products. During the quarter, we welcomed Jason Porter to lead primary E&S Casualty and Frank Castro to build out our Healthcare Liability business. Jason and Frank are well-regarded professionals with long-standing distribution and reinsurance relationships.

These additions reinforce our confidence to sustain profitable growth in the Casualty market while remaining disciplined on attachment points, net lines and rate. Our new Surety business performed in line with expectations, growing at a pace consistent with our overall portfolio. Similar to the other Casualty lines, we added experienced underwriting talent, expanded our geographic reach and bolstered our distribution network in surety during the quarter. We remain highly confident in the long-term growth potential of this new franchise.

Our Casualty Reserve approach remains conservative. Our approach is informed by consistent monitoring of loss emergence patterns, attachment points and portfolio mix. As discussed in prior quarters, we continue to carry nearly 80% of our reserves as IBNR, well above industry standards. Maintaining this conservative stance reinforces the strength of our balance sheet and provides confidence in the stability and predictability of our future results.

Our Crop franchise generated \$39 million of written premium in the second quarter compared to \$2.2 million in the prior year period. The elevated result in the second quarter reflects scale, execution and an earlier-than-expected reporting of acreage related to localized mild weather in geographies where we are strong, which ultimately shifted some premium volume forward from the third quarter.

Our April acquisition of Advanced AgProtection has been well-received by the market. As such, we are adding experienced talent to enhance our sales, claims and technology teams. These investments should expedite our long-term plan in Crop. We remain confident in attaining our \$200 million premium target this year and building the business to \$500 million in the intermediate term.

Fronting premium declined 38% year-over-year, reflecting the final full quarter of impact from the conclusion of our partnership with Omaha National. This headwind will be all but gone in the third quarter, allowing the underlying growth of our Fronting portfolio to become more visible. Looking ahead, we'll continue to add partners selectively, but Fronting is not our highest strategic priority.

As it pertains to Reinsurance, the second quarter was equally productive and successful. We completed the placement of our June 1 core excess of loss treaty, achieving a 10% risk-adjusted rate decrease, better than the flat to down 5% we originally guided towards. This terrific result locks in favorable economics through 2025 and into the first five months of 2026. Our reinsurance coverage now extends to \$3.5 billion for earthquake events, inclusive of \$1.2 billion of catastrophe bonds and \$100 million for Continental U.S. hurricane events.

In addition, we introduced a standalone excess of loss treaty for Hawaii hurricane policies issued by Lualaba, providing up to \$735 million in coverage. As a result, our core excess of loss reinsurance tower is over 95% Earthquake-only coverage, which makes the program both attractive and scarce to property catastrophe reinsurers. Beyond securing the limit to support our Earthquake and Wind books, we also improved our risk profile by lowering our all perils, excluding earthquake, per occurrence retention to \$11 million from \$15.5 million, maintained a \$20 million retention for earthquake events, even with a 15% increase in limit and exposure, and lastly, put in place a \$1.5 million retention for Lualaba. These retentions are considerably inside of our stated guidelines of less than 0.25 of earnings and 5% of surplus.

We also successfully renewed 11 other reinsurance treaties during the second quarter, including quota shares for two large lines of business in Builders' Risk and our Cyber Fronting program. Both renewed at improved economics.

Separately, I'm pleased to share that our Board has authorized a two year \$150 million share repurchase program that permits us to opportunistically deploy capital and buy back our shares at levels that we believe are attractive. Stock buybacks will not impede our ability to capitalize on already identified or future market opportunities and that they could enhance our Palomar 2x strategic imperative. The buyback program simply demonstrates the conviction we have in our long-term strategic plan and the future of Palomar.

In conclusion, we executed and delivered strong results this quarter, our 11th consecutive earnings beat in the face of a softening Commercial Property market. The results are a testament to our distinct portfolio of Specialty Products. On the heels of the second quarter's performance, we are raising our 2025 adjusted net income guidance to \$198 million to \$208 million from \$195 million to \$205 million, a midpoint that implies an adjusted ROE of 24%.

With that, I'll turn the call over to Chris to discuss our financial results and guidance assumptions in more detail.

Christopher Uchida

Thank you, Mac.

Please note that during my portion, when referring to any per share figure, I'm referring to per diluted common share as calculated using the treasury stock method. This methodology requires us to include common share equivalents such as outstanding stock options during profitable periods and exclude them in periods when we incur a net loss. For the second quarter of 2025, our adjusted net income grew 52% to \$48.5 million or \$1.76 per share compared to adjusted net income of \$32 million or \$1.25 per share for the same quarter of 2024.

Our second quarter adjusted underwriting income was \$48.4 million compared to \$32.9 million for the same quarter last year. Our adjusted combined ratio was 73.1% for the second quarter of 2025 and 2024. Excluding Catastrophes, our adjusted combined ratio was 73.1% for the quarter compared to 70.3% last year. For the second quarter of 2025, our annualized adjusted return on equity was 23.7% compared to 24.7% for the same period last year. Our second quarter results continue to demonstrate our ability to achieve our Palomar 2x objectives of doubling adjusted net income within an intermediate timeframe of three to five years while maintaining an ROE above 20%.

Gross written premiums for the second quarter were \$496.3 million, an increase of 29% compared to the prior year second quarter or 45% growth when excluding runoff business. As we've discussed on prior calls, this runoff business will add a \$32 million headwind in the third quarter and then will be behind us.

Net earned premiums for the second quarter were \$180 million, an increase of 47% compared to the prior year second quarter. Our ratio of net earned premiums as a percentage of gross earned premiums was 44% as compared to 37.4% in the second quarter of 2024 and compared sequentially to 43.7% in the first quarter of 2025. The year-over-year increase in this ratio is reflective of improved excess of Loss Reinsurance and of the higher growth rates of our non-Fronting lines of business, including Earthquake that cede less premium.

With the timing of our core excess of Loss Reinsurance program renewal and the majority of our crop premiums written and earned during the third quarter, we continue to expect the third quarter to be the low point of our net earned premium ratio, increasing throughout the remainder of the Reinsurance Treaty year in a similar pattern to last year. While we expect quarterly seasonality in our net earned premium ratio, we continue to expect net earned premium growth over a 12-month period. Based on our performance for the first half of the year, we expect our net earned premium ratio to be in the low 40s for the year.

Losses and loss adjustment expenses for the second quarter were \$46.2 million, comprised primarily of non-catastrophe attritional losses with a very minor amount of favorable development on prior year catastrophe events. The loss ratio and attritional loss ratio for the quarter was 25.7%. Additionally, the results for the quarter include \$6.5 million of favorable development, primarily from our shorter tail lines, such as Inland Marine and other Property business.

We continue to hold conservative positions on our reserves. Favorable development is the result of our conservative approach to reserving upfront, allowing us to release reserves later. A great example of this is our all-risk business, where we initially established conservative reserves as the book grew, then

subsequently trimmed our exposure, resulting in strong reserve positions that we can release. Our results for the quarter reinforce our conservative approach to reserving and use of reinsurance. For the year, we expect our loss ratio to be in the low 30s.

Our acquisition expense as a percentage of gross earned premium for the second quarter was 12.6% compared to 11% in last year's second quarter and 12.3% in the first quarter of 2025. This percentage increased along with the overall diversification of our unique specialty book of business. For the year, we expect this ratio to be around 11% to 12%. The ratio of other underwriting expenses, including adjustments to gross earned premiums for the second quarter was 8.7% compared to 7.3% in the second quarter last year and compared to 7.5% in the first quarter of 2025.

As demonstrated by our hires over the last year and in the second quarter, we remain committed to investing across our organization as we continue to grow profitably. As we have discussed on our first quarter call, we have continued to invest in our Crop organization, acquiring Advanced AgProtection on April 1. We expect long-term scale in this ratio, although we may see periods of sequential flatness or increases due to investments in scaling the organization within our Palomar 2x framework. Based on the organizational investments made, I expect this ratio to decrease sequentially in the third quarter and be higher for the year overall when compared to last year. We expect this ratio to be around 8% for the year.

Net investment income for the second quarter was \$13.4 million, an increase of 68% compared to the prior year second quarter. The year-over-year increase was primarily due to higher yields on invested assets and a higher average balance of investments held due to cash generated from operations and the August 2024 capital raise. Our yield in the second quarter was 4.7% compared to 4.3% in the second quarter last year. The average yield on investments made in the second quarter continues to be above 5%. We continue to conservatively allocate our positions to asset classes that generate attractive risk-adjusted returns. At the end of the quarter, our net written premium to equity ratio was 0.91 to 1. Our stockholders' equity has reached \$847.2 million, a testament to consistent profitable growth and the capital raise.

I would like to comment on our business from a modeling perspective for the third quarter in addition to expectations mentioned earlier in my remarks. While we did see more Crop premium and losses in the second quarter than originally anticipated, which is influencing our view, the third quarter will continue to stand out based on our Crop participation increasing to 30%, the Crop book's growth and seasonal earning pattern and the first full quarter of our excess of loss reinsurance placed June 1.

Taking all of that into consideration, for the third quarter, we expect the following. The highest gross earned and net earned premium dollars with the lowest net earned premium ratio, the highest loss dollars and highest loss ratio and our acquisition expense and adjusted other operating expense dollars to continue to be in line with growth expectations, but with the lowest gross earned premium ratio for the year.

Thinking about the dollars sequentially from the second quarter to the third quarter, we expect a more pronounced increase in gross earned premium, net earned premium and losses. We expect acquisitions expenses to be stable, and we expect adjusted other underwriting expenses to increase incrementally from the continued investment in our organization. Overall, we expect the combined ratio to be in the mid to upper 70s, including catastrophe losses. The apex of our combined ratio will be in the third quarter, primarily due to Crop. Based on what we are seeing, I expect the tax rate to be between 23% and 24% next quarter.

Turning to our guidance and as Mac discussed, reflecting our strong operating results for the first six months of the year, we are raising our full year 2025 adjusted net income guidance range to \$198 million to \$208 million. Our guidance includes \$8 million to \$12 million of additional catastrophe losses. Our win retention of \$11 million is well within our catastrophe loss range for exposure that has been meaningfully reduced over the last few years. Importantly, the midpoint of our full year guidance range implies adjusted net income growth of greater than 50%, a full year adjusted ROE above 20% and doubling our 2022 adjusted net income in three years and doubling our 2023 adjusted net income in just two years.

With that, I'd like to ask the Operator to open the line for any questions. Operator?

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star, and one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, and two if you would like to remove your questions from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star keys. Ladies and gentlemen, we will wait for a moment while we poll for questions.

The first question comes from the line of Paul Newsome from Piper Sandler. Please go ahead.

Paul Newsome

Hello. Thank you for the call. Maybe you could focus a little bit more—talk a little bit more about the property-related competition. I think there's some fears out there that the sharp decline perhaps in the Commercial earthquake pricing is something that could spread and meaningfully reduce the growth potential for—at least in the near-term for Palomar. Any further thoughts there that might be helpful?

Mac Armstrong

Yes. Of course, Paul, this is Mac. Thanks for the question. I think I'd start with saying we're still forecasting growth in earthquake for the year and considerable growth in high single digits. It's down from where we started in 2025, but it's still a healthy amount of growth in both Earthquake and then the Inland Marine and other property, which grew 30% in the second quarter.

What's most important to convey is our book is a balance between Residential and Commercial, and this is Earthquake as well as Inland Marine and other property. It's also a mix between Admitted and E&S. The mix between Admitted and E&S and Residential Commercial allows us to play through market cyclicalities and still grow. If you look at the Residential Earthquake book, I'll just reiterate what I said on the call, we have a 10% inflation guard. We have 80, high 80s policy retention. We are expanding our distribution. We are taking share from the largest incumbent in the California Earthquake Authority, and we are a market leader. We are growing rapidly.

On Commercial Earthquake, there is rate pressure, but we are still seeing attractive business, and we are still writing business at very compelling levels. When you overlay that dynamic with a softening Property Cat Reinsurance market, we're seeing scale in addition to growth in our Earthquake franchise. Inland Marine and other Property, again, it's a balance between Residential and Commercial business. The Residential business has healthy growth. The Commercial business is seeing rate pressure, but we are also seeing great opportunity to expand geographically, add underwriting talent and also deploying larger lines as our balance sheet has grown, as our book has grown.

We think we are in very good shape on Commercial Property. It's not to say there's not competition in segments like Large Commercial, but in Small Commercial or Admitted Commercial Business, it's very well-positioned, and it's healthy growth that we expect to see for the remainder of this year into '26. Then on the Residential side of the book, there are multiple growth vectors, there are multiple products that are market leaders, and we are going to be able to execute the plan that we put forth and why we've raised our guidance three times this year and probably will do it a couple of times more this year based on how we've executed.

I'd like to allay any concerns about property pressure. Not to say we're impervious to it, but we are very well-positioned because of the mix of our book and our expertise.

Paul Newsome

Then maybe as a follow-up and somewhat related, any thoughts on sort of green shoots as you build out other parts of the business that are new and early?

Mac Armstrong

Green shoots in the Property segment, Paul?

Paul Newsome

Just in general, what new businesses, you've been adding new products for a while. I'm just wondering if there's any.

Mac Armstrong

Yes. Well, I think we're very focused on three different product categories that have a ton of potential in them. Certainly, Casualty, which had very strong growth in the quarter. But our focus is as much growth from an exposure standpoint but also discipline from an underwriting standpoint. I made the point that our average net line was less than \$1 million in our fastest-growing and largest Casualty segment, and that's E&S Casualty. We also are seeing great growth in Crop and Crop was one—the growth actually pulled forward a little bit earlier than we expected, which I think portends well in our ability to achieve the \$200 million target that I've talked about, but also I think that portends well for consistency in the losses because in many ways, we've had to take a little bit of the loss early by nature of the reporting pattern in crop insurance.

Then lastly, Surety is another great growth vector for us. New hires that we made in the course of the year will give us incremental opportunities or green shoots to use your term. But the growth vectors we have are considerable and they're multiple. Then we have a great anchor on the Property side that affords us to be disciplined, conservative in how we lean into those growth vectors. I appreciate you asking because I could talk for hours about the growth opportunities that we see.

Paul Newsome

Thanks. Appreciate your help as always. Thank you very much.

Mac Armstrong

Thanks, Paul. Appreciate it.

Operator

Thank you. We take the next question from the line of Peter Knudsen from Evercore. Please go ahead.

Peter Knudsen

Hi. Thanks for taking my question. I'm just wondering, is there any way you'd be willing to give us any disclosure around the growth in quake between resi and commercial just to get a better sense of your guys' growth there and the competition that's going on? Then within that, I'm just curious what the assumption around Commercial Earthquake pricing is moving forward within that updated high single-digit Earthquake outlook that you guys provided?

Mac Armstrong

Yes, Peter. We don't break out the growth rates between the two. What I can offer you is that Residential Quake is larger. It's about 55% of the book. It's got a healthy inflation guard and strong policy retention that kind of blends out to a 6% or 7% growth rate if you just apply those two. There's obviously growth in exposure in new business, as I said, record new business.

On the Commercial Quake, that's where we're seeing more pressure. It's more large account business. That's not growing at the same clip that we're seeing in Residential Quake. But what I would offer you anecdotally is in the month of July, we're off to a good start this quarter with the growth and think that high single digits, if not low double digits based on July is attainable.

Peter Knudsen

Okay, great. Thank you so much. Then just switching gears away from growth for a moment, just looking at the accident year loss ratio ex cat, if you exclude the favorable PYD, when we calculated at 29.4%, I think increased a bit from the 26.6% in 1Q. I was just wondering if you could talk a little bit about the driver of that elevated ratio. Is that entirely mix driven or is there any one-off loss experience in the quarter that you would call out? Then within that, am I correct in still thinking that 3Q's attritional on your reported basis should be in the mid-30s?

Mac Armstrong

I can take that, (multiple speakers) Chris, please.

Christopher Uchida

Yes. No, I think it is primarily mix driven, as you indicated. The biggest piece of that is we've mentioned on the prepared remarks, related to the Crop business. Crop earned premium came on a little bit earlier than we initially expected. That earlier premium also avails itself to a little more elevated losses. Overall, when you look at it from a 12-month period of time or for the full calendar year, it doesn't change our overall expectations for that book of business. Everything is performing as expected, but it would provide a little bit of, I'll call it, a tailwind in the second half of the year because we would expect losses to be a little bit lower than we initially predicted because the third quarter and fourth quarter losses that we expected to be there came a little sooner in the second quarter.

But overall, for the calendar year, no real change in philosophy, but when you look at it on a quarterly basis, we would expect a little or have some potential favorability in the third and fourth quarter because those Crop losses came in a little sooner than expected. Overall, no changes when we look at the line of business or no surprises that are concerning us on any of the lines of business, just overall strong results on the top line, driving a little bit of higher losses and mix when we look at it.

You mentioned prior period development. I think we've said this before. We continue to take initial reserves that are conservative. We have very conservative loss picks as we start our books or start our years. That avails itself to favorable prior period development as the periods go on. We don't plan for it, but it's not a surprise or not unexpected based on how we like to reserve.

Operator

Peter, does that answer all your questions?

Paul Newsome

Yes, thank you so much.

Operator

Thank you. We take the next question from the line of Mark Hughes from Truist Securities. Please go ahead.

Mark Hughes

Yes, thank you. Good morning, good afternoon. The guidance, you raised the guidance, \$3 million to \$198 million to \$208 million. If we think about the favorable development in the quarter, it was greater than that. One might suggest the underlying guidance was a little bit lower. Is that a fair look at it, or how would you frame that up?

Mac Armstrong

Yes. I mean, I think, first off, we've raised guidance three times this year, and we've only had two quarters of results. We've raised guidance after a strong first quarter. We've raised guidance after a strong successful Reinsurance placement, and then we're raising guidance again after a strong second quarter. I would not read much into that. Our view is—Chris talked about the seasonality and pulling forward some of the premium, but also the losses from the Crop. We have not factored in the potential favorability in there. We still have a cat load that's equivalent to our retention. Mind you, when there were major storms last year, because of the reduction in our Continental Hurricane exposure, we didn't have anywhere close to retention losses. We think there's conservatism. As I said earlier, our goal is to beat earnings. We've done it for 11 straight quarters, and we've raised guidance eight times in the last few years. That's going to be our model. That's what we did this quarter. But I wouldn't read anything into it, Mark.

Mark Hughes

Understood. Yes, 50% earnings growth is maybe a little higher, a little lower, still pretty good.

Mac Armstrong

Yes, exactly.

Mark Hughes

When we think about the Casualty opportunity, obviously, very strong growth. How would you frame up the pricing there? Any kind of marginal change in that pricing trajectory from Q1 to Q2? Any sign of maybe some deceleration there, or is that still the same momentum?

Mac Armstrong

Yes, it's product-specific. I think in Excess Liability, unless a lot of our E&S Casualty book is buffer layer business, you're still seeing mid- high teens rate increases. Some of the niche GL like Environmental, it's lower single digits, but still good terms and rate increases. The area that we've pulled back some in has been on the Professional Liability side where that market has softened. Where we are focusing, in particular, on the Excess Liability, General Liability, niche-focused General Liability, it's still a healthy rate. It's the Professional lines with the exception of maybe some of the miscellaneous E&O categories where there's the most pressure. I think that's where, as a result, we're more focused on the former as opposed to the latter.

Mark Hughes

Appreciate it. Thank you.

Mac Armstrong

Thanks, Mark.

Operator

Thank you. We take the next question from the line of Meyer Shields from KBW. Please go ahead.

Meyer Shields

Great. Thanks so much. Mac, I'm trying to just get my brain around how the Crop business worked because you talked about booking the premiums earlier. Does that mean that there's more unearned premium compared to what you might normally see on second quarter premium production?

Christopher Uchida

Yes. I think you'd kind of take all pieces of the Crop premium coming on a little bit earlier, right? When we initially talked about it and thought about it, we expected most of the written and earned premium to come in, in Q3. While that is still true, some of that written and earned premiums came in a little bit earlier in the second quarter. As Jon Christianson likes to point out, we're talking about matters of days when this is reported. If something is reported on June 30, it's reported in Q2. It's reported on July 1, it's reported in Q3. A lot more, or not a lot more, but more of that premium than we expected came in, in the second quarter. That results in written premium being higher, that results in ceded premium being higher, that results in earned premium being higher, ceded earned being higher and losses being higher.

Mac Armstrong

Losses being higher.

Christopher Uchida

All of that kind of came in a little bit earlier. But again, when you look at this on a 12-month period of time, that \$200 million of Crop premium that we're expecting for this year, we're still expecting it all the results to be the same for a 12-month period of time. It's really just a slight shift between Q2 and Q3, where we still expect most of that to come in, in Q3. But before, I think we would have said something around the 60% to 70% range. We're probably in the 50% to 60% range that we now expect to come in, in Q3 versus what we talked about, let's call it, back at Investor Day.

Meyer Shields

Okay. That is helpful.

Mac Armstrong

Meyer, one thing I would add underlying that is a bit of a positivity, is a bit of a positive note. Like it means there's been healthy production and yield and rain. That, generally speaking, is a good thing for the Crop business. Another silver lining there.

Christopher Uchida

Yes. One other thing I'd add is there's just after the April 1 announcement of the Advanced AgProtection acquisition and kind of combining our organizations together, just the acceptance and the excitement in the market that has really motivated agents to be on top of these acreage reports and send them in and just showing the good message of the combined force between Advanced AgProtection and Palomar as we move forward throughout the growing season. It's all been well-received by the market, and I think that excitement has translated into a little bit of earlier reporting as well.

Mac Armstrong

Good point.

Meyer Shields

Okay. No, that is very helpful and good to hear. I think we've talked about this in the past, but in terms of what you're booking for Crop profitability when it's still relatively early in the harvest season, how should we think of sort of the strategy for booking incurred losses in the second and third quarter before we actually get to the major harvest?

Christopher Uchida

Yes. I'd say, let's call it, any favorable signs from the season will show up in the fourth quarter or potentially in the first quarter, depending on the timing of when things come in. This is very dependent on people, right? They need to report their losses. We need to know what's going on. I think when we look at it overall, we're going to stick to our picks, right? I would also say that there was probably a little bit more of that coming in, in Q2 just from a result standpoint. We expect that to smooth out by the time we get to the end of the year. But we're not going to predict exactly when we're going to book, let's call it, the favorability or potentially unfavorability based on the season, but it won't be before the fourth quarter or potentially the first quarter of next year.

Mac Armstrong

The season so far is what we'd characterize as good to very good. But that being said, we are still in early August. There's a lot of time left before harvest. But the season is set up well, but we just need to continue to see favorability from a weather standpoint as we go through the rest of the year.

Meyer Shields

Okay. That's very helpful. If I can throw in one last question. Is there room for or need for maybe increasing the inflation guard ahead of tariffs?

Mac Armstrong

Hey, Meyer, yes. It's something we do look at. Where we sit here today, we feel that we have an ample cushion with the inflation guard and the actual replacement costs for building, whether it be for Builders Risk, Hawaiian Hurricane or Quake and Flood. It's something we'll monitor. But right now, we do believe it's an adequate cushion above inflation.

Meyer Shields

Okay.

Mac Armstrong

But fortunately, it's an underwriting rule and change, so it doesn't require approval from an insurance department.

Meyer Shields

Right. Understood. Okay, great, thank you.

Operator

Thank you. The next question comes from the line of Pablo Singzon from JPMorgan. Please go ahead.

Pablo Singzon

Hi, thank you. First question, if we think about the reinsurance retentions across the lines you disclosed, which lines have the most immediate impact on underwriting income? I guess I'm thinking about the bridge

between gross premiums and underwriting income, right, and which lines have less. It seems to me that you're getting hit more immediately by slower growth in Earthquake, right? But then if you think about your faster-growing lines like Casualty, for example, you're not really seeing much of a benefit to underwriting income today. Is that fair? How would you sort of characterize how those lines feed ultimately into underwriting?

Mac Armstrong

Well, yes, Pablo, so if I understand your question, I think what you're trying to get at is where there is the most leverage, so to speak, in our products. With the casualty, most of the reinsurance, if not all of it is quota share. Those quota shares are annual contracts, and we have not really changed our risk participations in those quota shares because of the nascent, yes, their nascency. A lot of these programs are early and they are longer tail lines. We want to see the book season before we meaningfully change our risk participation. Yes, I think that your point is with casualty, we're probably not earning as much premium. We're definitely not earning as much premium as we are in some of the property, which is more mature and shorter tail.

Where we can see potentially more leverage long-term would be in quake and the all perils exposed business if we want to increase our retentions. We actually chose to do the opposite in the circumstance of Earthquake, we maintained it at \$20 million at 6/1. Then on the wind side, we pushed it down because we wanted to create alignment with our cat load that we've given in guidance. As the balance sheet grows, and it certainly has, 50% earnings growth does lead to compounding the book value pretty effectively, we can take those retentions up. Those retentions those low layers are at expensive chunky rate on lines, certainly north of our stated return on equity targets.

That does give us some optionality. That same optionality does persist on the casualty side. It just won't manifest itself for a little bit longer period of time. It's a nice lever to have down the line.

Christopher Uchida

Yes. I would point out, Pablo, when you think about this from a, call it, a numbers and a metric standpoint, when we started this year and we thought about our reinsurance program, we talked about it being, let's call it, flat to up 5%. You look at that from a standpoint of our net earned premium, right? For the year, we expected our net earned premium to be in the high-30s based on all of the things Mac talked about, especially making our reinsurance excess loss program or keeping it conservative.

We held the retention for Earthquake. We lowered the retention for Wind. Those aren't free. Our dollar increase in our Reinsurance program was only \$10 million. With all of that, we expect our net earned premium now to be in the low 40s versus the high 30s. That is against the larger number of gross earned premium. Think about that when you think about earnings for the end of this year, but think about that also for all of 2026, we expect that benefit. Two to three points on the higher gross earned premium spread out through 2026 is how you should think about our model improving and even keeping all of our reinsurance very conservative, if not more conservative than last year and getting only a minor increase in dollar spend.

Overall, we're very happy with how the book is going. That leverage on reinsurance is going to play through over the next 12 months in our P&L.

Pablo Singzon

Yes. Thanks for that. Then second question, I was curious if you're willing to provide the qualitative outlook for growth in Inland Marine and other property. It seems like Builders Risk is still growing well. You probably have a headwind in commercial property. Then you have rate increases in the Hawaii block dropping off by the end of the year. Maybe if you could just sort of go through the bits and pieces there and put everything together to the extent you're willing to talk about sort of the growth outlook for the balance of the year.

Mac Armstrong

Well, I mean, we're not giving product-specific growth rates, Pablo, but I think we feel that there are several growth vectors in Inland Marine and other properties to sustain the growth and some of that's geographic expansion driven, the addition of new underwriting talent that allows us to process more submissions, and that's most relevant for Builders Risk and Excess National Property. Certainly, the new partnership on the Flood side gives us a nice growth vector. Hawaii, yes, the rate increases will roll themselves through the book, but there still is the opportunity to increase our exposure there, especially with Laulima having its own reinsurance program and that market remaining a bit dislocated.

Then the Admitted side of the Builders' Risk affords ample opportunity for growth, too. We've already been—this year, there's been rate headwind in that commercial segment of the Inland Marine and other property, and we've actually been winding down the All Risk book as we pulled back our Continental Hurricane exposure. This year, we've already seen that play through, and we still grew 30%-plus and we feel good about sustaining growth in this line that indexes that for the whole business.

Pablo Singzon

All right. Thanks.

Operator

Thank you. Ladies and gentlemen, as a reminder, please press star, and one. The next question comes from the line of Andrew Andersen from Jefferies. Please go ahead.

Andrew Andersen

Hey, thanks. Could you expand a bit on the Neptune relationship here and perhaps how that compares with your prior Flood operations? Just remind, are you operating as a frontier or would you be taking balance sheet risk as well?

Mac Armstrong

Hey, Andrew, yes, so our Flood book historically has been concentrated in five, six, seven states, really writing more Inland Flood. The partnership with Neptune allows us to write Inland Flood and Coastal Flood. It expands the TAM. We will be taking underwriting risk. We've taken underwriting risk in Flood since we launched the product some six or seven years ago. As I mentioned on my previous remarks, we have culled back our Wind exposure meaningfully. That's allowing us to write Coastal Flood and not stack limit.

This will be a risk-bearing partnership with a nice operator that has really strong expertise in Coastal Flood and then we can marry that up with what we've done in the inland flood to get a nice balanced book of flood that's not overly concentrated from a geographic standpoint or nature of loss standpoint.

Andrew Andersen

Should we think of that as benefiting any growth in '25 or is this more of a '26 type of event?

Mac Armstrong

It's going to be more '26. It's going live 10/1. We didn't want to launch a new Coastal Flood program in the teeth of the hurricane season. It's really going to be more of a '26 contributor. Yes, it's a good question.

Andrew Andersen

Thank you.

Operator

Thank you. Ladies and gentlemen, as there are no further questions, I would now hand the conference over to Mac Armstrong for his closing comments.

Mac Armstrong

Thank you, Operator, and thank you all for joining us today. I'm very proud of our second quarter results. They are a clear demonstration of the success we are having building Palomar into a market leader in the Specialty Insurance sector, a market leader with a portfolio that is distinct and has industry-leading products.

We delivered strong top and bottom-line growth and our Property—the balance of residential and commercial exposure's allowing us to grow and perform in soft and hard markets like we're experiencing today. New lines like Crop and Casualty delivered strong growth this quarter and are well-positioned to maintain the—and we are well-positioned to maintain the momentum over the medium-term. We are positioned to sustain our growth, deliver consistent earnings and returns. Over time, the results will speak for themselves.

Hopefully, you get a sense that we could not be more excited about the opportunities that lie ahead of us. As always, I want to thank our team and our terrific employees for their continued commitment to Palomar. Have a nice day.

Operator

Thank you, sir. On behalf of Palomar Holdings, thank you for your participation. You may now disconnect your lines.