



**Fourth Quarter 2024
Earnings Call Transcript**

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PRESENTATION

Operator

Good morning, and welcome to the Palomar Holdings Inc. Fourth Quarter and Full Year 2024 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, 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 P.M. Eastern Time on February 20, 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 the 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 eager and very pleased to discuss our outstanding fourth quarter and 2024 results. The across-the-board success of the quarter and full year is a testament to the hard work of our exceptional team. The Palomar team more than effectively executed the four strategic objectives that we outlined at the start of the year: sustained our strong and profitable growth; managed dislocation and diversification; delivered predictable earnings; and scale our organization. As a result, we delivered 23% gross written premium growth; 39% when excluding runoff lines of business; 48% adjusted net income growth, inclusive of \$8 million catastrophe losses; and an adjusted return on equity of 23% in the fourth quarter. Importantly, Q4 2024 is the ninth straight quarter that we have beaten expectations.

Our strong execution is also seen in our full year 2024 results, which included: record gross written premium and adjusted net income; gross written premium growth of 35%, 43% on the same store basis, adjusted net income growth of 43%; and adjusted ROE of 22%, even when saddled with the short-term drag of the capital raised in August of this year. As it relates to our capital, our stockholders' equity increased 55% year-over-year, 30% when excluding the equity issuance.

From an operational perspective, the accomplishments in 2024 were several and meaningful, highlighted by our acquisition of the surety company, First Indemnity of America or FIA, which closed at the start of 2025 and are upgraded to A Excellent by AM Best. But I'm most excited by the significant additions made to the Palomar team. 2024 saw us recruit respected industry professionals, including but not limited to a Chief Operating Officer, Chief People Officer, Chief Claims Officer, a Head of Crop, and the Head of the E&S Casualty. These achievements enabled us to reach our Palomar 2X target of doubling 2021 adjusted underwriting income in three years, the shorter end of our intermediate timeframe. 2024 was a banner year for Palomar.

At this point, I would like to touch on the devastating Los Angeles wildfires. I personally would like to pass along my sympathies to all those impacted, including our employees, trading partners, families, and friends. This has been a historic catastrophe for our region and state, and we are focused on doing our part to help our customers and communities through this challenging time. As a reminder, we do not write homeowners insurance in California as we confine our Residential Property Exposure in the state to Monoline Earthquake and flood policies. Similarly, the majority of our commercial property exposure in California is a Commercial Earthquake or difference in condition policy that does not cover wildfire.

We do have Builders Risk and Builders Owner Package Products that have exposure to fire losses. Fortunately, our losses from the Eaton and Palisades fires are very modest and within the scope of our 2025 guidance in ordinary course attritional losses. We have indirect exposure through our Residential Earthquake franchise, and slightly less than 1% of our Residential Earthquake book is in the Eaton and Palisades burn zones. We are working closely with our insurers and producers to quickly cancel and refund those policies that have been impacted by the fires and unfortunately no longer need our coverage. Our focus is to help our insurers in their time of need.

Due to the recency of the event, it's hard to forecast what the medium and long term market impact will be. That said, it is amplifying the dislocation and challenges in the California Homeowners market, as well as heightening the awareness of natural disasters in our state. We've seen a modest uptick in Residential Earthquake new business to start the year, and suspect the dislocation in homeowners market will lead to further attrition out of the California Earthquake Authority as member companies call back their exposure to California. This could prove a tailwind for our Residential earthquake business. As it pertains to reinsurance, it is also hard to handicap the market impact as the losses due to the reinsurance market are likely to be from a concentrated group of cedings.

Wildfires may slow the pace of rate decreases at Palomar and the broader market experienced on January 1. That said, recent activity in the catastrophe bond market suggests that this event has not diminished investors' appetite for single-peril exposure like earthquake. As long as this market dynamic continues, it will likely prove advantageous to Palomar. I will touch more upon our reinsurance pricing expectations toward the end of my remarks.

Turning to the fourth quarter performance of our five product categories, I will start with our earthquake franchise. Exiting 2024 as the third largest writer of earthquake insurance in North America, we are a category leader. In the quarter, our core earthquake franchise grew gross written premiums 20%. Our balanced approach of writing both Residential and Commercial Earthquake Insurance allows us to play through market cycles and optimize capital allocation in soft or hard markets. Specifically, this strategy enables us to preserve our overall margin in a climate of rate softening in the Commercial Earthquake Market.

For example, our Residential Earthquake product features a 10% inflation guard, offering a strong cushion against inflation and a consistent rate increase as policies are renewed annually, whereas, in the quarter, our Commercial Earthquake Products experienced an average rate decrease of approximately 5%. This dynamic is likely to persist throughout the year, but the California wildfires could reduce the pace of rate decrease. That said, as mentioned in our previous calls, the portfolio profitability, theoretical loss, and aggregation metrics for the earthquake franchise are as strong as at any point in our history, a reflection of this balanced book approach. As we look to 2025, the prospects of our earthquake franchise remain strong, and we are confident the earthquake premiums will grow in the mid to high teens for the full year.

Our Inland Marine and Other Property category, which consists of seven distinct property products, grew 36% year-over-year. Over the course of 2024, we are investing in talent and geographic expansions selectively while simultaneously reducing exposure to more volatile classes of business in this category. Strong premium growth contributors during the quarter were our Builder's Risk, Excess National Property, and Hawaii Hurricane lines of business. Overall, this category delivered exceptional results from attritional loss perspective. The low loss ratio was a function of a multi-year effort of significant rate increases in underwriting changes that combined with moderate weather activity, hold aside Hurricane Milton.

The loss ratio is not negatively impacted by softening commercial property rates. Commercial Property pricing is showing a moderate downward trend like that we are seeing in Commercial Earthquake. Importantly, we remain steadfast in holding firm on key terms and conditions as rate declines at a low single digit clip. Like our Earthquake products, the Inland Marine and Other Property portfolio is balanced by a

mix of residential and commercial lines. The rate increases we are getting from our Hawaiian Hurricane and Residential Flood products are helping offset the rate softening in the Commercial Property Market.

Our Casualty segment saw another period of significant growth, with premium increasing 112% year-over-year. Strong performers in the Casualty group included Contractors GL, Real Estate E&O, Miscellaneous Professional Liability, and Environmental Liability. The quarter also saw a nice contribution from our new E&S Casualty team, headed by David Sapia. The group was able to take advantage of a hardening market in segments like primary and excess construction liability insurance.

Casualty now represents 15% of our total portfolio, and we remain focused on conservative underwriting within targeted niche markets. Our approach includes prudent risk management tactics, such as shorter tail liability focus, modest line sizes, avoidance of high severity exposures, and conservative reinsurance. At the end of the quarter, our casualty book's average gross limit was \$2.4 million, and our average net limit was \$1.1 million. Casualty book's loss ratio remained in line with our conservative loss pick and reserves continue to grow. Notably, over 80% of our casualty reserves are IBNR, meaningfully higher than the industry average, which one would expect for a nascent franchise like ours.

In terms of pricing and rate adequacy, we are seeing strong rate increases in excess of loss costs across the casualty book. Environmental liability rates increased by 8%. E&S casualty and excess liability rates climbed 7% to 12%. In contractors Geo, accounts with auto coverage saw rates increased just below 20% for the quarter. Our casualty franchise is well positioned for profitable growth in 2025.

Turning to our Fronting business, this was the first full quarter where we experienced a complete effect of our separation from Omaha National as the Fronting group's premium declined 33%. We are pleased with the growth of our existing partners and the prospects of our newer relationships. We continue to vet opportunities and have a healthy pipeline of potential partnerships.

Fourth quarter was the first quarter in which Benson Latham was leading the charge for Palomar Crop. During the quarter, talented professionals in Marketing and Claims joined the Crop team, bolstering the efforts made over 2024 to build the foundation for a much larger business. Our fast-growing Palomar Crop franchise delivered \$15.7 million in premiums in the seasonally low fourth quarter, and \$116 million premiums for our first full year in the business.

Importantly, the underwriting results were strong as the top-line growth, with an estimated underwriting gain on MPCl, or Multi-Peril Crop Insurance, of approximately 20%. These results affirm our risk selection approach and, moreover, our intention to increase our risk participation over time. To that end, we finalized our 2025 reinsurance treaty, putting in place quota share and stop-loss programs. We will retain 30% of the subject matter premium going forward as compared to 5% on the expired treaty.

I have every confidence that we are building an industry-leading crop business at Palomar, and continue to believe Palomar Crop will eclipse \$500 million of premium in the intermediate future. We aim to be among the Top 10 crop premium writers in the U.S. by the end of 2025, with projections exceeding \$200 million in premium for the year ahead.

Lastly, we closed on our acquisition of FIA at the start of 2025. FIA's results will be included in the Casualty product group for the immediate future. Surety is an attractive market segment that, like crop insurance, is not correlated to the P&C cycle, and one that we believe can be an important growth vector for Palomar over the longer term. While FIA's contributions will be modest in 2025, we believe surety will be a meaningful market segment over time.

Quickly turning to reinsurance, we are active on January 1 across the portfolio, with successful placements in our Earthquake, Crop, which I already discussed, and Casualty groups. First off, we renewed our

Commercial Earthquake quota share about \$155 million of incremental excess of loss limit to support the growth of the earthquake book until the main excess of loss renewal on June 1. These treaties were priced at risk-adjusted decreases of approximately 15%.

On the Casualty front, we renewed two treaties at either expiring or improved economics. We also put in place two new treaties for our Casualty group. They are both well received, with strong support from blue chip reinsurers who already support Palomar and other lines of business. Despite the industry's losses from the wildfires, we remain cautiously optimistic on the prospects of our 6/1 renewal, as we have seen leading indicators, such as recent CAT bond issuances and secondary market pricing that suggest strong appetite from investors for single-peril exposures like earthquake.

Looking ahead to 2025, we have four strategic initiatives. First, integrate and operate. We must monetize the investments that we have made throughout 2024. Second, we will build new market leaders deliberately. Our Crop and Casualty lines have strong leadership and the capital support necessary to become market-leading franchises, but we will not overextend our appetite and risk management approach in the short term, execute deliberately in 2025 to have an entrenched franchise in 2029. Third, we must remember what we like and, more importantly, what we don't like. This is a natural migration from the grow what we want mantra. We will stick to our conservative and well-defined appetite in the market and focus on the profitable growth the product portfolio affords us. Fourth, continue to generate consistent earnings and, with the addition of new talent, find new sources of earnings growth while preserving a healthy reserve base.

As we execute our strategic initiatives, I'm confident in our ability to build on 2024's success and maintain steady growth and returns. While last year's performance was exceptional, it's only the beginning. Our heritage products, alongside newer offerings like Crop, Casualty and Surety, provide strong visibility for long-term growth and above-market returns. We are well positioned to execute our Palomar 2X strategy in 2025.

Our full year 2025 adjusted net income guidance is a range of \$180 million to \$192 million, including the cat load that Chris will discuss in more detail. The range assumes our core 6/1 excess of loss reinsurance treaty renews at a price of flat to down 5% from the expiring 2024 treaty. As the market is still digesting the impact of the wildfires on the reinsurance market, we are taking what we believe is a conservative approach, certainly when compared to what we saw January 1. The midpoint of our guidance implies an adjusted ROE of 23%, and puts us in a position to double the adjusted underwriting income of the 2022 Palomar 2X cohort in three years.

With that, I'll turn the call over to Chris to discuss our financial results 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 fourth quarter of 2024, our adjusted net income was \$41.3 million, or \$1.52 per share, compared to adjusted net income of \$28 million, or \$1.11 per share for the same quarter of 2023, representing adjusted net income growth of 47.5%. Our fourth quarter adjusted underwriting income was \$41 million, compared to \$29.3 million for the same quarter last year. Our adjusted combined ratio was 71.7% for the fourth quarter, compared to 68.8% in the fourth quarter of 2023. Excluding catastrophes, our adjusted combined ratio was 66.1% for the quarter, compared to 68.8% last year.

For the fourth quarter of 2024, our annualized adjusted return on equity was 23.1%, compared to 25.1% for the same period last year. The fourth quarter adjusted return on equity continues to validate our ability to maintain top-line growth with a predictable rate of return above our Palomar 2X target of 20%. As a reminder, we do not expect the capital raised in the third quarter of 2024 to be fully deployed until the end of 2025. Gross written premiums for the fourth quarter were \$373.7 million, an increase of 23% compared to the prior year's fourth quarter 39% growth, excluding runoff business.

Looking at our five key specialty insurance products, it's important to remember the seasonality of our Crop segment, given the majority of the premium is written and earned in the third quarter of each year, with only modest premium in the second and fourth quarters. Net earned premiums for the fourth quarter were \$144.9 million, an increase of 55% compared to the prior year's fourth quarter. For the fourth quarter of 2024, our ratio of net earned premiums as a percentage of gross earned premiums was 39%, compared to 33.9% in the fourth quarter of 2023, and compared sequentially to 34.3% in the third quarter of 2024.

The year-over-year increase in this ratio is reflective of improved excess of loss reinsurance, and of higher growth rate of our non-fronting lines of business, including Earthquake, that see less premium. These results include a full quarter of our excess of loss reinsurance placement that started June 1. While the dollars associated with this placement are higher to facilitate continuing earthquake growth, the risk-adjusted rate online is lower than the previous year. With the timing of our excess of loss reinsurance, 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, with an increasing throughout the remainder of the reinsurance treaty 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 of time.

Losses and loss-adjusted expenses for the fourth quarter were \$37.2 million, comprised of \$29.1 million of non-catastrophe, attritional losses, and \$8.1 million of catastrophe losses primarily related to Hurricane Milton. The loss ratio for the quarter was 25.7%, made up of an attritional loss ratio of 20.1%, and a catastrophe loss ratio of 5.6%.

As Mac discussed, we believe this quarter's results were a testament to our continued effort to derisk our portfolio over the past few years. Our results reinforce our conservative approach to reserving. We continue to hold conservative positions on our cash order reserves, while the same conservative approach on our more seasoned E&S property line has played out favorably for the quarter and year.

Our acquisition expense as a percentage of gross earned premium for the fourth quarter was 10.9%, compared to 10.5% and last year's fourth quarter, and sequentially to 10.5% in the third quarter of 2024. This percentage increased sequentially, primarily from lower ceding commission from crop and fronting. The ratio of other underwriting expenses, including adjustments to gross earned premiums, for the fourth quarter was 7.2%, compared to 6.9% in the fourth quarter last year, and compared sequentially to 5.9% in the third quarter of 2024.

As demonstrated by our hires over the last year, we are extremely committed to investing in all facets of our organization as we continue to grow profitably. We continue to expect long-term scaleness ratio, while we may see periods of sequential flatness or increases as we continue to invest in scaling the organization within our Palomar 2X framework.

Our net investment income for the fourth quarter was \$11.3 million, an increase of 61.3% compared to the prior year's fourth quarter. The year-over-year increase was primarily due to higher yields on invested assets, and a higher average balance of investments held during the three months ended December 31, 2024, due to cash generated from operations and the capital raise.

Our yield in the fourth quarter was 4.6%, compared to 4.1% in the fourth quarter last year. The average yield on investments made in the fourth quarter was 5.3%. 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 0.88% to 1%. Our stockholders' equity has reached \$729 million, a testament to consistent profitable growth and the capital raise.

For the full year, our strong top-line performance continue to translate to the bottom line. Our adjusted net income grew 43% to \$133.5 million. Our adjusted EPS grew 38% to \$5.9. Our adjusted combined ratio was 73.7%, made up of a loss ratio and expense ratio of 26.4% and 51.7% respectively, resulting in an ROE of 22.2%.

Our adjusted underwriting income grew 35% to \$134.1 million, positioning us to achieve our Palomar 2X objective from 2021 in three years. Adjusted underwriting income, excluding overhead, was \$229 million versus an initial milestone of \$220 million presented at Investor Day in 2022.

Turning to our 2025 adjusted net income guidance, we are initiating with a range of \$180 to \$192 million. The midpoint of our updated guidance range represents adjusted net income growth of 39%, and an adjusted ROE greater than our Palomar 2X objective of 20%, including the capital raised in August. This range includes \$8 million to \$12 million of catastrophe losses, in addition to mini-cats that we continue to include in our guidance.

As we look to fully deploy the capital raised last summer throughout 2025, we will increase our participation in certain lines of business as we continue to build a top tier specialty insurer. Our growth and participation expectations will add seasonality or operating ratios and results while we continue to grow our earnings. The third quarter will continue to stand out based on our crop participation increasing to 30% compared to 5%, crop seasonal premium earning pattern, and the first full quarter over excess of loss reinsurance placed June 1. We expect our net earn premium ratio to increase in 2025 from 36.5% in 2024, with a low point in the third quarter.

We expect our loss ratio for the year to move up off of 2024 and end in the low 30s, including catastrophe losses. The apex of our loss ratio and combined ratio will be in the third quarter of the year, primarily from crop. As our loss ratio naturally increases, some of the increase will be offset by an improving expense ratio. Overall, we expect our adjusted combined ratio to be in the mid to upper 70s for the year, continuing to show consistent and profitable earnings growth.

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

Operator

Thank you. We will now be conducting a question-and-answer session. Our first question comes from the line of Paul Newsome with Piper Sandler. Please proceed with your question.

Paul Newsome

Congratulations on the quarter. Just a modeling question, you talked about the reinsurance expectation. Just to be clear, in my mind, is this you're actually assuming some improvement in pricing for reinsurance over the course of the year, or are you using sort of a steady state view of reinsurance in the guidance?

Mac Armstrong

Hey, Paul. Thanks. Good question. The way we've built the guidance range is it's plus or minus 0% to 5%. The low end of the guidance would apply to flat renewal and the high end of the guidance would be plus or minus 5% down. We did have some excessive loss renew favorably for us at down 15% at 1/1. That also was the equivalent reduction on a Commercial Earthquake quota share. While the market is taking stock of the wildfire exposure, we felt it was prudent to be a bit conservative and not assume that the rate decline would be as meaningful as what we saw at 1/1. Furthermore, we've got close to \$3 billion renewing at the 1st of June versus closer to \$400 million or a tenth of that that renewed via the quota share or excessive loss at 1/1.

Paul Newsome

As a local in California, do you have any thoughts on how this whole thing might shake out? I'm wondering if you think there's some opportunities that might happen for Palomar as that market seems quite disrupted?

Mac Armstrong

Yes, Paul. Thanks for that question. Yes, it is a disrupted market. I think, speaking to the residential side, you're going to continue to see California become increasingly E&S, and not just in the high value segment, but in what had been traditionally more kind of standard. With respect to Palomar and opportunities that emanate from this disruption, I would say it's going to be consistent with kind of the third strategic imperative of '25 as just knowing what we like and growing where we want.

We think there'll be opportunity, potentially, in the Residential Earthquake, driven mostly by continued reduction of CEA participating insurers' exposure, and then potentially, more in the short and immediate term, heightened awareness caused by the event. Then commercially, I think probably we'll see some opportunities in builder's risk, both high value Residential Builder's Risk and other Commercial Builder's Risk, kind of mid market size opportunities. But it's not an instance where you will see us go into homeowners or start writing traditional Commercial Multi-Peril. We'll stick to our knitting and find pockets of dislocation that will be there in California in our core franchises.

Paul Newsome

Appreciate the help, as always. Thank you.

Mac Armstrong

Thanks, Paul.

Operator

Thank you. Our next question comes from the line of Peter Knudsen with Evercore ISI. Please proceed with your question.

Peter Knudsen

Hi. Good afternoon. Thanks for taking my question. On the expectations for 6/1, I was wondering if you could tell us a little bit more about how that feeds into the outlook. I know you just discussed there's some potential conservatism following the down 15% you guys saw at 1/1, and I'm just hoping you could help me think about how much your outlook is levered to the 6/1 pricing assumption, i.e. how much could this outlook change should 6/1 pricing come in materially better? Thanks.

Mac Armstrong

Yes. I think excess of loss of reinsurance is our largest expense, if it comes in below 5%, it will not be inconsequential. Remember, it's seven months of the year that will be impacted by it, and we are also buying more excess of loss limits to support our growth, but that would certainly be a boon to the results if it comes in below 5%.

The one thing we're looking at is, post the wildfires, the activity in the CAT bond market, in particular secondary pricing of our own bonds, and some recent issuances, and they are still trending more like 1/1. But, as I said just a moment ago, we've got close to \$3 billion of limit that is renewing or going to be bought, we would rather over deliver and under promise. But Chris, I don't know if you want to offer just some color around that one.

Christopher Uchida

Yes. Just to give a little more details, we've provided this before, but at the 6/1/24 renewal, our total excess of loss spend or cost of risk transfer was about \$262 million. As Mac mentioned, we will obviously be increasing that because we buy for growth, and generally we only buy one time a year. When we buy at 6/1/25, we're buying for another 12 months, think about that in your considerations.

Mathematically, if you want to think about it and look at it, you can look at that \$262 million that we spent last year, do you call some sort of 5% savings on that? Even with the growth, that would probably be a low end of what the potential savings would be, and apply that to the seven months, the remainder of 2025.

Peter Knudsen

Yes, great. Okay. Thank you. That's really helpful. Then for my follow-up question around top-line growth, I'm wondering if you could talk about how elastic demand for earthquake insurance is to homeowner's pricing? Should we expect a headwind to earthquake growth, given presumably large homeowners increases in California following the fires, and any other commentary you have on user growth in '25 would be helpful. Thank you.

Mac Armstrong

Sure, Peter. I think, as it relates to earthquake, good question. The Residential Earthquake market is still very underpenetrated in California, that's why you see, like we have at the start of the year, an uptick in new business sales because of heightened awareness. I think we are watching the impact of rising homeowners' costs. January, our retention from a policy perspective and premium perspective, we're in line, if not slightly above, the trailing 18-month average; we haven't seen it manifest itself yet.

I think the one thing that will counter potentially the increasing cost to carry a home is just going to be the number of non-renewed homeowners policies that are inside the CEA. You look at the CEA's participating insurer base, it's State Farm, it's USAA. They constitute in totality probably 65% of the market, and so if they are just following the logic of what they are permitted to do, non-renewing 10% of their book, that's a lot of policies that we have the chance to compete on in the Residential Earthquake market. Again, we think that affords us a decent ability to maintain high teens growth in quake.

It's also worth reiterating that, while we have high 80s of policy retention, you do have an inflation guard of 10%, which is basically a cushion for the rising cost of materials, plus a slight price increase. That gives us a bit of conviction on sustaining that high teens growth rate as well.

Then I guess on just your other question, I think it's just one thing I would highlight, just overall growth. We have a great portfolio of specialty market products now. Fronting obviously has been the laggard, and if

you just look at the growth in the fourth quarter, if you just take fronting out, it was 45%. Earthquake was the low end of 20. Everything else was above that. We feel good about our growth prospects in '25, even with the headwind that we're seeing on the Fronting franchise, generally speaking.

Peter Knudsen

Thank you.

Operator

Thank you. Our next question comes from the line of Mark Hughes of Truist Securities. Please proceed with your question.

Mark Hughes

Yes, thank you. Good afternoon. Chris, earned growth, I think you suggest that'll keep moving up until you buy the new XOL, and then that'll step down in the third quarter. Thirty-nine percent of this quarter should step up the next two, and then drop down to kind of what range, would you say, in 3Q for this year?

Christopher Uchida

Hey, Mark. Thanks. Great question. Yes, it was 39% for Q4. Like you said, I would expect it to move up a small amount in Q1. Q1 or Q2 will kind of represent the high point. Q2 might be a little bit flatter to Q1, I'd probably say something in the 40% to 41% range for Q1, and something maybe a little bit higher than that in Q2. Q2 will have the first full month of XOL. We are still expecting strong earthquake growth, we do expect to buy more excess of loss reinsurance to cover that. You'll get one month at that expense, I think that'll probably flatten out that ratio a little bit.

The one thing or the one new dynamic that you're going to see a little bit more of in Q3 is really going to be driven by the crop and how much we're going to participate there. This year, we were a 5% participant. For 2025, we are going to be a 30% participant. That shift will be relatively dynamic for that net earned premium ratio. It's going to push, obviously, the dollars up, but it's going to continue to push that ratio down. There's growth there, and then there's still a factor where we're still ceding off 70% of that business; that's going to push that ratio down.

The other impact of that is it's going to impact the combined ratio for that quarter as well. The crop business, while very stable, does have a little bit of a higher loss ratio to it, so the loss ratio for Q3 will also be a little bit higher. There will be some savings on the expense ratio side. That higher net earned premium will lower the other underwriting expense ratio and also the acquisition expense ratio. Even all in, I still expect the higher loss ratio, and then overall just a higher combined ratio in the third quarter because of that dynamic with excess of loss and with the crop participation.

Like you said, net earned premium ratio, low point in Q3. It's probably going to be in the low 30s again, but then we'll start moving up from there in Q4 of this year. Mark, from a...

Mark Hughes

Yes, from low 40s in Q1, Q2, and back in the low 30s, would you say maybe low to mid 30s for Q3?

Christopher Uchida

I would probably color it with low 30s. I think that dynamic that you're going to see in crop is going to move a lot. But overall, and this is where I think about it for average for the year, I would still expect high 30s for the year. It's just that Q3 is going to stand out and look a little more seasonal with all that, or not all, but the majority of the crop written in earned premium coming in that quarter. As you're aware, a lot of it, the policies are actually written in March of the year, but because of the acreage reports not coming in until June, July, we will not recognize that written earned premium until the third quarter, and that's why that dynamic is in play.

Mark Hughes

On the Commercial Quake, it sounds like prices are going down. Are you seeing appetite from carriers that just do a lot of property willing to just take more exposure to quake? Is that one of the dynamics here, or is it just prices are going down and quake is getting caught up in that and commercial property?

Mac Armstrong

Hey, Mark. Yes, that's a good question. I would say that we have seen the All Risk market come back into kind of large layered and shared Commercial Earthquake that has not been as pronounced on the small Commercial Quake side. It's still an attractive market when you look at the underlying profitability, whether it's the AAL to premium metrics, the PML to premium metrics, and so there's frankly a little bit of slack that can be given there. But it's not one where rates are being precipitously declined. It's more kind of, again high single digits, and it's more pronounced in large layered and shared accounts.

Jon, anything you want to add?

Jon Christianson

Yes, I agree. While certain segments of the Commercial Earthquake market are accommodating some rate decreases, we're still seeing really strong integrity in the terms and conditions associated with the forms of that Commercial Earthquake Product. It is not a kind of across the board dynamic, and happy to have to report that the forms and coverages are holding up.

Mark Hughes

If I might ask one question, Mac, if you take a step back and you think about the strong growth you're anticipating for 2025, obviously a nice inflection. Your three-year Palomar 2X certainly accelerated the initial five-year guidance. For this year, what is working so well in the model that you feel comfortable giving that kind of guidance, if you had to pick? I mean, you've talked about 10 things that are working really well, but if you want to take a step back and say, oh, this is where it's really a clicking for us, could you talk to that?

Mac Armstrong

Yes, sure. I think it's a few things. You're actually right, it's across the portfolio, and it starts with earthquake. Earthquake, especially in a property cat reinsurance market that is flat to slightly down, that provides scale, and we're also continuing to grow, so you're getting margin improvement there. We made a call in 2023 in a very hard property cat reinsurance market to lean in and grow and increase our share, and I think now we'll reap the fruit of our labor there.

Secondly, on the other side of the property book, we have had considerable rate increases and considerable enhancements to underwriting, while reducing the volatile exposure from continental hurricane, for instance. I think what we're left with in the other property franchise is a fast-growing book of consistent performing non- or limited cat exposed business, like Builder's Risk and Excess National

Property. Then what's amplifying that is, as the books have gotten seasoned, we're taking on a little bit more risk on a net basis. I think those are two big contributors on the property side.

The casualty side is growing nicely. We're not touching our reserves. We're growing those reserve base considerably, while not seeing a large amount of claims come into the fold and really being heavily weighted to IBNR, when you look at the total ultimate. There is good growth in conservative underwriting and a modest risk participation that's being kind of just a steady contributor.

Crop is the other one that gives us a little bit of conviction based on the historical results and based on our ability to risk select, that if we take more risk, going from five to call it 30, that does afford some operating levers and scale there, too. It's really across the portfolio, but I'd say you're probably most levered on the property side, and then you're taking a little bit more risk in some of these lines that are getting seasoned.

Mark Hughes

Appreciate that. Thank you.

Mac Armstrong

Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Andersen with Jefferies. Please proceed with your question.

Andrew Andersen

Hey, good morning. The \$8 million to \$12 million cat guide for the year, I think this is the first year that you've given a full year cat guide. Can you help us think about how you arrived at that estimate?

Christopher Uchida

Yes. No. Thanks, Andrew. Good question. The \$8 million to \$12 million is—call it a new metric, like you pointed out. We felt it was important to include that as we continue to grow and get more comfort about how we've been managing the book. When you look at our portfolio of business, we have really done a great job of making underwriting changes to hopefully minimize the exposure we have to U.S. catastrophes. When you look at our AAL compared to where we were a couple of years ago, that has continued to shrink. We continue to make more changes to that throughout 2024, so we felt comfortable giving a number that was a little bit less than what we incurred for 2024, but we feel in the range of everything that we've done with the book, a good number to provide.

The one thing I'd point out, so that, let's call, \$8 million to \$ 12 million is probably about one point to two points of loss ratio for the year. We still continue to budget for mini-cats or smaller PCS events in our portfolio. Those could be SCS events. Those could be small flood events. Those are probably still about two points to three points of loss ratio for the year. All in, we're probably talking three points to five points of mini-cats and cats in our overall loss ratio for the year. All those factors come together is kind of how we put together an \$8 million to \$12 million number for the year as we look at our cat losses and think that it's a good estimate. We think we've done a lot to help shape the portfolio so that we can achieve that, and we think that the book has been performing well and within that range.

Mac Armstrong

I think, just to give a little bit of anecdotal support to this, our wind continental hurricane, 250-year PML is now going to be closer to \$80 million, with the predominance of that coming from our Builders Risk book as opposed to All Risk property. Our Builders Risk book, compared to modeled estimates, has significantly outperformed. For instance, in Milton, the model losses were a few million dollars. We don't have any claims. It gives us even more confidence, based on the complexion of the AAL and modeled estimate loss, that our cat load is appropriate.

Andrew Andersen

Thank you for the detailed answer there. On fronting, I don't know if you can maybe help us frame '25, if perhaps there's some new programs coming online or kind of steady state as you exit '24, and maybe this is a single digit decline in 25? What is a good way to think about fronting?

Mac Armstrong

Yes. I think it's going to be disproportionately impacted for the next two quarters by the loss of the Omaha National deal, and then it's probably flattish to slightly up on a same store basis. We have a pipeline, but candidly, Andrew, like if you look across our portfolio and we're allocating our capital towards, its Crop, its Quake, its Other Property, and certainly now Surety and the Casualty book. It's going to be a bit of a laggard for the year.

Andrew Andersen

Thank you.

Operator

Thank you. Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields

Great. Thanks so much. I guess first question on crop, is there a sense that you can communicate in terms of where you'll be exposed, which states, which quantities?

Jon Christianson

Yes. Hey, Meyer. It's Jon Christianson. Kind of in the crop world, if you think of Group 1 and Group 2 states, Group 1 being kind of the core corn and soybean producers in the Upper Midwest; we write a lot around those states. With every year, and going into this year, we expect to write more in those kind of core Upper Midwest states where you see a lot of corn and soybeans. I would not necessarily say our footprint is dramatically different than where you'd see a lot of corn and soybean production, so it ends up being in the Midwest, as well as kind of the states around those core Upper Midwest states. You will not see exposure on the West Coast. You will not see exposure on the East Coast. Predominantly, down the center of the country.

Meyer Shields

Okay, perfect. That helps a lot. Is the reduced reinsurance that you're expecting for crop this year, is that less government reinsurance or less private reinsurance?

Jon Christianson

That is we are reducing the quota share to the private reinsurance market, and that's what the government interaction will be roughly the same in total in terms of what we cede to the government through the SRA, the Standard Reinsurance Agreement, where we are taking greater share is after that. We're taking greater share from the private market, and we are now moving to a combination of quota share and stop loss. That structure of having a combination of quota share and stop loss will be fairly durable as we continue to grow this business. While the complexion may slightly change in terms of the risk participation, I would expect, for the foreseeable future, there will be a combination of quota share and stop loss.

Meyer Shields

Okay, great. That's helpful. Then final question I want to ask, I understand that you've got the inflation guard in Residential Earthquake. Is there anything you can do now so that you can respond faster if tariffs had a bigger and more sudden impact than normal inflation?

Mac Armstrong

Yes. Well, we certainly can modify the inflation guards because they are an underwriting rule, they are not required to be approved by the Department of Insurance, in which any state in which we're operating. We can constantly look at the—and we do, as we look at our portfolio, from a reinsurance portfolio management standpoint, we look at the ITV and the estimated replacement cost. We can bump up inflation guards and, in fact, it went to 10 from five two, three years ago, when inflation started to rear its head.

Meyer Shields

Is there room for an inflation guard on the Commercial Earthquake?

Mac Armstrong

It's not as automated from an underwriting standpoint, so we are constantly looking at ITV at every renewal and doing an updated valuation. Yes, it's just not an underwriting rule that is processed when a policy is automatically up for renewal.

Meyer Shields

Okay, perfect. Thank you so much.

Mac Armstrong

Thanks, Meyer.

Operator

Thank you. Our next question comes from the line of Pablo Singzon with JP Morgan. Please proceed with your question.

Pablo Singzon

Hi. Thank you. Mac, in thinking about the incremental limit that you might buy as part of the June XOL renewal, would it be fair to assume growth that is consistent with the mid to high teens growth you expect for earthquake?

Mac Armstrong

Yes, Pablo. That's correct.

Pablo Singzon

Okay, perfect. Then second question, Casualty and Inland Marine are clearly still ramping up, and then Casually specifically, I think premiums more than doubled 2024. Can you provide some perspective on the quantum and length of time you expect excess growth in these lines to last, just given market conditions and what you're doing internally in the company?

Mac Armstrong

Yes. What I would say is the Inland Marine and Other Property, you're going to have certain segments that are going to be nice continual growth drivers that will probably be high 20s and the 30s, like Hawaii Hurricane, where you have policies that are renewing up 22% to 25% and an inflation guard, just per recent rate activity and rate of approval. In the circumstance of Builder's Risk, we continue to expand our geographic footprint, similarly to what we're doing in Excess National Property. At the same time, there are some businesses that are decreasing, like the Commercial All Risk. I would say that that product is probably going to grow faster than Quake, but not disproportionately so.

Casualty, we've made big pushes in hiring over the course of '24, whether it be in the environmental practice, certainly an E&S Casualty with David Sapia, growing. That's going to be, after Crop, the fastest grower in the product suite, because a lot of it is you've got talented underwriters that have come over and they have books of business. They have long-standing track records. They have reinsurance support. We expect to have considerable submission flow.

Pablo Singzon

Okay. That makes sense. Last one maybe for Chris, putting aside the specific impact on ceded premiums, combined ratio, and I suppose holding premium dollars constant, how much incremental dollar and writing income do you expect from the Crop book as you move your participation up from 5% to 30%?

Christopher Uchida

Yes, we haven't provided specific guidance on a line of business basis, but I think that's a business that operates, let's call, in the low 90s type combined ratio. You look at that, and Mac said, and we could probably get to potentially \$200 million. I'd say most of that is going to be recognized in 2025. Some of that will flow between years. Some will go into a little bit of '26, but I'd say 90% of that would probably be recognized in 2025. Using those factors, our 30% participation, I think you can kind of do a little bit of math there and guess a little bit of maybe if we're below that, above that, where we go. But overall, as Mac talked about, we're very committed to the crop line of business. We think that could be a half billion at some point in time, in the intermediate future, in that three- to five-year timeframe, we're excited about the prospects there.

Pablo Singzon

Yes. What's the give up on the ceding or fronting side there, like mid-single digits, right? So you essentially earn more underwriting income than you give up, I don't know, five points to seven points in ceding, is that the correct math?

Christopher Uchida

Yes, that's good. I was going to say, it's definitely got a lower override or fronting fee associated with it than typical lines, just because of the low margin nature to it. I would say you're probably getting, from a margin standpoint, if that's like low single digits, 2.5%, 3%. You're probably getting hopefully triple that when you take underwriting risk in a good year, or a normal year, I should say.

Pablo Singzon

Yes. Thank you. That's clear. Thank you.

Operator

Thank you. We have reached the end of the question-and-answer session. I'll turn the floor back to Mr. Mac Armstrong for closing remarks.

Mac Armstrong

All right, terrific. Thanks, everyone. Just to wrap up, we hope you got the sense that we are really building a unique specialty insurance franchise. Our record results in 2024 we feel are just the beginning. The growth vectors we have are mirrored, and the core earthquake and property businesses continue to profitably grow. The exceptional talent we've added over the last 18 months affords us even more confidence that we will execute in 2025. I couldn't be more excited what the future holds for the Company. I want to thank our team and employees for all that they do and continue to do.

Then lastly, we hope to see you all March 20 in New York at our 2025 Investor Day. Thanks so much, and hopefully we'll see you in the Big Apple. Take care.

Operator

Ladies and gentlemen, this concludes today's conference. You may disconnect your lines. Thank you for your participation.