Assured Guaranty Ltd. (AGO)
May 9, 2025
First Quarter 2025 Earnings Call

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Thank you, operator. And thank you all for joining Assured Guaranty for our First Quarter 2025 financial results conference call.

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

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

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

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

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

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

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

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

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

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

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

Assured Guaranty had a solid first quarter of 2025. Adjusted operating income per share came in at $3.18 for the first quarter of 2025, compared with $1.96 in the first quarter of last year. Our key valuation measures again reached new highs at quarter-end on a per-share basis, with adjusted operating shareholders' equity at $117.40, adjusted book value at $172.79 and shareholders' equity per share at $112.80.

Our new business production in the quarter was $39 million of PVP, of which roughly 65% came from U.S. public finance, where we enjoyed a good flow of high-quality business. The balance was produced in global structured finance and non-U.S. public finance; in both of those areas, deal premiums tend to be higher, but the timing of transactions tends to vary because development times are often longer in those areas. I'll let Rob give you more details in a moment.

In an important achievement that we mentioned last quarter, we concluded litigation with Lehman Brothers International in early February 2025, and we recognized a pre-tax gain of $103 million in the first quarter of 2025. This positive outcome is the result of years of negotiation and litigation and is a testament to our determination to defend our legal rights to the fullest extent possible.

We have the same determination to enforce our rights as a secured creditor of the Puerto Rico Electric Power Authority. It is again worth noting that, over the FOMB's objections, the First Circuit has confirmed that bondholders are secured by an unavoidable security interest in PREPA's past, current and future net revenues. PREPA remains our final unresolved defaulting Puerto Rico exposure.

Our strategic approach to asset management continues to focus on increasing the fee-based earnings generated through our 30% ownership interest in Sound Point, which contributed $13 million to our income in the first quarter. In addition, our investment portfolio benefitted from attractive returns on our alternative investments through Sound Point. Total first quarter investment income from all of our alternative investments was $59 million, the highest quarterly level to date for our alternative investment portfolio. Our inception-to-date annualized rate of return for all alternative investments was 13%.

Globally, we are currently experiencing a highly volatile market environment and an unpredictable economic environment. In other words, the kind of conditions Assured Guaranty is built for.

We have proven for four decades the reliability and value of our guaranty and the resilience of our business model through exceptionally difficult economic and geopolitical environments. We believe the current environment, as volatile as it has been over the past two months, has the potential to drive increased demand for our guaranty, as investors seek out proven instruments for reliable cash flow and capital preservation, and issuers seek out increased certainty of market access along with more efficient executions.

We have the financial strength, market position, credit skills, surveillance operations, remediation abilities, and comprehensive enterprise risk management to protect our capital, as we help issuers and counterparties reduce borrowing costs, improve capital efficiency, and provide investment choices designed specifically to give investors confidence in times like these.

I will now turn the call over to Rob to provide more details about our production results.

Robert Bailenson
Chief Operating Officer

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

Assured Guaranty closed $39 million of PVP in the first quarter of 2025. U.S. public finance led the way with $25 million of PVP, and non-U.S. public finance and global structured finance each contributed $7 million of PVP.

For the first quarter of 2025, Assured Guaranty continued as the leader in U.S. municipal bond insurance, capturing 64% of the primary-market insured par sold and 58% of the insured transaction count. Compared with the first quarter of the previous year, Assured Guaranty's insured par sold was up 23% to $4.7 billion, and up 46% to 222 new issues in transaction count.

In addition, while quarterly par insured was the second highest in a decade, the average underlying credit quality of first quarter municipal transactions was single-A, indicating higher credit quality, less risk, lower rating agency capital charges, and less PVP than a similar par amount of more typically rated municipal business would produce. In fact, during the quarter, 30% of the municipal transactions that we closed had underlying ratings in the double-A category by S&P or Moody's.

We are excited about developments in our secondary market bond insurance business, where activity increased substantially during the first quarter of 2025, producing $376 million of insured par, more than in all of 2024.

We believe that many secondary market investors in part sought our guarantee to manage the potential portfolio impact of the current environment's economic stress and market volatility. We are confident our secondary market business has the potential to make a greater contribution going forward, and we have focused the past year on modernizing our processes and technology for acquiring and executing secondary market business. We have already deployed some of the new technology and aim to build a more consistent transaction pipeline with thousands of outstanding issues pre-approved for secondary market insurance.

In the primary market, we continued to use our guaranty to help support some of the largest transactions, and we see our positive results in this area as a gauge of the further growth of institutional demand for our guaranty. In our view, such growth reflects institutions' heightened appreciation of the relative price stability and increased market liquidity our insurance can provide, along with the reduced borrowing cost issuers receive.

The first quarter of 2025 included eight large transactions with insured par over $100 million, including $261 million for Indiana Municipal Power, $256 million for Sumter Landing Community Development District and $186 million for the Oklahoma Turnpike Authority.

Among AA credits, which we define as credits rated in the double-A category by S&P and/or Moody's, Assured Guaranty insured 53 primary and secondary transactions for a total of $1.7 billion of insured par during the quarter, further reflecting what we believe is the market's recognition of the value our guaranty can add to even highly rated credits.

For non-U.S. public finance, new business in the first quarter of 2025 primarily included U.K. regulated utility transactions as well as a secondary market transaction for a U.K public sector entity.

Structured finance's production in the first quarter of 2025 was primarily attributable to subscription finance and pooled corporate transactions.

Both non-U.S. public and structured finance have expanded the application of our products into various new sectors and locations, and we look to continue to develop additional product applications, and expand into new territories, to further support our business growth. For instance, post-quarter, we guaranteed a transaction issued by XpFibre, the largest independent fiber-to-home operator in France. This is our first primary financial guarantee in the French infrastructure space since we opened our Paris office and represents a key milestone in our strategy to expand our product offerings and strengthen our presence in continental Europe.

We expect demand to continue for our core products and see that demand likely increasing. At times when challenges or uncertainty arises in the economy and financial markets, or when the cost of borrowing goes up, our products can help further optimize a variety of transactions, so our clients can accomplish more with lower financing costs and/or better capital efficiencies.

I'll now turn the call over to Ben.

Benjamin Rosenblum
Chief Financial Officer

Thank you, Dominic and Rob, and good morning.

I am pleased to report first quarter 2025 adjusted operating income of $162 million, or $3.18 per share. This represents a 62% increase from the first-quarter 2024 adjusted operating income of $1.96 per share, or $113 million.

The largest driver of the increase in adjusted operating income in the first quarter of 2025, compared with the first quarter of 2024, is the $103 million pretax gain, which represents the judgment awarded and claims for attorneys' fees, expenses and interest in connection with the LBIE litigation. This equates to a $82 million after-tax gain, or $1.62 per share. The LBIE gain was reported as a $63 million recovery that is reflected as a benefit in loss expense and economic development, and $40 million in credit derivative revenues.

Excluding the $40 million associated with the litigation, net earned premiums and credit derivative revenues decreased by $28 million due to lower financial guaranty refundings and terminations. However, scheduled net earned premiums and credit derivative revenues increased by 7%, and deferred premium revenue remained strong at $3.9 billion.

First quarter 2025 economic loss development, excluding the litigation benefit, was $48 million, mainly due to losses on the Puerto Rico Electric Power Authority, or PREPA, and certain UK regulated utilities. The PREPA loss in the first quarter was due to a potential delay in the expected timing of the resolution of PREPA.

Loss expense included in adjusted operating income, excluding the benefit associated with the litigation, was $40 million and was primarily related to PREPA and certain healthcare exposures.

Our investment portfolio continues to perform well and demonstrates the value of having both: a stable stream of interest income from the fixed-maturity portfolio, as well as income from a diverse portfolio of alternative investments. In the first quarter of 2025:

- Net investment income on the available-for-sale fixed-maturity and short-term investment portfolio for the segments and corporate division was $90 million, compared with $86 million in the first quarter of 2024.

In the first quarter of 2025, net investment income included $11 million related to CLO equity tranches. Certain CLO equity tranche investments were reclassified to the available-for-sale fixed-maturity portfolio in the fourth quarter of 2024, with interest income now reported in net investment income, and changes in fair value reported in other comprehensive income. The Company previously held these CLO equity tranches in a Sound Point managed fund with changes in net-asset-value reported in "equity in earnings (or losses) of investees" in the Insurance segment.

Net investment income on the short-term investment portfolio decreased by $9 million as a result of lower short-term interest rates and lower average short-term asset balances.

- Alternative investments have generated an annualized internal rate of return of approximately 13% on an inception-to-date basis through March 31, 2025. Equity in earnings from our alternative investments reported in our segments and corporate division results were $46 million, compared with $37 million in the first quarter of 2024.

- The change in fair value of trading securities, which mainly consists of Puerto Rico contingent value instruments, was a $1 million gain, compared with a $26 million gain in the first quarter of 2024.

Breaking down the main contributors of our first quarter results:

- The insurance segment contributed $168 million, up from $149 million in the first quarter of 2024.
- The asset management segment contributed $12 million, up from $1 million in the first quarter of 2024, and mainly consists of earnings related to our 30% ownership interest in Sound Point.
- These segment earnings were offset in part by the Corporate division's adjusted operating loss of $20 million in the first quarter of 2025, which is down from a $37 million loss in the prior year.

On the capital management front, in the first quarter of 2025 we repurchased 1.3 million shares for $120 million, at an average price of $89.72 per share. Our remaining authorization is approximately $181 million. We also returned $18 million in dividends to our shareholders.

In terms of our current holding company liquidity position, we have cash and investments of approximately $257 million, of which $53 million resides in AGL.

Share repurchases, along with adjusted operating income and new business production, collectively contributed to new records for adjusted operating shareholders' equity per share of over $117, and adjusted book value per share of over $172.

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

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

Queston and Answer Session

Operator
[Operator Instructions]
Our first question comes from Marissa Lobo with UBS. Marissa, your line is open. Please go ahead.

Marissa Lobo, *UBS*
Thanks, good morning. Thanks for taking my question. On the topic of UK water exposures, specifically Thames Water, what likelihood are you now placing on a haircut to the debt given there is the clear bidder for Thames?

Dominic Frederico
Marissa, that's not the way our reserves work. I'll let Ben give you the tutorial on reserving. There are many ways to look at it, and Ben, why don't you work through it.

Ben Rosenblum
So, I mean…

Marissa Lobo
There are a range of – right, I understand there's a range of scenarios.

Dominic Frederico
Got to outline all possible scenarios and probability weight them.

Ben Rosenblum
Right. I think you have to look a two – really a couple of factors. One, what scenario you're looking at and each probability weight. So -- and a scenario may have a haircut or may not have a haircut. And in the event there is a haircut, then what kind of recovery would you get if there was potentially equity on the other side of it. And we obviously have spent a lot of time looking at each of the scenarios assessing what we think the likelihood of a haircut is based on information that we are involved in getting. We don't reserve through the marketplace. We don't reserve through newspapers and articles you see and we do look at each. We are talking to people all over the place and looking at it, and we do have quite a few scenarios now that we're playing with both in terms of the haircut to receive and any recovery we may get on the back end.

Marissa Lobo
Appreciate that. I also hope you could share your view on how you see the process timeline from here?

Dominic Frederico
The process timeline is going to go through the regulatory environment, and that's still a question as well as that's getting studied. But let's go back for a second to the reserve. So the majority of cases show no loss to Assured Guaranty on the bonds. Remember, we're the senior creditor position in those situations. We worked out a liquidity plan that we believe really provides the space necessary for them to raise the necessary equity to be back in the market. As Ben said, the recovery will take many forms and will also have to be valued as well. But the majority of our cases, the strong majority of our cases will have no reserve, no ultimate loss to Assured. And we think the regulatory will work itself out over the next 6 to 12 months.

Marissa Lobo
Much appreciated. And then on another topic I was hoping you could speak to, of the impact of tariffs. Do they mean – do they have any potential impacts to any of the credits that you wrap?

Dominic Frederico
I think that's such a fluid situation, it's really hard to make an estimate at this point in time. So I got to look to the market. As you saw in the first quarter, municipal issuance is way, way up, which is reflective of the stronger credits going to the marketplace and the confidence that the market will still respond to it. So, we're taking a wait-and-see approach. Obviously, we continue to look at our international opportunities. We think there's volatility and economic upheaval or questioning position will help our demand for our product in the long run. Or I think in the short term, we've got opportunities, how ports might be affected. We looked at our book in that area. So I think we're looking at volatility and confusion is a good thing for Assured. That's when the market is the most receptive to our guaranty.

Ben Rosenblum
If you look, it's very similar to COVID where we opportunistically saw the market dislocated in COVID, particularly in areas like airports and we did very well writing business during that time.

Marissa Lobo
Got it. Thanks for your answers and congrats on the strong quarter. That's it for me.

Dominic Frederico
Thank you.

Ben Rosenblum
Thank you.

Operator
Thank you very much. Our next question comes from Tommy McJoynt with KBW. Your line is now open. Please go ahead.

Tommy McJoynt, *KBW*
Hey, good morning, guys. A question on from the commentary you put out there around the type of primary issuance that came through in the quarter, seemingly to be a overall a higher rated credit. Does this change your outlook on what the normalized PVP to par looks like going forward or should we not read too much into to one quarter one data point?

Rob Bailenson
No, that was – this quarter as – with the market volatility, a lot of the issuance was in the senior rated positions, AAA, AA, in the public finance market. And everyone was waiting and seeing what's going to happen with interest rates and the volatility with respect to the

tariffs and all the noise. So, AAA, AA issuance came to market. We actually, as I said, significantly, we wrapped a significant portion of the double-A market. But so, as business makes, it doesn't change what we think it's going to happen going forward for the year. In fact, we see a strong pipeline in public finance, both the primary and the flow primary business in our target markets in the A and BBB, as well as in our secondary market execution as I talked about. We're seeing – we have a lot of names that are open. We've made our process, we've increased our – we've significantly invested in our systems to help execute that market with our counterparties, giving them real-time information of what the price is going to be quickly and how our premium fits into that transaction and how people can save money. So, we see the opportunity in secondary growing throughout the year and also in our flow business as markets have become less volatile.

Dominic Frederico
Yeah, Tommy, I'd say we actually take a lot of comfort in the first quarter and get a lot of confidence in what the year is going to look like. Strong credits came to the market in a volatile period, which you would expect that the stronger credits would still go out to issue. It shows the demand for financing that the municipalities still need. The market in general was up 20% or 19% par over par, and yet we were up 33% par over par. So it shows the demand for the paper’s there. There's issuance activity there. We expect the stronger credit to the volatile market to go to the market because they're not really affected. We expect the rest of the credits will come to the market as the year folds out and things get more stable in their entire situation and the global economic situation. So we are very encouraged by the first quarter.

Tommy McJoynt
Okay, got it. Appreciate the color there. And on some of those technology investments that you're making to potentially increase penetration in the secondary market, can you remind me, is there competition in that space? I know on the primary municipal side, there's really only one other competitor. What's the environment like competitively in the secondary side?

Dominic Frederico
The same as the primary, we have one other competitor looking at secondary market executions but remember they look at a lot smaller end of the market than we do.

Tommy McJoynt
Okay, got it. And then the last question…

Dominic Frederico
I'm sorry. I said the first quarter reflects that if you look at the demand for the two companies and the amount of par that was insured by the two companies, there was a significant difference in the first quarter versus other quarters. Why? Because the stronger credits came to the market, where only Assured could provide assistance there.

Tommy McJoynt
Okay, got it. And then just last question, the Asset Management segment, the bottom line there was a bit stronger than we were expected. Can you talk me through what happened there on the Asset Management side?

Ben Rosenblum
Yeah, I think when you look at the Asset Management business, a lot of our earnings in the Asset Management business are back-end loaded. So we book on a quarter lag. So we are looking really – booking what Sound Point did in the fourth quarter. And I think we were seeing a lot of that as Sound Point typically has a very strong end of the year as they syndicate some of the loans they have out there, they pick up some incentive fees, and what we've observed is that they typically, it's a little bit back-end loaded. So I think as you model through the rest of the year, I would always assume that our first quarter, which is really their fourth quarter, is probably going to be our best quarter in that space.

Tommy McJoynt
Thanks.

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

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

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