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

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

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

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

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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 an exceptional second quarter and first half of 2024. Adjusted operating income per share came in at $1.44 for the second quarter of 2024, compared with $0.60 in the second quarter of last year.

Our key shareholder valuation measures again reached new per-share highs. Since June 30th of 2023, on a per share basis, shareholders' equity rose 16%, adjusted operating shareholders' equity rose 15%, and adjusted book value rose 12%.

New business production for the first half remained strong, consistent with recent years' results, and was diversified across U.S public finance, international infrastructure, and global structured finance. First half PVP of $218 million is more than in any first half since 2009, with the sole exception of first half 2018, where we assumed a large portfolio from another bond insurer. Rob will give you more production details in a few minutes.

But first, I want to discuss the merger we completed last week of Assured Guaranty Municipal into Assured Guaranty Inc., which is the same company you knew for many years as Assured Guaranty Corp.

Those two companies had been our principal insurance operating subsidiaries since 2009, when Assured Guaranty purchased FSA, later renaming it AGM. The rationale for operating them separately no longer exists, and we see the merger as beneficial to all of our stakeholders.

Assured Guaranty Inc. is the surviving company, and its acronym is simply AG. This simplification of our brand marketing is only one of the many benefits.

Two of the primary objectives of the merger are: to achieve more efficient utilization of the combined capital of the two companies, and to increase operating efficiencies. This includes having one principal U.S. regulator – Maryland.

By aggregating the two platforms into a single insurance company, the merger enlarges the pool of capital and claims-paying resources available to support each insurance company's policies and results in further diversification of the single company's insured portfolio credit profile. Both companies' insured portfolios had contained public and infrastructure finance exposures and structured finance exposures. The combined company will continue to serve the same markets.

To be clear, all obligations of AGM are now obligations of AG. In all other respects, the policies have the same terms as when they were issued. AGM's U.K. and European subsidiaries are now subsidiaries of AG.

At the time of the merger, AG and AGM had identical financial strength ratings: AA+ at KBRA, AA at S&P and A1 at Moody's, all with stable outlooks. All three rating agencies have indicated that they see no change to Assured Guaranty's financial strength rating as a result of the merger.

KBRA wrote that it "views the merger and the resultant simplification of the overall organizational structure as creating capital, operational, and regulatory efficiencies, as well as enhancing Assured Guaranty Ltd.'s overall global platform and scale… ."

Moody's said it believes the merger "results in a moderate strengthening" of AG's credit profile relative to those of pre-merger AG and AGM.

S&P has always rated our guarantees based on the capital adequacy of the entire group, so it was already taking both companies' exposures into account.

Before the merger, AGM and AG were each overcapitalized, and each has experienced a substantial reduction in its insured exposure since 2010, while their statutory capital increased materially during the same period. In connection with the merger, we up-streamed $300 million through a special dividend – technically a stock redemption – that the Maryland Insurance Administration approved. And this followed the $100 million stock redemption by AGM during the second quarter. The rating agencies took these transfers into account when considering the combined company's ratings.

There is more information about the combined company in a presentation on our website, where you can also find a Q&A with more detail on the merger, our press releases about both the merger and the rating agency decisions, and the full rating agency announcements.

With the consolidation of the merged subsidiaries, the new AG is very well positioned for future growth and efficient operational success, building on Assured Guaranty's excellent first half 2024 production and financial results.

We remain committed to our share repurchase program with a target this year of $500 million. As of August 6, 2024, the Company had repurchased 7.2% of the shares that were outstanding on December 31, 2023, and was authorized to repurchase an additional $275 million of its common shares.

In June of this year, we saw a favorable ruling in the restructuring case of Puerto Rico's Electric Power Authority, PREPA, our last remaining non-paying Puerto Rico exposure. The appeals court reversed several lower court findings, ruling that the utility's bondholders have a perfected lien not just on trust agreement accounts but also on past, present, and future net revenues as well. The appeals court also determined investors' allowed claim to be the face amount of the utility's bonds plus interest, about $8.5 billion, which is more than the prior $2.4 billion cap set by the lower court. The lower court has ordered the parties to resume mediation in light of the appeals court's ruling, and we look forward to working with all parties to reach a fair resolution of the PREPA restructuring.

Uncertainty this year about economic, geo-political and financial volatility reminded investors why it’s good to have investments that are protected by our insurance. Our guaranty has unique value for bond investors who need protection from what can’t be predicted, and bond issuers can reduce their financing costs by issuing bonds with the extra protection of our guaranty. Assured Guaranty has proven its reliability over the past four decades, consistently meeting our obligations and returning excess capital to our shareholders, while maintaining a high level of financial strength, a base of predictable earnings and market leadership.

We have high potential for growth in our worldwide financial guaranty business. With our new, more efficient organizational structure, we believe that we have never been better positioned to serve our clients, protect our policyholders and create value for our shareholders.

I will now turn the call over to Rob to discuss our production results.

Robert Bailenson
Chief Operating Officer

Thank you, Dominic.

Assured Guaranty and, in particular, U.S. public finance, had very strong first half results for 2024. In fact, it was one of our strongest production halves since 2009. As Dominic mentioned, new business production for the first half continued to be diversified across U.S public finance, international infrastructure, and global structured finance. First half PVP of $218 million was the largest amount of total first half PVP since 2009, with the exception of first half 2018, when our assumption of a large portfolio from another insurer sharply increased our PVP results.

Bond insurance penetration remained comparatively high, at 8.2% for the first half and 8.9% for the second quarter of 2024, a continuation of the increased demand for bond insurance that we have seen since 2020. Bond insurance is increasingly being utilized across a variety of transactions ranging from very small to very large in size. We believe that more investors have realized that, in addition to the security it provides, our bond insurance can potentially support price stability and market liquidity, and that issuers are using it to obtain greater certainty of execution in less predictable market environments, in addition to reducing financing costs.

Assured Guaranty continued its market leadership position for the first half of 2024, insuring $10.8 billion of primary par, which represented 56% of the insured par sold in the primary market. Year-over-year, for the first half of 2024, Assured Guaranty’s primary market insured par increased by 11%.

In the second quarter, Assured Guaranty’s primary market share was 58%, based on a 13% increase year-over-year in insured primary-market par sold, for a total of $7.2 billion.

One driver of our production is the ongoing demand for our guaranty on larger transactions, which typically see interest from institutional investors. For the first half of 2024, Assured Guaranty insured 21 transactions that each utilized $100 million or more of Assured Guaranty insurance, 14 of which were in the second quarter.

We saw significant opportunities in large, high-margin transactions during the first half. Three of the largest transactions sold in the municipal market during the first half of 2024 carried insurance from Assured Guaranty: $1.1 billion of insurance for the Brightline Florida passenger rail project, where we insured a majority of the senior bonds; $800 million for the New Terminal One at John F. Kennedy Airport; and $831 million for a Dormitory Authority of the State of New York school district revenue bond issue. The Brightline project is the first private-sector passenger rail system built in the U.S. in over a century, the JFK project is the largest U.S. public-private partnership transportation project, and the DASNY issue helped 69 school districts finance capital improvements.

We were pleased to continue adding value on double-A credits during the first half of 2024, as we insured $2.5 billion of par on 54 deals. We believe that investors see the extra protection of our guaranty as a mitigant of downgrade and market value risks.

Non-U.S. public finance produced $34 million of PVP during the first half of 2024, consistent with the $36 million in the first half of 2023. Second quarter activity included primarily secondary-market guaranties of several UK regulated utility and airport transactions. Our pipeline of potential international public finance transactions includes a significant number that we consider likely to close later in 2024.

Global structured finance produced $25 million of first-half PVP, a solid result. We continue to see opportunities with banks, insurance companies, pension funds and asset-backed investor clients across sectors including pooled corporate and fund finance.

One additional note about the strength of our second quarter production. Our $155 million of second quarter PVP was $64 million higher than that of second quarter 2023. And in terms of direct PVP production, the second quarter of 2024 was our best second quarter since 2009.

We believe we can build on our impressive performance in the first two quarters to complete the year with strong production results. I will now turn the call over to Ben to talk more about our financial results.

Benjamin Rosenblum
Chief Financial Officer

Thank you, Rob and Dominic, and good morning.

I am pleased to report second quarter 2024 adjusted operating income of $80 million (or $1.44 per share), which is more than double the $36 million (or $.60 per share) reported in the second quarter of 2023.

The insurance segment, which contributed $116 million of adjusted operating income in the second quarter of 2024, up from $106 million in the second quarter of 2023, had a few noteworthy items.

- First - we had no loss expense in the second quarter of 2024, compared with $44 million in the second quarter of 2023. While we did have $21 million of economic loss development in the second quarter of 2024, primarily related to certain healthcare transactions, there was sufficient deferred premium revenue to absorb the development for the quarter, resulting in no loss expense.

- Second - we had a $10 million increase in equity in earnings, which represents the returns on alternative investments, primarily due to gains in CLO equity tranches and higher invested balances in the second quarter of 2024, compared with the second quarter of 2023. Fair value changes of assets underlying the alternative investments may cause volatility in adjusted operating income from quarter-to-quarter; however, on an inception-to-date basis, they have generated an annualized internal rate of return of 14% in the insurance segment.

- These increases were partially offset by lower fair value gains on the Puerto Rico contingent value instruments, which were $17 million in the second quarter of 2024, compared with $40 million in the second quarter of 2023. As of June 30th, the fair value of the remaining CVIs was $221 million.

Our deferred revenue, which represents the storehouse of future earnings in the insurance segment, remains strong at $3.9 billion, and is a direct result of the new business production that Rob discussed.

For the second quarter of 2023, the asset management segment results consisted of AssuredIM results as it was still a wholly-owned, consolidated entity. Since the closing of the Sound Point and AHP transactions in July of 2023, the asset management segment primarily includes:

- our equity pick up on the Sound Point investment, which is on a quarter lag, and is reported net of amortization of intangible assets, and;
- continuing performance fees on asset-based and healthcare strategies.

The second quarter 2024 income from Sound Point was close to breakeven, which is in line with our seasonally adjusted expectations as GAAP revenue recognition rules result in Sound Point’s performance fees generally being recognized towards the end of their calendar year.

On the capital management front, in the second quarter of 2024 we repurchased 1.9 million shares for $152 million, at an average price of $78.50 per share. Stock buybacks continue to be one of our most accretive strategies. Our remaining authorization is approximately $275 million.

In terms of the holding company liquidity position, we have cash and investments of approximately $308 million, of which $55 million resides in AGL.

The share repurchase program, along with adjusted operating income and new business production, collectively contributed to new records for adjusted operating shareholders' equity per share of over $109, and adjusted book value per share of over $161. While adjusted operating income varies from period-to-period, the consistent quarterly increases in these book value metrics reflect how the successful execution of all of our key strategic initiatives build shareholder value over the long term.

As Dominic mentioned, the AGM-AG merger, along with $400 million of stock redemptions, results in capital efficiencies and demonstrates the continued execution of our key strategic initiatives. About $270 million of the stock redemptions were in cash while the remainder consisted of alternative investments. These stock redemptions are available for use in corporate initiatives, including share repurchases.

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

QUESTION & ANSWER SESSION

[Operator Instructions]

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

Tommy McJoynt, *KBW*
Starting off on PREPA, you mentioned and we saw the appeals court ruling in June, can you just walk through the, I guess, process for how sort of you guys seeing that information, that court ruling impacts what you guys ultimately book as your sort of loss reserve or recovery around that specific credit in the quarter? I guess we were a little bit surprised not to see a more favorable mark once that ruling came through?

Dominic Frederico
Well, I'll give you the top and I'll let Ben give you the bottom. So at the top, the ruling is very favorable. And obviously, it's a ruling that we had expected all along as the judge continued to avoid the law or ignore the contract that was signed. So we thought that was going to be the outcome, number one. Number two, there's still a lot of road to hoe relative to appeals. Number three, timing does matter in how you look at your reserving in terms of when the settlements would actually take place. So we did adjust scenarios, but we thought it would be prudent because of the open areas in terms of mediation and appeals in terms of what an ultimate decision would be. So you got to continue to rely on the

scenario analysis and probability weightings and we've done I thought the right thing in keeping it kind of consistent while we wait for further information and further activity.

Benjamin Rosenblum
I would say Dominic pretty much took all the words out of my mouth, I couldn't have said it any better. I mean, you have scenarios and a lot of our scenarios assumed that we were going to win. We knew we had a very strong case. And now we just have to see it through and timing, as we said, does matter.

Tommy McJoynt
Okay. Got it. And then switching topics and switching over to capital, kind of stick with me here where I walk through some numbers. So you've done $400 million of special dividend sort of capital releases out of the subs to the holding company already this year. On Slide 16, it looks like the regular way dividend limitation is $483 million combined. So that's together nearly $900 million combined. I know the holding company has about $200 million of cash expenses annually. So that still leaves about $700 million. That's about $200 million in excess of your $500 million annual buyback target. Did you have any plans for what you'll look to do with that extra couple hundred million dollars of liquidity?

Dominic Frederico
Well, remember, it's a $500 million target per year. And obviously, we'd like to make sure we have enough cash in the foreseeable future to meet that obligation as it comes due, plus it gives us some flexibility as we hold on to the additional balances just in case we see something as an accretive opportunity be it an acquisition, be it another business opportunity. But by and large, it's there for share repurchase. And as we said, we've always looked at a $500 million target. So this kind of ensures that 2025 looks pretty damn good as well.

Tommy McJoynt
On the acquisition opportunity front, is there anything that you guys are actively looking at right now?

Dominic Frederico
Other than the remaining monolines, which we've always talked about as an opportunity, but they're really not capital consumptive at this point. So the answer would be no at this point in time for other acquisitions.

Operator
Our next question comes from Giuliano Bologna from Compass Point.

Giuliano Bologna, *Compass Point*
Congratulations on another great quarter. I was curious when you think about, it sounds like the preference at this point is to kind of extend the runway of the $500 million buyback pace? And then it sounds like, obviously, it sounds like and it looks like you're in a very good position for '25. I'm curious how you think about that long term. Obviously, you're in a great position for the next couple of years. Is that the way you'd like to run your capital

return strategy for the next few years going forward? And do you think at some point, it would evolve to more reinvestment into the business? Or how do you think about that longer term?

Dominic Frederico
Well, we'll still continue to evaluate it as the most accretive transaction. So as long as we continue to look at that runway and the runway is positive, we're going to continue to execute on that basis. And this gives us tremendous flexibility as well. We stuck with the $500 million right, wrong or indifferent. We think that's been the best way to apply it. It's provided a consistent support for the stock. It's allowed the evaluation to continue to increase. We're near where we expected to be and where we expect it to get to ultimately, but we still think it's the most prudent way to go. And like you said, this really does clear the runway for quite a period of time.

Giuliano Bologna
That's very helpful. And then on the new business front, you obviously had some very good wins on some larger transactions that obviously have some very interesting institutional demand. I'm curious if there is, if you see any opportunities on the structure side of the business or on the international side, that can be accretive and be scaled in the near term?

Dominic Frederico
If Mr. Bailenson is ready to jump out of his chair, I'll let him answer the question.

Robert Bailenson
Yes. We are seeing a lot of opportunities in the structured finance and international infrastructure markets. We closed a number of subscription finance transactions, direct lending pooled corporates, whole business securitizations, transportation and regulated utility sectors. We're seeing this across the U.K., Continental Europe, North America and Australia. We have put resources, as you know, into Australia, and we're seeing some early successes there in structured finance as well as infrastructure. So we're really excited about that opportunity.

Operator
Our next question comes from Geoffrey Dunn from Dowling Partners.

Geoffrey Dunn, *Dowling & Partners*
Can you talk a little bit about the health care issues that you're facing and what's causing some of the pressure on those deals? I know it's modest development we saw this quarter on an economic basis. But what are the pressures there and more importantly, what are your protections in those deals?

Dominic Frederico
Let me start from the top. So remember, when we look at health care, we always look at essential services, major leaders in the marketplace and we provide ourselves with other covenants to protect our position. Obviously, coming through COVID, that caused a

tremendous spike in pricing in both nursing and supplies. Labor costs went through the roof. Other costs went through the roof. And I think it's been a while for both the third-party reimbursement to adjust as well as the hospitals themselves to adjust, but as we've seen in our book of business, things continue to improve.

As I said, we've got tremendous covenants and protections. So we're still very optimistic about the value of health care, and we only get paid when problems exist. So we're happy to make sure that the opportunities that we see in the market are realized. We typically have mortgages on the properties. We have liquidity constraints. We've got debt service reserve covenants. We've got debt service or debt service coverage covenants. So as I said, it's a well-protected portfolio. Obviously, the stress has been caused mostly by COVID and inflation, but we see the hospitals now all starting to address that and the results are improving. And as I said, the protections are pretty strong. We still like the business. We get paid when there's problems in the market. So it's a great opportunity for us to increase overall production as well as the return of those individual policies.

Geoffrey Dunn
Okay. And then the other question I have, I'm not sure you can answer it, but obviously, the company's ROE is diluted with all the excess capital that you're sitting on. Can you give a range as to what the underlying operating ROE looks like if you are running out of efficiency?

Dominic Frederico
No, we have a target that we got to get to double digit on every business that we write relative to the overall business written by each of the profit centers: structured, international and domestic public finance. So that's still the goal. What's killing us is obviously the excess capital that we carry, which has principally been in response to the problems in the past. The great recession, the pandemic, Puerto Rico. As those things now dissolve and basically dissipate, biggest argument we're having in the company is how much of accretion we want to keep on the excess capital and then take the rest of the capital down to that level.

But as you know, with the statutory limitations that we have, it's going to take some years to get there, but we have a plan to get there over the near term. We're confident both in the growth in the business, the further diversification through things like asset management, we'll be able to achieve an increase in the R, and as I said, the E is coming down based on the schedule that we established in terms of capital management, maybe not coming down as fast as we'd like. If I told you what the excess capital was, it's basically the same as it was back in 2013 when we started the buyback. And having bought back $5.2 billion, I think, of stock, we're still back to the same spot of excess capital, which is probably a good problem than a bad problem, but it does affect the ROE and we're still working to make sure that we can make a meaningful dent into that excess capital.

Robert Bailenson
And Geoff, as Dominic said, as we expand internationally in structured finance and international infrastructure, those ROEs are mid-teens or even higher. So as we grow

those, that sector, it really adds to the R, to the return, to the numerator, but it does come over time.

Geoffrey Dunn
So is it fair to say that this is more like a 12-14 business versus the 10 to 12?

Dominic Frederico
The international...

Robert Bailenson
Could be even higher.

Dominic Frederico
Higher than that. Yes, exactly.

Robert Bailenson
It depends on the mix.

Geoffrey Dunn
I was talking overall.

Dominic Frederico
Remember, we earn very little premium. Geoff, remember, we take long lead time on earning premium, right?

Robert Bailenson
It takes a while to come through.

Dominic Frederico
The amortization of the unearned premium reserve. When you think about each year's business, it contributes about 8% to the bottom line. It takes a while to get the meaningful change. But as we see the production building, that will help tremendously 2 or 3 years out.

Geoffrey Dunn
Okay. And I guess just a follow-up. Your, the comment about the capital being the same – the excess capital same as '13, it's a little bit ironic with how much you've returned. You're sprinting to stay still here. How do you get ahead of that because your earning strength continues to...

Dominic Frederico
Like I said, it's a good problem and it's a bad problem. Probably remember, the sprit, and then why we're at the same spot is because of really what I'll call unique opportunities that we took advantage of: buying all the competitors up at huge discounts to the capital, doing some large reinsurance deals, right, doing some refinancing or restructuring of our capital base, mergers, eliminations of other companies. So we've had these unique

transactions that have really accelerated earnings, the refunding wave based on the zero interest rate environment. So now we see that kind of has dissipated a bit. Now it's solid, core earnings type of thing, growth in the core businesses. So we're now more confident that we'll be able to make a real dent on the capital over the next few years and our projections show it that way, Geoff, as well.

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

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
Ladies and gentlemen, this concludes today's conference call. Thank you all for attending. You may now disconnect your lines.