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Radian Group Inc. (RDN)

Acquisition of Inigo Limited by Radian Group Inc Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Radian's Conference Call to discuss the acquisition of Inigo. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session to ask a question. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker today. Dan Kobell, EVP of Finance. Please go ahead.

Daniel Kobell

Executive Vice President-Capital Management & Investor Relations, Radian Group Inc.

Good morning. Thank you for joining us today to discuss the announcement of our agreement to acquire Inigo. Today you will hear from our Chief Executive Officer, Rick Thornberry; and our President and Chief Financial Officer, Sumita Pandit. We will begin the call with an overview of the strategic rationale and key financials for the transaction, as well as Radian's go-forward strategy as a global multi-line specialty insurer. Then we will open the line for Rick and Sumita to answer your questions.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included with the Form 8-K we filed earlier today. The risk factors in our 2024 Form 10-K and subsequent reports filed with the SEC.

Now, let me turn the call over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Dan, and good morning. Today marks an important milestone for Radian as we transform our company from a leading US mortgage insurer to a global multi-line specialty insurer, we announce that we have entered into an agreement to acquire Inigo, a highly profitable Lloyd's specialty insurer, for $1.7 billion. The transaction is primarily all cash and will be funded by using our available liquidity sources and access capital without issuing new equity. Over the past several years, we've been focused on building a stronger Radian. We have strengthened our capital liquidity position, growing our high quality mortgage insurance portfolio, invested in our proprietary data and analytics platforms, expanded our customer base, and most importantly, built an outstanding team. As part of our ongoing commitment to long-term growth and value creation, we have spent considerable time evaluating different strategic paths. Our objective was to build on our foundation and core strengths, including our customer focus, disciplined underwriting, proprietary data science and analytics, capital management, and our talented team. Through this process, we determined that the right strategic path was to build Radian into the future as a global multi-line specialty insurer. Today's announcement is a culmination of our strategic planning as we turn our vision into action with the acquisition of Inigo.

As we spent time with the Inigo team, we have been very impressed by the team and the business they have built over the past five years. We are excited to partner with this group of highly experienced leaders with a strong track record of building and managing successful Lloyd's businesses. The Inigo team aligns well with our core strengths and the cultural match is very strong. This makes them a natural fit that complements ratings mortgage insurance business by bringing our two companies together, we have a clear strategic path as a global, diversified multi-line specialty insurance company. Sumita will go through the details of the transaction.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

Thank you, Rick. Let's walk through an overview of the transaction on Slide 3. This transaction allows us to efficiently deploy our excess capital into uncorrelated and high return specialty insurance lines Inigo’s large scale and high growth platform is expected to double Radian’s top line revenue while driving profitable growth. Inigo has quickly established itself as a leading Lloyd's Syndicate, Syndicate 1301, by combining deep underwriting expertise, active customer engagement and advanced analytics and technology. This unique and profitable platform has delivered a combined ratio in the mid-to-high eighties and a pre-tax return on equity of more than 20%. The transaction is financially compelling for Radian. The purchase price of $1.7 billion will be cash funded from available liquidity sources and excess capital with no equity debt. And the valuation is attractive at one and a half times the year-end 2025 Projected Tangible Equity. The company was founded by three highly respected industry veterans with decades of experience in the Lloyd's Market, Richard Watson, Russel Merritt and Stuart Bridges, who turned their deep industry experience into a successful and scaled business. They've attracted an exceptional team of 250 employees who share the founder's entrepreneurial spirit and a shared commitment to radical simplicity and disciplined underwriting focus. Richard Russell and Stewart, along with their talented leadership team, will continue to lead Inigo post-close. We expect the deal to close in the first quarter of 2026. The transaction is expected to deliver mid-teens EPS accretion and approximately 200 basis points of ROE accretion starting in year one.

Let's now turn to slide four. As they stated in his opening remarks, we have engaged in a comprehensive strategic review, which also included a review of all of our existing businesses in the context of our go-forward strategy as a multi-line insurer. As a result, along with the acquisition of Inigo announced today, we're also announcing our divestiture plan for the businesses previously reported in All Other, including mortgage conduit title and real estate services. This strategic shift will allow Radian to simplify its portfolio and focus on our strategy as a global multi-line specialty insurer. For accounting purposes, we expect to report All Other businesses as health for sale and to reflect the results of discontinued operations in our consolidated financial statements effective for the quarter ended September 30, 2025. We're in the process of hiring advisors to assist with executing our divestiture plan, which we expect to be completed within a year. The impact of removing these businesses from Radian's 2024 results, as reported, would be an increase of 120 basis points in ROE and a reduction of 36% in our combined operating expenses and cost of service. The metrics on slide 4 are shown before including the impact of Inigo on the combined company.

Back to Rick for an overview of Inigo.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you. Sumita. Turning to Slide 5, there are many reasons why Inigo is uniquely attractive and a natural complement to our business. It is a data driven company with an impressive track record and significant market opportunity as one of the largest new launches in Lloyd's history. Inigo has quickly achieved scale, with gross written premiums increasing 39% annually since their first year, while also maintaining a strong underwriting discipline and consistently delivering an industry leading combined ratio. After an initial ramp-up period in 2021 and 2022, Inigo has delivered an impressive pre-tax return on equity of over 20%. The company is emerging as a global leader in specialty insurance, serving some of the world's largest commercial and industrial enterprises with a distinctly innovative approach to engagement with large blue chip customers. Powered by a scalable platform focused 100% on Lloyd's, Inigo's data science informed underwriting and deep analytics enable them to more accurately assess and price complex specialty risk.

Turning to Slide 6, Inigo's portfolio was broad and well-diversified, with 64% allocated to insurance primarily focused on US specialty lines, where their expertise and access to profitable opportunities is the strongest. They also write select reinsurance lines, while using Inigo's proprietary view of risk to access the most attractive segments and clients, while utilizing outward reinsurance to manage their net exposure and to provide attractive risk-adjusted returns. Inigo benefits from Lloyd's Global Distribution Network that enables them to offer specialty insurance solutions to clients in over 200 territories. They approach their business with discipline in selecting insurance lines where they have specific expertise and see attractive risk-adjusted returns.

Turning now to Slide 7. Let me dive a bit deeper into Inigo and why this transaction is an excellent fit and truly transformational for Radian. Given Inigo's track record, it provides an opportunity for Radian to diversify beyond our traditional mortgage insurance business through access to a large and expanding Lloyd's specialty market. This will allow us to deploy capital across two strong and uncorrelated businesses to optimize risk-adjusted returns across market cycles. Similar to Radian, Inigo is driven by data science. It shapes everything they do, how they make decisions and how they think about risk. We share this data first mindset as well as an unwavering focus on disciplined underwriting. As a newly launched syndicate, Inigo developed an efficient operating model that is radically simple generating profitable results with a modern technology stack and no legacy risk exposures. This combined with their highly regarded management team and an entrepreneurial culture deeply rooted in their core values, positions the business well going into the future. We believe this is a financially compelling transaction for Radian.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

Slide 8 shows that integral has achieved significant scale in a short time becoming the 20th largest syndicate in just four years since inception. Some of the largest syndicates in Lloyd's are nearly four times larger, which underscores the substantial opportunity for Inigo's continued market expansion.

Turning to Slide 9. In the last four years, Inigo has outperformed peers while maintaining underwriting discipline and consistently delivering an industry leading mid-to-high 80s combined ratio. The key drivers of this performance are Inigo disciplined underwriting, informed by data and analytics, risk selection, and portfolio management.

Let's talk about our addressable market on Slide 10. At Radian, we have successfully grown our mortgage insurance in force by prioritizing high quality business focused on economic value. While we currently hold an approximately 17% share of the market, growth opportunities in the $6 billion of private mortgage insurance sector are naturally limited by the overall size of the US mortgage origination market. With this acquisition, Radian's transformation from a leading US mortgage insurer into a global multi-line specialty insurance is expected to increase our addressable market by 12 times, providing flexibility to deploy capital across multiple insurance lines through various business cycles. We believe Inigo is positioned to capture a growing share of this market based on their expertise, targeted approach, data driven focus and customer relationships.

Slide 11 provides a clear view of the business mix for our combined companies. Based on 2024 results mortgage insurance would account for half of total premiums earned with specialty insurance and reinsurance comprising 30% and 20% respectively. The combined entity will generate nearly $2 billion in net premiums earned with a combined ratio of 56.5%. Overall, the transaction would double our earned premiums with strong underwriting performance.

Turning to Slide 12, it is important to note that there is very low correlation between US mortgage insurance and Lloyd's specialty insurance markets. As you can see in the data by peer group, the loss ratios for US mortgage insurers has been approximately 7% over the past decade. Meanwhile, Lloyd's loss ratios has consistently outperformed US specialty. In fact, over the past 15 years, Lloyd's loss ratios has been approximately 10 percentage points lower than the US specialty. And over that same 15 year period, the correlation between US mortgage insurance and Lloyd's loss ratios is approximately zero. This acquisition combines two excellent underwriting platforms that have delivered complementary and non-correlated returns.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Let me take a few minutes on Slide 13 to talk about our shared passion for data. Radian is a recognized leader in mortgage analytics, specifically mortgage credit risk analytics. As we have discussed previously, our focus is on driving economic value by leveraging our data science and advanced analytics to inform our disciplined risk selection and pursuit of alpha. This unwavering commitment has enabled us to construct a high quality $277 billion mortgage insurance portfolio, which has generated consistently strong returns. For Inigo, data is also at the heart of what they do. They've invested significantly in their data and analytics capability as part of their strategy from inception. As similar to Radian, their data driven culture encourages their teams to use their data to validate and form their underwriting strategies and engage with their customers. By combining our companies, we are enhancing our ability to allocate and deploy capital strategically, leveraging expanded data analytics and technology expertise to assess risk and drive superior risk-adjusted returns.

Turning now to Slide 14. Inigo's highly focused, purpose built platform has differentiated the company since inception. They were founded with a clean slate, with no legacy business and no inherited exposure. And by investing in a modern streamlined infrastructure from day one Inigo has created an efficient platform that supports high quality underwriting, rapid product development and exceptional client service. And this operating efficiency has translated into an expense ratio that consistently outperforms its peer group.

Turning now to Slide 15. We're delighted that there experienced senior leaders, including Richard, Russell and Stewart and their entire leadership team, will continue to lead Inigo. Our team has enjoyed getting to know them and we are excited to work with them as we chart this strategic course together. Inigo embraces an entrepreneurial culture which is focused on simplifying the complex and getting things done. And the company has consistently earned among the highest rankings for its leading culture relative to peers. In addition to an attrition rate significantly below the Lloyds Market average.

Sumita Pandit

Chief Financial Officer & President, Radian Group Inc.

Now let's talk about the financial logic of the transaction on Slide 16. We are acquiring the business at one and a half times projected 2025 tangible equity and the combination is expected to deliver mid-teens operating EPS accretion and approximately 200 basis points of ROE accretion starting in year one. This deal is also projected to increase book value per share in 2026 and we anticipate Inigo earning back the premium paid for this business within roughly three years. While we may utilize a portion of our revolving credit facility early in 2026, we expect our holdco debt-to-capital ratio to return to 20% or below by the end of 2026. Under Radian's ownership, Inigo will be able to take increased advantage of the options that exist under the Lloyd's framework to support their capital requirements in a flexible and cost effective manner. Our capital strength and balance sheet is expected to create meaningful capital synergies, including through Inigo's increased use of low cost capital funding mechanisms available at Lloyds, including Letters of Credit.

We expect Inigo will continue to operate as a standalone business complementing Radian'smortgage insurance business. As a result, integration risk is limited. We also expect no reliance on expense initiatives as Inigo's existing and experienced management team will remain in place to run the business post-close.

The funding structure presented on Slide 17 provides an attractive use for our excess capital. Of the total $1.7 billion in funding, $600 million will be provided by Radian Guaranty to an intercompany note with a 10-year term already approved by the Pennsylvania Insurance Department. This unique and creative financing structure will help us avoid incremental external leverage and interest expense on a consolidated basis. During the time the note is outstanding, Radian Guaranty will be subject to certain financial conditions set by the department. However, we do not expect these conditions to negatively impact Radian Guaranty's ongoing dividend capacity or operational flexibility in the normal course. We appreciate the positive working relationship we have with the department as well as the time and trust they have invested in us for this transformational transaction. The remaining $1.1 billion is expected to be funded from available liquidity sources at our holding company. This funding structure allows us to strategically optimize excess capital and available liquidity with no equity financing needed. We anticipate maintaining sufficient liquidity at our holding company after the transaction closes, bolstered by projected dividend capacity from Radian Guaranty of over $600 million in 2026.

Let's turn to Slide 18. Summarizing the impact of our announcement today, our multi-line insurance strategy is expected to provide immediate financial benefits as the planned divestiture of our other businesses, combined with the Inigo acquisition, position us to deliver mid-to-high teens returns while boosting EPS by over 20%.

Now, I'll turn it back to Rick for closing comments.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Sumita. Let me close by emphasizing that the acquisition of Inigo will fundamentally transform our company from a leading mortgage insurer to a global multi-line specialty insurer. The acquisition represents a strategic use of capital to position for growth and uncorrelated diversification that results in a financially compelling transaction. Strategically, it provides us with expanded avenues to allocate our capital where we see the greatest opportunities for economic value and profitable growth. I am excited about what the combination of these two talented teams can do together in the future.

Now, operator, we would like to open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Once again, please stand by while we compile the Q&A roster. And our first question comes from Bose George of KBW. Your line is open.

Q

Hey, everyone. Good morning. Congratulations on the transaction. Actually, you guys noted so that leverage will go back to the current level by the end of next year. Can you talk about what this means for share buybacks until then and prospectively or I guess after that period?

A

Yeah. Thanks a lot for that question, Bose. So as you are aware, we have always been extremely thoughtful about thinking about our capital deployment. We've always talked about a waterfall for how we think about deploying our excess capital. This transaction does allow us to really think about where we want to deploy capital in areas that are extremely accretive to us from an ROE perspective. As you're aware, MI mortgage insurance had a more limited organic growth opportunity. Inigo changes that for us, the bar for M&A for us was really high and we think Inigo meets that extremely high bar as we think about where to deploy capital.

As I mentioned in my prepared remarks, we do plan to fund this transaction almost exclusively with our existing liquidity sources, which includes the intercompany note from Pennsylvania. We are not going to go out and do debt or equity financing for this deal. As a result, at least in the short term, Bose, we do expect to have, I think in the second half of this year, we have actually already paused our share repurchases. If you remember, in the first half of the year, we had gone out and done almost $430 million of share repurchases, which was more than the combined share repurchases we did in 2023 and 2024. In the second half of the yearwe have paused our share repurchases as we entered into this exclusive negotiation with Inigo. Going forward, we will revisit that share repurchase decision. We do intend to continue to pay dividends for our shares, ordinary dividends at $0.255 per share per quarter. So that will remain ongoing. But in the short term, we are pausing our shady purchases so that we can fund this transaction without debt or equity financing.

Q

Okay. Great. Thanks very much.

A

You're welcome.

Operator: Thank you. Our next question comes from Terry Ma of Barclays. Your line is open.

Q

Hey. Thank you. Good morning. It's just curious, as we kind of look out a couple of years, what's the kind of steady state kind of business mix look like? So I look at slide 11, it's about 50% MI, how does that kind of evolve over time?

A

Hi, Terry. This is Rick and you know, obviously, we're not going to get forward guidance from a financial point of view. But I think, you know, one of the opportunities that we see with the acquisition of Inigo and these two companies coming together is that Inigo actually provides an opportunity for growth, where we see the MI market having limited, you know, kind of growth capacity going forward. Inigo actually provides a platform and a capability for us to allocate capital and find additional avenues and lanes of growth. So I won't comment on the mix going forward because I think that would be providing some poor guidance. But I think as you think about the business, one of the great aspects and the appeals to coming together with the Inigo team is it gives us a whole diverse, diversified channel of allocating capital towards growth and that, you know, we would expect to see that play out over time in a disciplined and you know well underwritten and what.

Q

Got it. And I guess, is there a way to think about the excess capital position of the combined entity kind of go-forward? Is there like any sort of capital benefit as you kind of combine the two?

A

Yeah. I think Terry, that there are quite a few capital synergies going forward for us as we think about the pro forma company and how we think about capital allocated between the mortgage insurance business as well as Inigo. I think, you know, maybe just walking through what are those pieces? The first one, as we discussed, was the $600 million intercompany note itself that allows us to tap into some of our excess capital within Radian Guaranty. As you are aware, we are not able to actually dividend this out given contingency reserve restrictions. This transaction allows us to tap into $600 million of that capital within Radian Guaranty.

Second, I would say the Lloyd's framework is really capital efficient and we think that as part of Radian, Inigo will benefit from our financial strength and it will allow us to access capital even more efficiently within the Lloyd's framework. This will include, I would say, things like use of Letters of Credit. As you're aware, Lloyd's allows you to use LC. We will explore that as we go forward. They do have some LC's in their capital stock, but we believe that we can do so even more efficiently and at an even lower cost. Given Radian's financial strength. I would say the third aspect of capital synergy will come from the fact that mortgage insurance and Inigo's specialty insurance and the insurance are uncorrelated. We talked about that a little bit in the deck as we went through our prepared remarks. That lack of correlation, we believe, should give us covariance benefits, especially to Inigo, as it thinks about its individual business plan alongside the mortgage insurance business that Radian brings to the overall pro forma company.

And lastly, I would say we expect some reinsurance opportunities also between the two entities. As you know, we reinsure some of our mortgage insurance risk to a panel of reinsurers. I think, you know, we will continue to explore some synergy opportunities between the two entities for multiple avenues of, I would say, capital synergies. And this allows us to flexibly think about where and how we want to deploy capital.

A

I might just add to both my comment and Sumita's comment because I think the essence of this deal is really around the capital opportunity, along with just kind of the opportunity around Inigo. But when you think about our business today, we and we've talked about this before, is our mortgage insurance business hugely successful market leader generating excess capital. You know, somewhat limited growth opportunity as I mentioned here with the acquisition of Inigo in the in the combination of the two teams, we get the best of both worlds, the combination of a really a strong profitable capital generating machine through our mortgage insurance business, combined with Inigo, who has, you know, when you saw that chart that Sumita went through from a you know, kind of an addressable market perspective. You can see the growth opportunities available through the Lloyd's platform. So capital generation, the ability to allocate capital and find new avenues of growth is really one of the great aspects of the combination between our MI business and Inigo.

Q

Got it. Super helpful. Thank you.

A

Yeah.

Operator: Thank you. And our next question comes from Geoffrey Dunn of Dowling & Partners following this open.

Q

Thank you. Good morning. This is more two questions. One, with respect to the transaction, is there any capital benefit that you can talk about, whether it be under rating agency assessments for the multi-line diversification or a capital benefit for Inigo with Lloyd's or as you alluded to, maybe a capital arbitrage with reinsurance. Can you elaborate a little bit more on how capital could be affected by this deal?

A

Yeah. Happy to do so, I think. Yeah, happy to talk a little bit more about it. As I just mentioned, I think we do have multiple avenues of capital synergies in this transaction. I think, as you are aware, a rating agency as such is not a binding constraint for us. So, you know, we don't really require a certain level of ratings to write mortgage insurance. Similarly, Inigo does not require its own ratings to write insurance. They really depend on the Lloyd's framework and Lloyd's AA minus rating to write insurance and reinsurance. So there is not a constraint that is directly attributable to a rating agency.

Having said that, we think that this does allow us to utilize capital very flexibly between the various businesses. We will be able to deploy capital flexibly across business cycles between the two entities. And as I mentioned, I think going forward will be giving you more details in the coming quarters as to how we plan to deploy reinsurance between the entities as well as, you know, are there other opportunities in their capital stack in Lloyd's where our financial strength would enable them to extract capital. So the forward guidance that we've provided to you in the last slide of this presentation does not really assume all of those capital synergies. But as we go forward, we will be keeping you all more informed and will give you more specific guidance on how we will exactly capitalize this business going forward.

Q

Okay. And then with respect to the accretion, particularly the EPS accretion. Will your starting point on numbers that included buyback expectations running through the back half of this year and into next year, or do we have to factor in buyback going away with respect to the ultimate accretion numbers?

A

No. So these numbers are like to like, meaning that we looked at the Radian's standalone numbers without buybacks in the second half of the year and superimposed on that the impact of two things. So first is discontinued operations and second is the acquisition of Inigo. So you see the impact of both of those transactions in the numbers that we presented to you on Slide 18 and does not take into account, you don't need to really, you know, back out the share repurchases. As I mentioned, we are assuming that we are going to pause our share repurchases for the coming quarters and we will revisit that decision as we go forward.

Q

Okay. Thank you.

A

You're welcome.

Operator: Thank you. And our next question comes from Ryan Kelly of Bank of America. Your line is open.

Q

Hey, guys, thanks for the question. I wanted to quickly touch on the financing again. So I think the coupon on that intercompany note is 6.5%, which, you know, as we sit here today, I think you guys could probably beat in the unsecured market. So you just walk me through your thinking around how you're financing this and any, you know, commentary about potentially, you know, issuance over the next year or so as you close this acquisition. Thanks.

A

Yeah, thanks for the question, Ryan. So I'm going to just turn to page 17, if you have that handy in front of you. So just going back to how we are thinking about the funding structure here. So $600 million is coming from an intercompany note that's getting funded from Radian Guaranty. It's a ten year note. And yes, the cost that we've assumed is 6.5%. That's really based on an arm's length arrangement between Radian Guaranty and Radian Group. If you want to think about the structure, we did explore various funding alternatives and we felt that this was really a decision for us for multiple reasons. The first is it allows us to tap out excess capital in Radian Guaranty that is not dividend able today and this allows us to really access that excess capital. If you think about the accounting of this intercompany note, the note does cancel on consolidation. And as a result of this, this results in our financial leverage not going up, which we think is a is a positive. We are using our existing sources of capital.

And in terms of, you know, how the interest would work. And so if you think about it, they Radian Guaranty earns this interest that increases the dividend capacity of Radian Guaranty. And therefore we think that it is helpful for us as we think about the standalone strength of Radian Guaranty going forward. So all in all, I think it is a really positive funding structure for us and uses up and helps us use that excess capital Radian Guaranty.

Q

Got it. Thank you for the color.

Operator: Thank you. I'm showing no further questions at this time. I'd like to turn it back to Rick Thornberry for closing remarks.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you for joining us today. We look forward to seeing and talking to many of you in the near future, updating you on our progress as we transform Radian from a leading US mortgage insurer to a global multi-line specialty insurer. We're excited about what begins on today to work with the Inigo team and the path forward, and we look forward to sharing that with all of you. Thank you and have a great day.

Operator: This concludes today's conference call. Thank you for participating in you may now disconnect.

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