

First American Financial Fall Investor Presentation

September 2017



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Safe Harbor Statement



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Use of non-GAAP Financial Measures



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This slide presentation contains, and related commentary and answers to questions may contain certain financial measures that are not presented in accordance with generally accepted accounting principles (GAAP), including net operating revenue and success ratios. Although these exclusions represent actual gains, losses or expenses to the Company, they may mask the periodic income and financial and operating trends associated with the Company's business.

The Company is presenting these non-GAAP financial measures because they provide the Company's management and investors with additional insight into the operational performance of the Company relative to earlier periods and relative to the Company's competitors. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In the slide presentation these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Investors should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.



Leading position in title insurance markets

- Since 1889, a market leader in title insurance and settlement services
- 26.5% market share in U.S. title insurance market with single national brand
- #2 market share position in the US
- Pursuing profitable share growth in key markets
- International title insurance & services market leader

Strong operating platform

- Industry-leading technology infrastructure
- Well-established, efficient cost structure
- Achieving record title margins with longer-term upside remaining

Strong financial position

- \$5.6 billion annual revenue in 2016
- Strong balance sheet, with financial leverage at 18.7% debt-to-capital ratio
- High quality, conservative investment portfolio

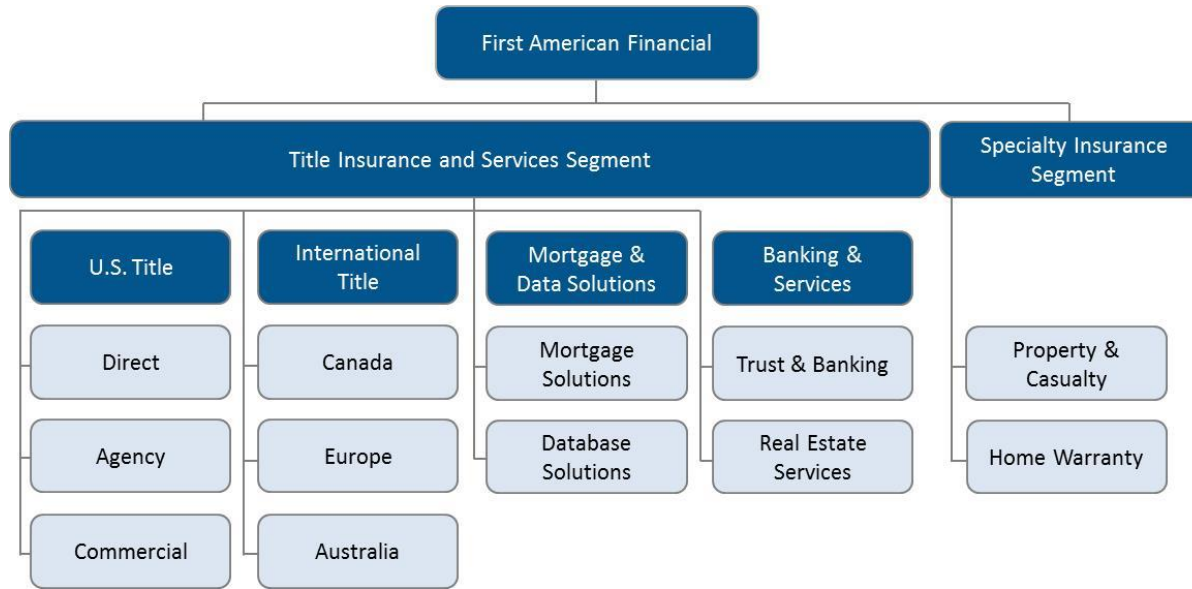
Market Trends Favorable

- Growth in purchase market expected to continue in 2017 and beyond
- Commercial market conditions continue to be strong
- Potential for regulatory reform over the next few years

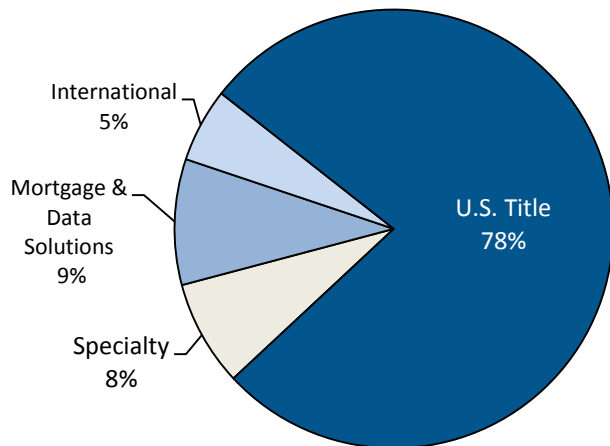
Organizational Structure



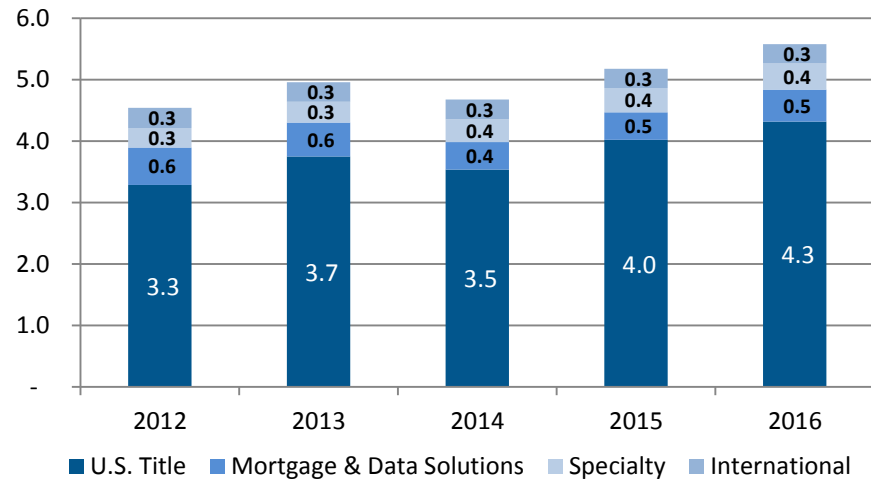
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2016 Revenue: \$5.6B



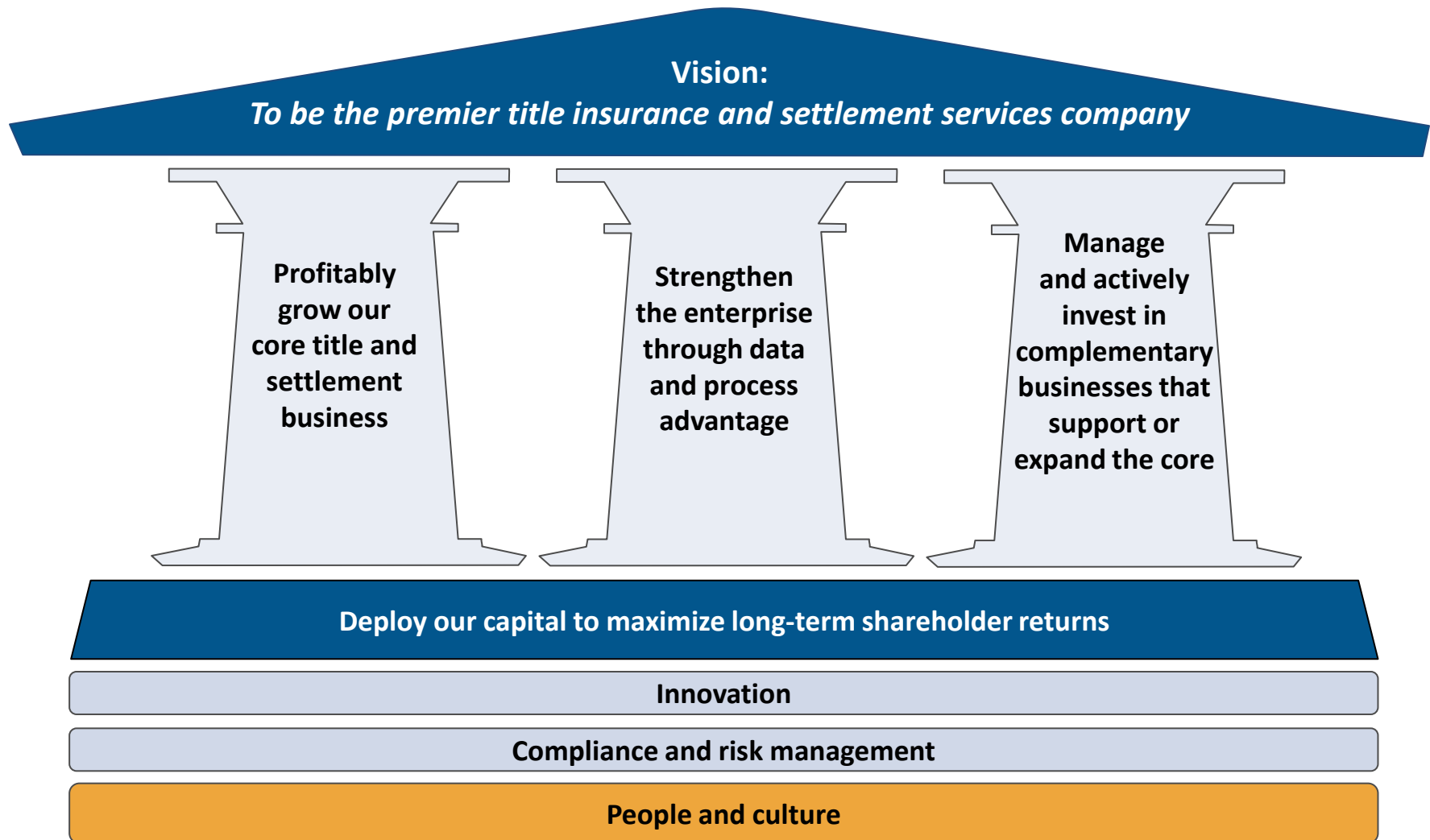
Total Revenue Trend



First American's Strategy



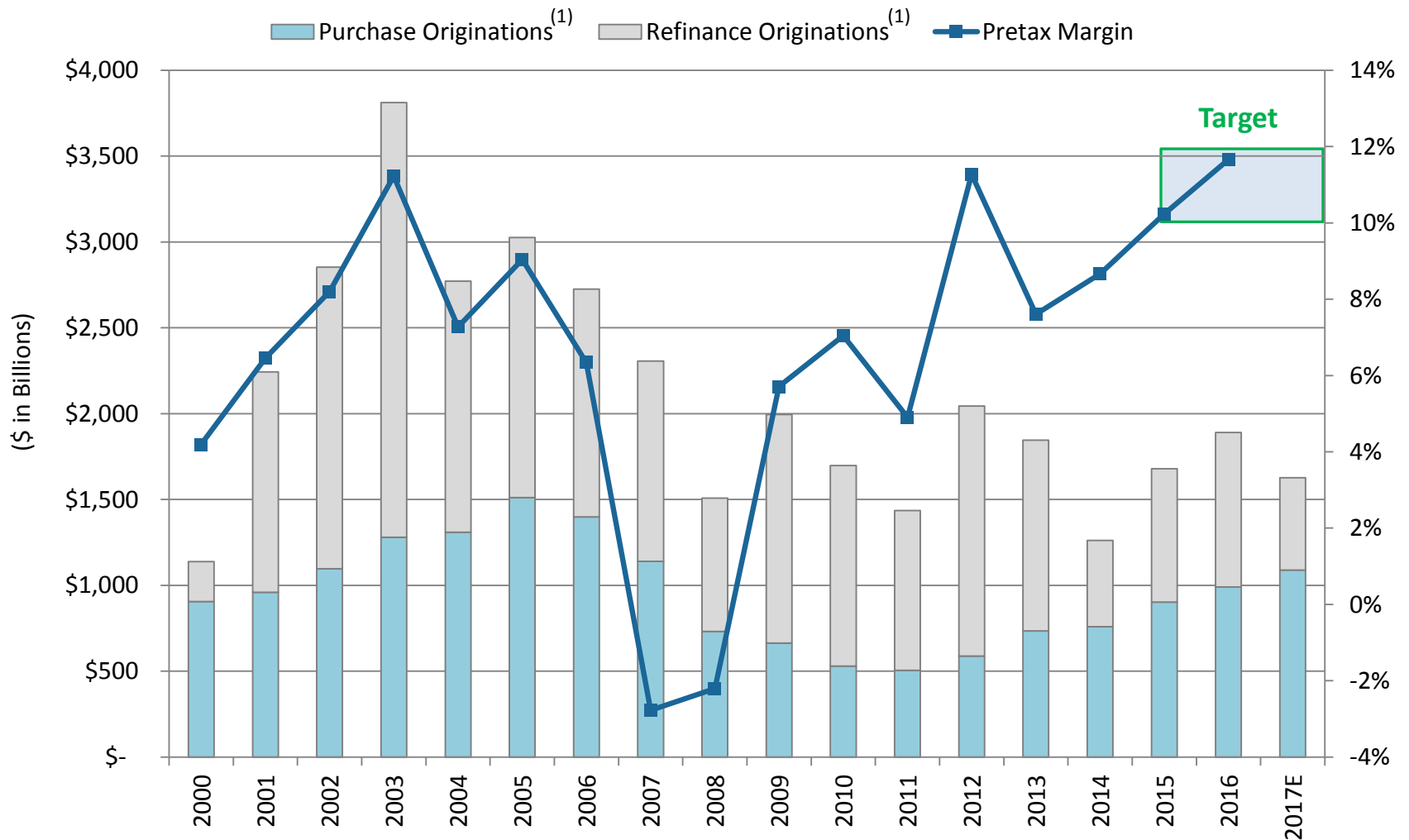
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Title Insurance Segment Margins



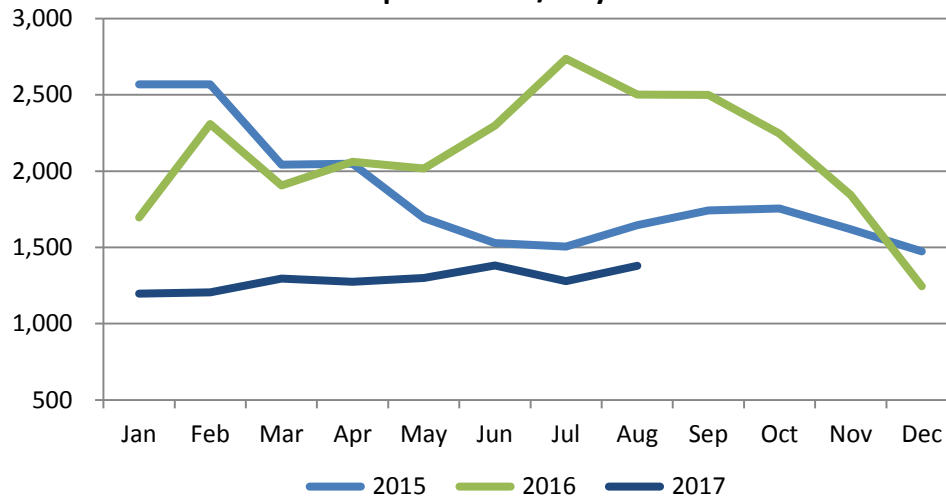
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(1) Source: August 2017 Mortgage Bankers Association



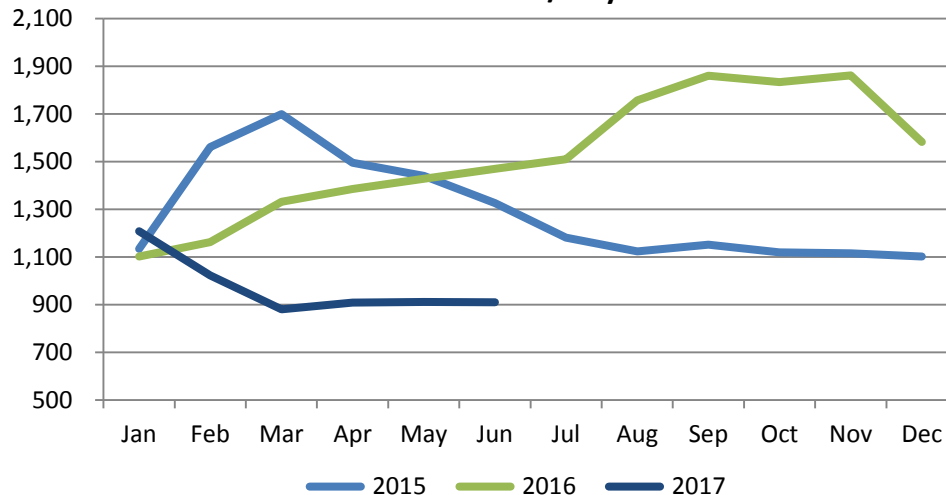
Open Orders / Day



Current Trend

- Open orders stabilized at ~1300 per day in 1H
- Significantly reduced resource commitments in our refinance focused businesses
- Closely monitoring order levels as always

Closed Orders / Day

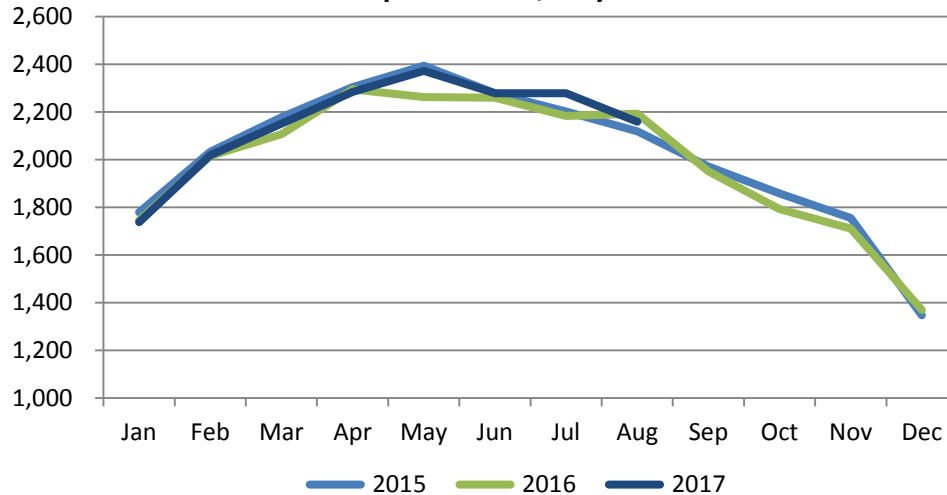


Outlook

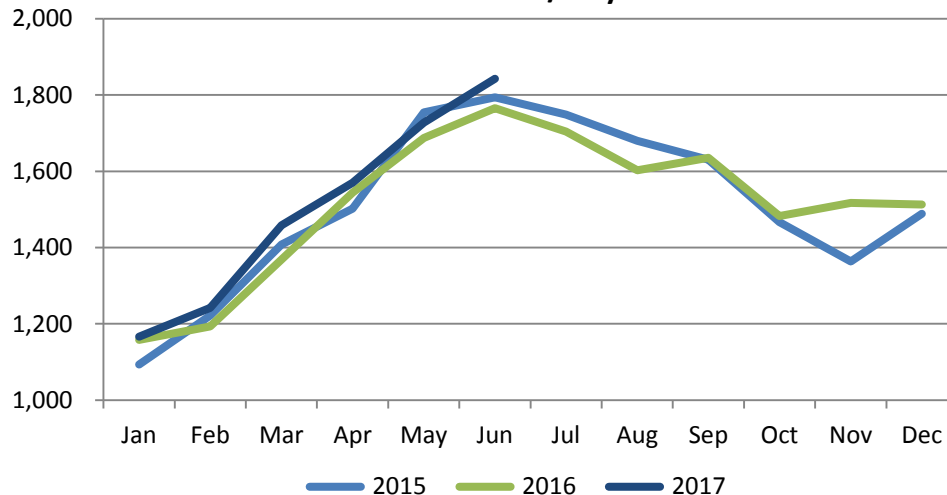
- Rising interest rates will likely continue to weigh on refinance transactions in 2017
- Longer term, expect refinance volumes to remain low



Open Orders / Day



Closed Orders / Day



Current Trend

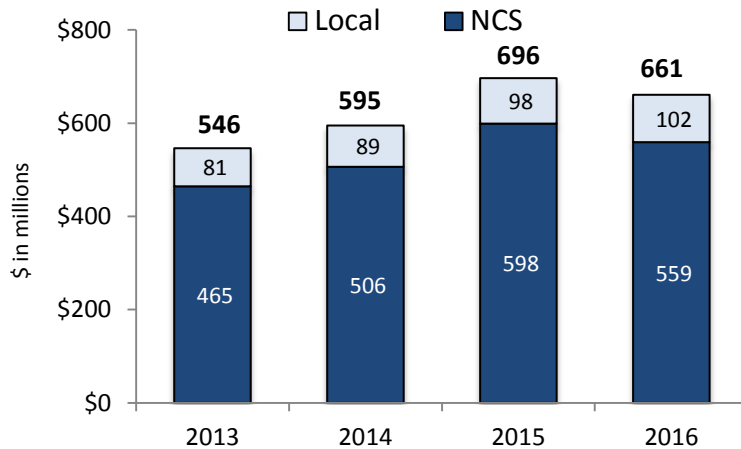
- 12% revenue growth in 1H 2017
 - Fees per file up 8%
 - Closed orders up 3%
- Home price appreciation robust
 - Strong buyer demand
 - Lack of for sale inventory in existing homes a key factor

Outlook

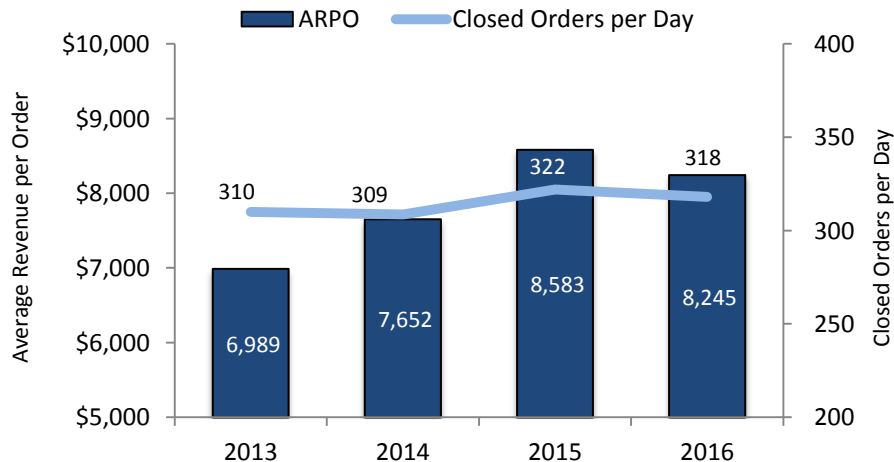
- Expect continued growth in 2017 and beyond



Current Trend



- Revenues up 5% in 1H 2017
- Seeing continued strength across most markets and asset classes
- Overall quality and size of deals remain high
- Capital availability and foreign flows continue to support market



Outlook

- Expect continued strength, albeit below 2015 record levels
- Well positioned national platform

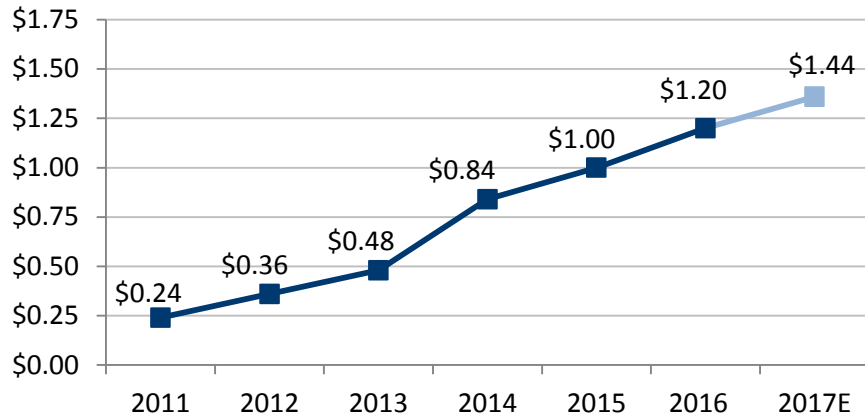


Objective: Create Long-Term Shareholder Value

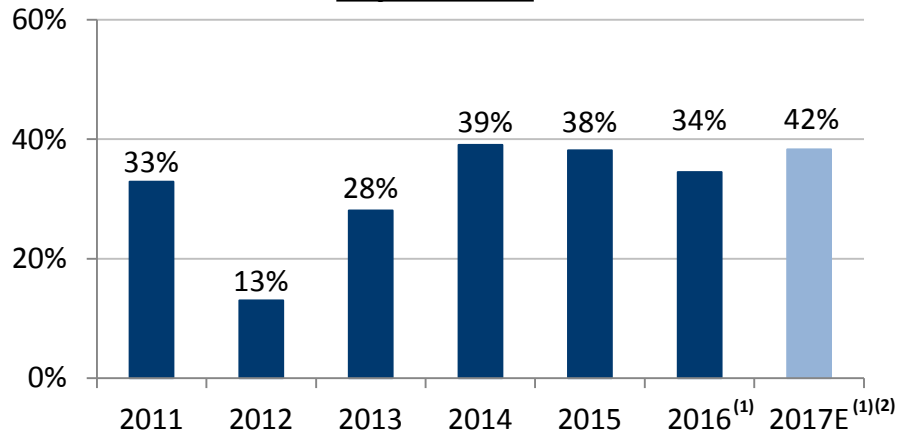
- Capital Management Priorities:
 - Make value-creating investments in our core business
 - Acquire businesses that fit within our core strategy
 - Return excess capital to shareholders through dividends and share repurchases
 - Maintain adequate capital levels
 - Manage our capital structure prudently
 - Maintain ample financial flexibility and holding company liquidity



Dividends per share



Payout Ratio



Dividend Considerations:

- First American should pay a meaningful dividend given the company's cash flow generation and investment opportunities
- Dividend increases should be sustainable in perpetuity
- Dividend increases will be dependent upon expected holding company cash flows, market conditions and alternative uses of capital, among other factors
- The company is not committed to increasing the dividend every year

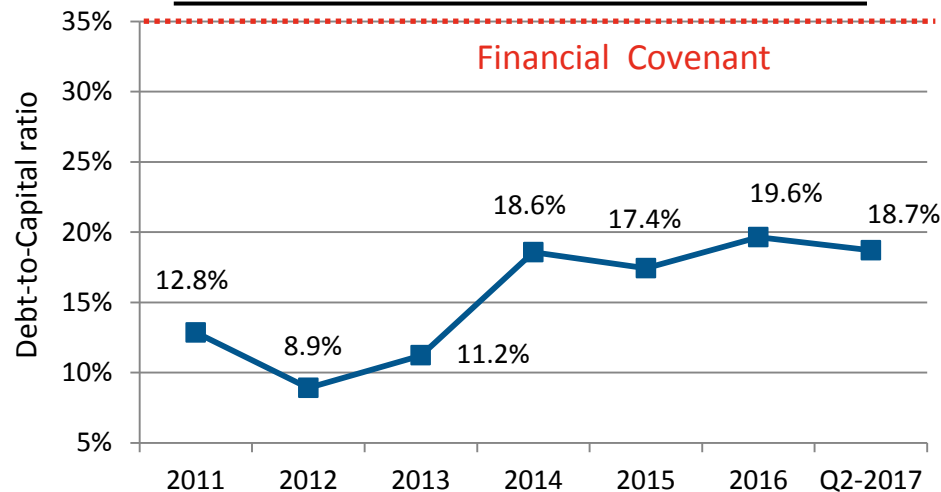
1. EPS excludes the pension termination impact.
 2. Calculated using consensus EPS estimate for 2017.



As of June 30, 2017 (\$ in millions)	
4.3% senior notes due 2023	\$248
4.6% senior notes due 2024	298
Trust deed notes	25
Other notes	4
Revolving credit facility	160
Total debt	\$734
Total equity	\$3,193
Debt-to-Capital ratio	18.7%

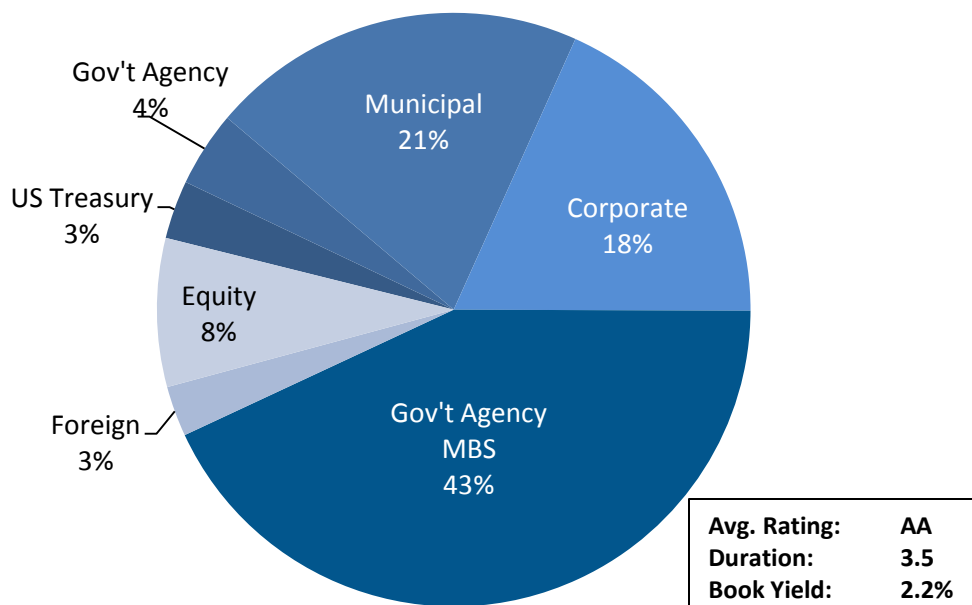
- FAF has significant financial flexibility to seize strategic opportunities
- Management's target debt-to-capital ratio is 18-20%
 - Supports target financial strength ratings
- No significant maturities until 2023
- The credit facility rate floats at LIBOR + 175 basis points

Debt-to-Capital Ratio

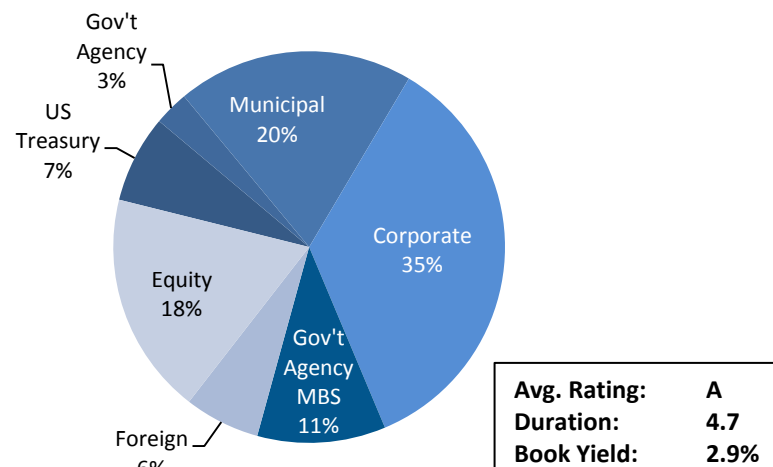




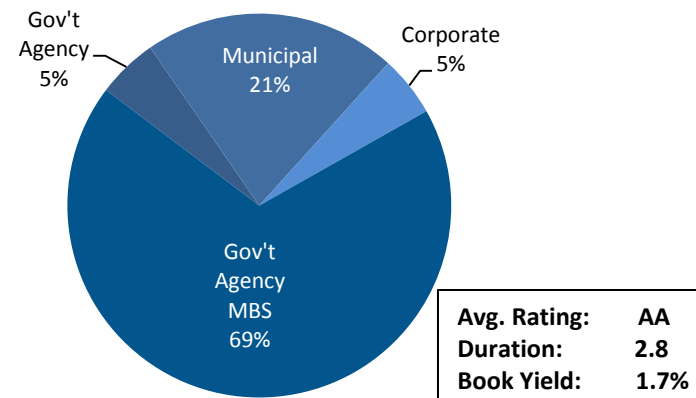
Consolidated Portfolio \$5.3 Billion



Insurance Portfolio \$2.3 Billion



Bank Portfolio \$3.0 Billion



Note: Debt and equity securities as of June 30, 2017

Benefits

- ✓ Insurance portfolio investment income
 - Yield on new investments will be greater than current book yield
- ✓ Banking Profitability
 - ~35% of banking portfolio in floating-rate securities
 - Spread to deposit costs widen in higher interest rate environment
- ✓ Reduced defined benefit plan obligations
 - Defined benefit plans highly sensitive to interest rates
- ✓ Higher investment income on escrow balances
 - Deposits at third party banks
- ✓ Higher earnings at FA Exchange

Risks

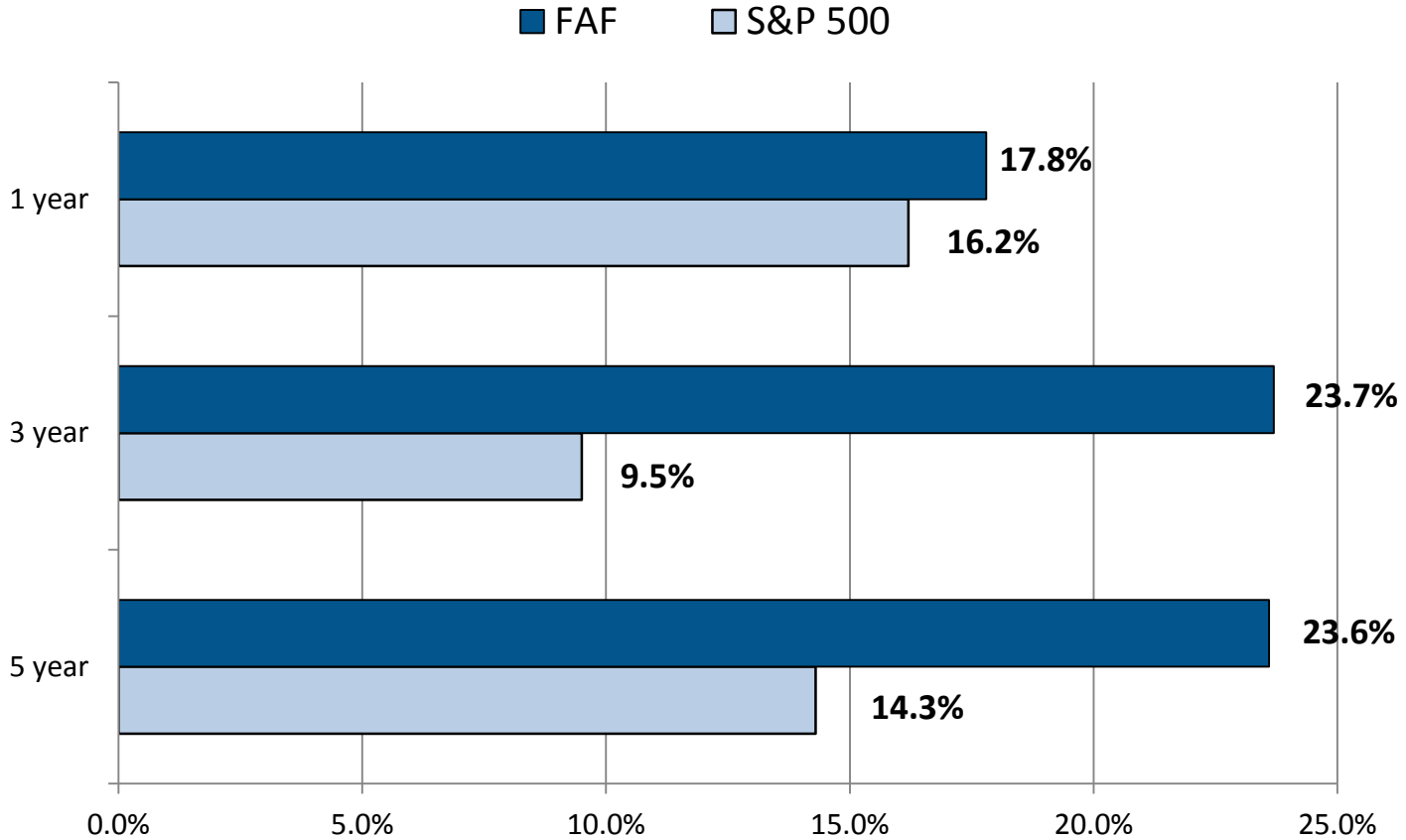
- ✗ Decreased value of fixed income portfolio
- ✗ Impact to refinance volumes
 - Refinance represented 17% of direct revenue premiums in 2016
 - 2016 average revenue per order:
 - Refinance: \$885
 - Resale: \$2,134
 - Commercial: \$8,245
- ✗ Reduced housing affordability
- ✗ Higher interest expense on credit facility



- “Pure play” in title and mortgage markets
- Strong competitive position in title and settlement services
 - Continue to pursue profitable market share gains
 - Strengthening the enterprise through data capabilities
- Record title segment margins with longer-term upside remaining
 - Expect earnings and margin growth as purchase market improves
 - Anticipate cash flow to increase from both higher earnings and lower paid claims
- Strong balance sheet and financial flexibility
 - Recently completed legal entity re-alignment increases dividend capacity and capital deployment opportunity
- Commitment to return capital to shareholders
 - Raised dividend 36% in 2016 and 12% in 2017



FAF Total Shareholder Return



Source: Annualized return through 8/31/2017

Appendix



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125
YEARS

1889 - 2014

Balance Sheet



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As of June, 30 2017 (\$ millions)

Assets

Cash & equivalents	\$1,167
Investments	5,459
Other assets	1,578
Goodwill & intangibles	1,110
Total assets	<u>\$9,314</u>

Liabilities & Equity

Demand Deposits	\$3,098
Other Liabilities	1,267
Reserves	1,017
Debt	734
Equity	3,198
Total liabilities & equity	<u>\$9,314</u>

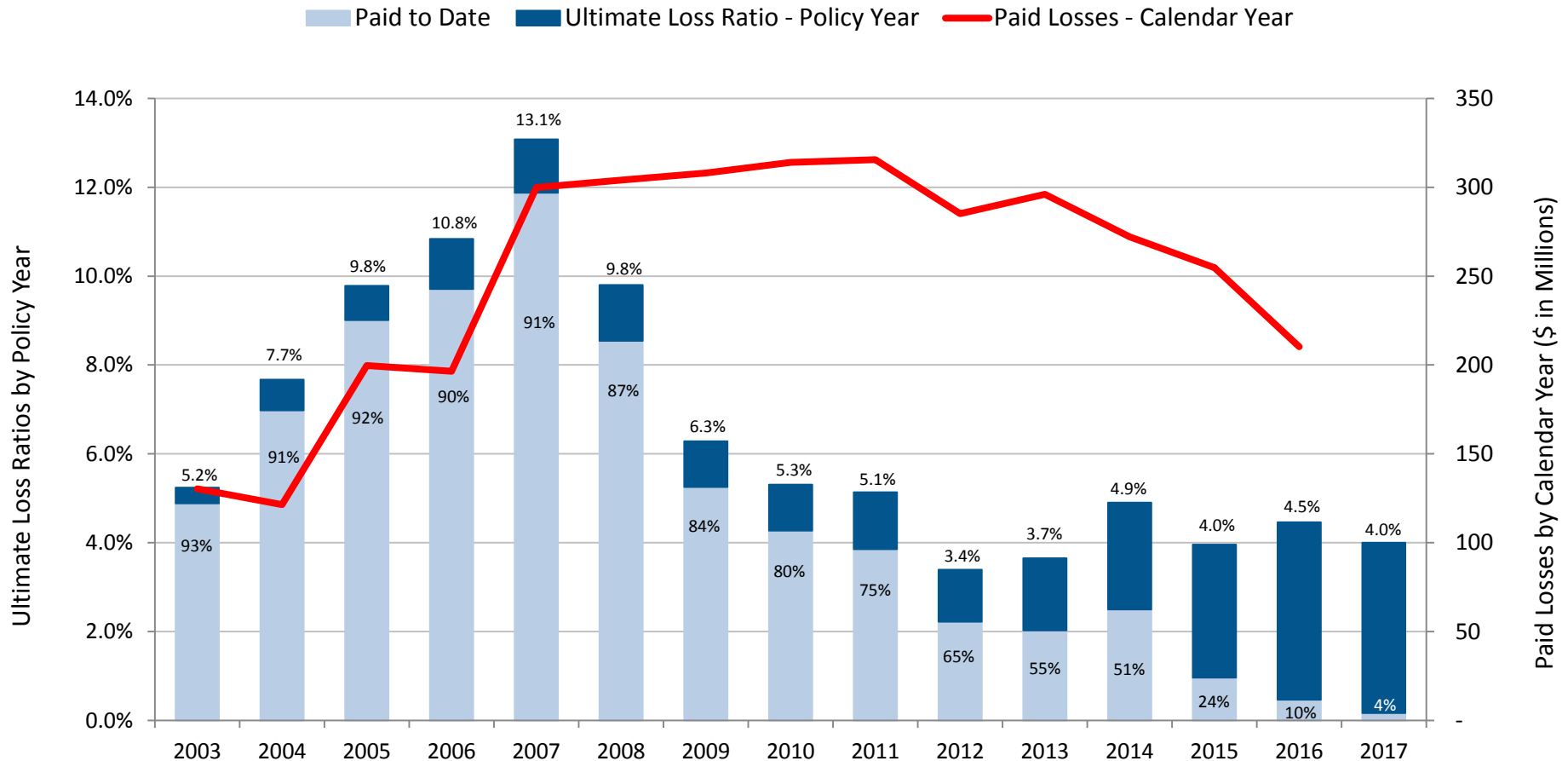
Return on Equity

TTM Net income	\$369
Average Equity	\$3,067
ROE	12.0%
Debt-to-capital	18.7%
Book value per share	\$28.84
Tangible equity	\$2,088
Statutory surplus	\$1,250

Ultimate Loss Ratios by Policy Year



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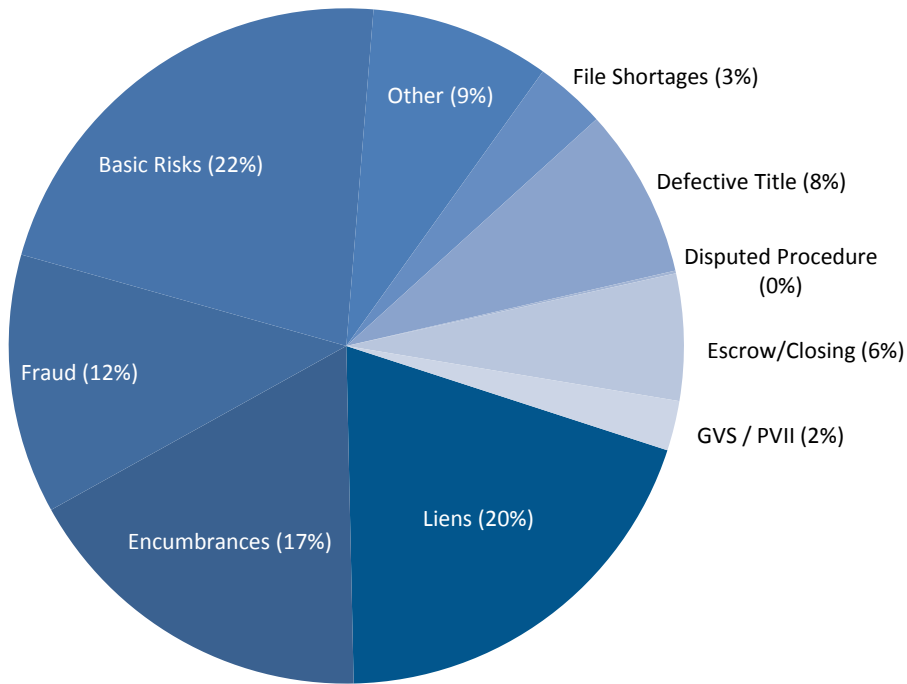
(1) Ultimate loss ratios are estimates and calculated as a percentage of title premiums and escrow fees for a given policy year as of May 31, 2017.

2016 Incurred Claims Detail

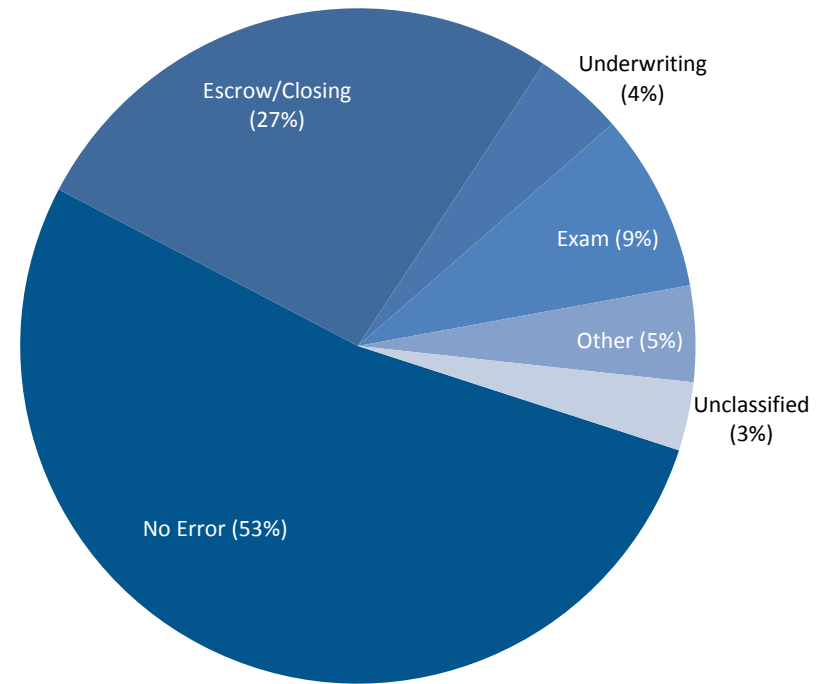


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Claim Cause



Process Cause

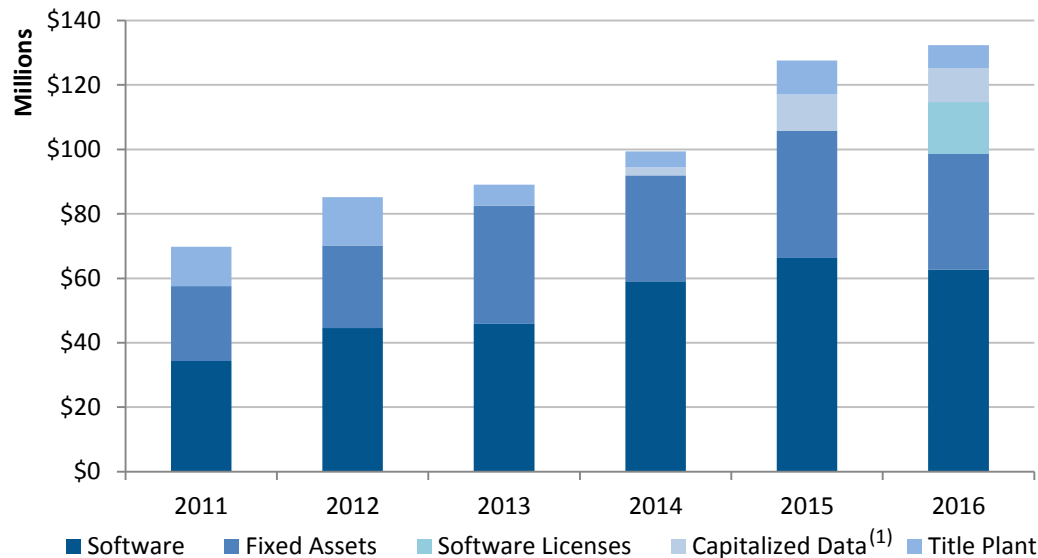


Capital Expenditures



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Capital Expenditures



- Fixed Assets
 - ~\$35 million annually
- Software
 - Customer-facing technology
 - Integrated mortgage disclosure readiness
 - Production system (FAST) enhancements
- Title Plant
 - Title plant expansion
- Capitalized Data
 - Supports property information expansion
- ~35% of capital expenditures are for growth and 65% for maintenance

Note: excludes capital leases

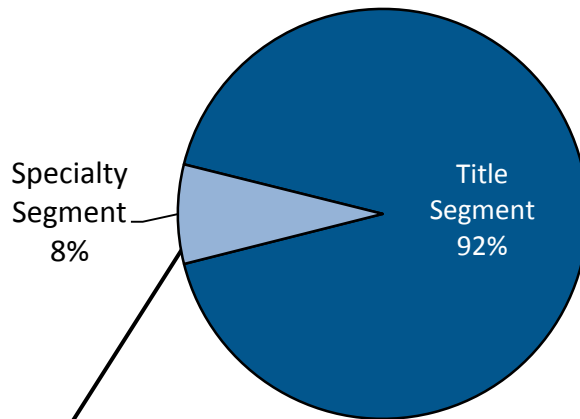
(1) The company began disclosing capitalized data expenditures in 2014

2016 Revenue Breakdown

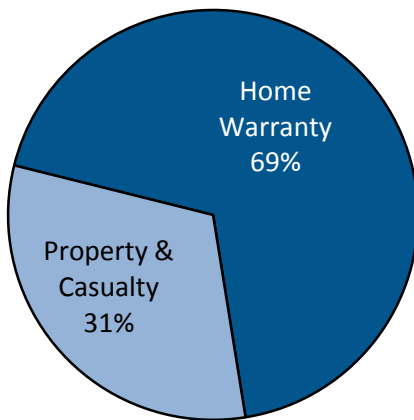


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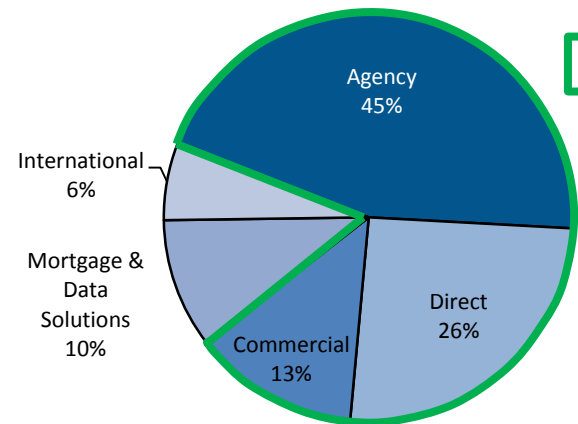
First American Financial 2016 Revenue: \$5.6B



Specialty Segment 2016 Revenue: \$0.4B

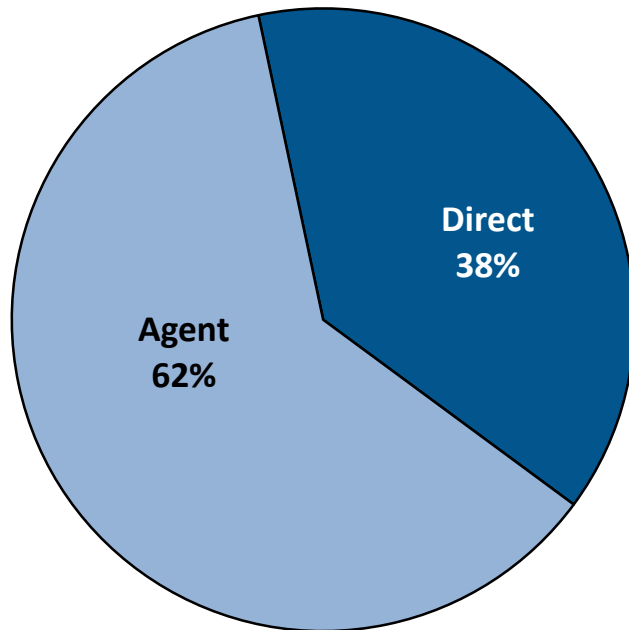


Title Segment 2016 Revenue: \$5.1B

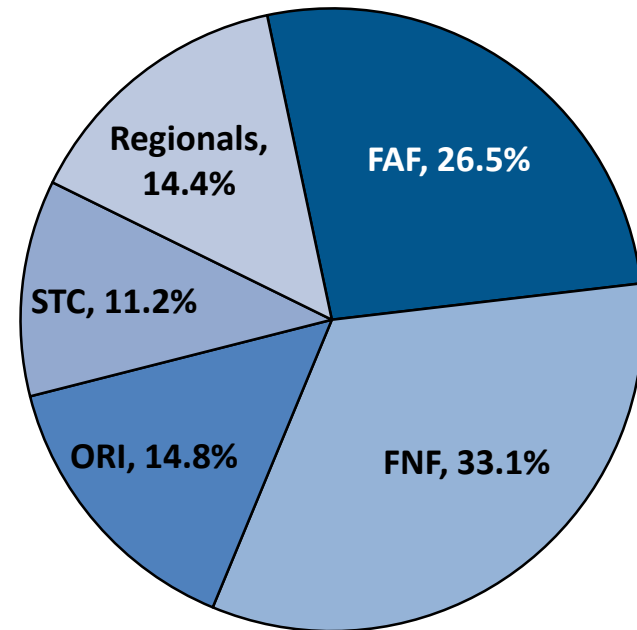




Industry Premiums - \$14.3B 2016



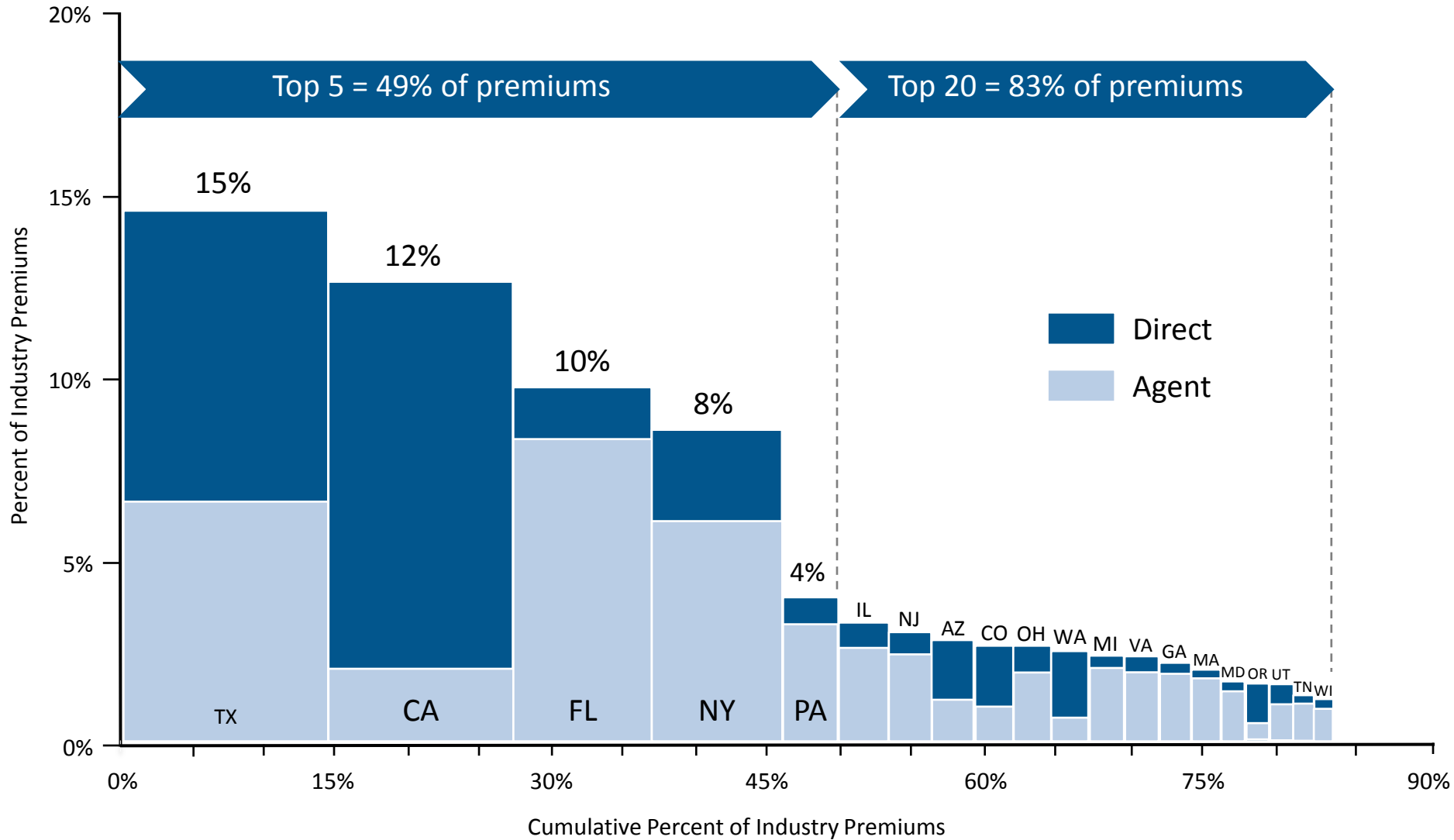
Underwriter Market Share 2016



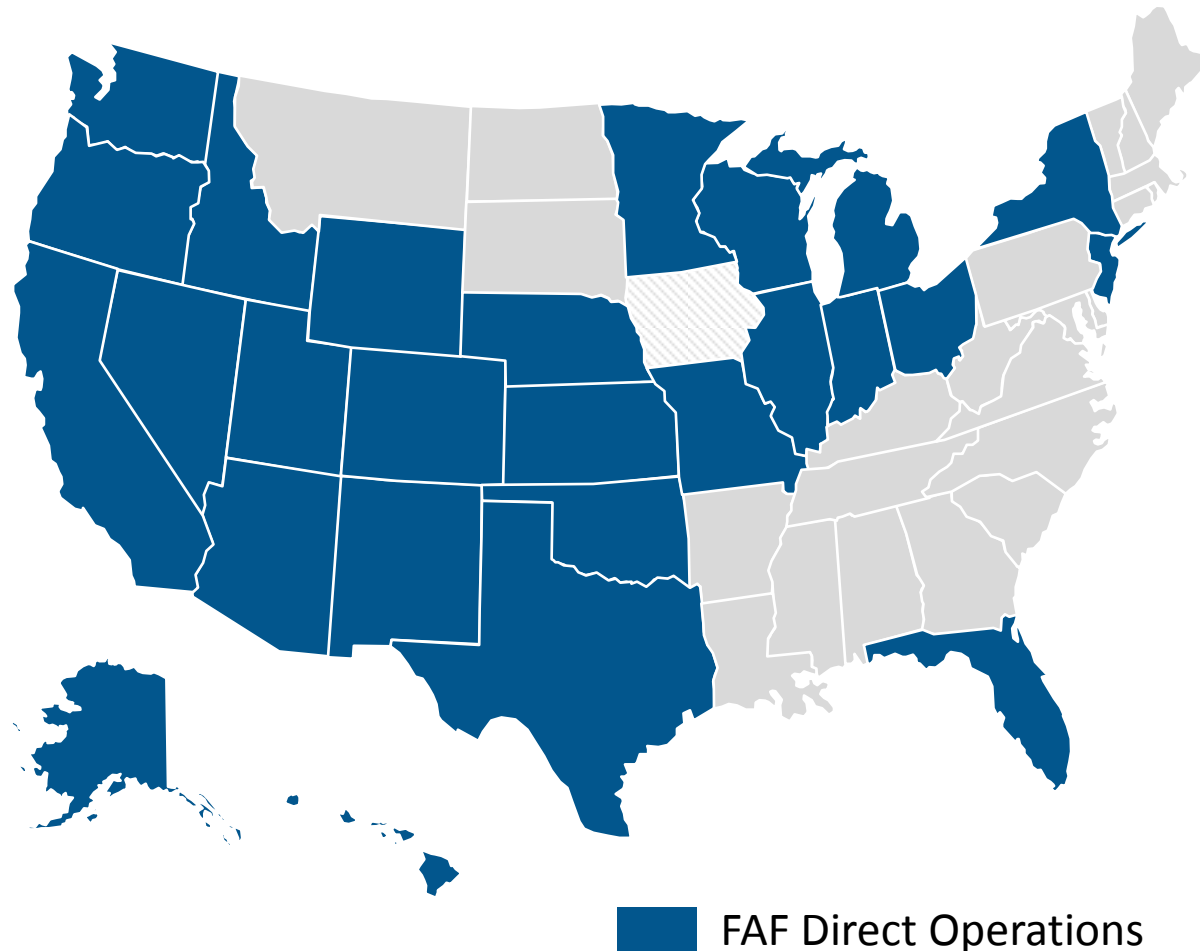
Industry Premiums by State



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Source: ALTA (2016 Data)



Distribution Strategy

Direct

- Local presence in 26 states
- Positioned in top metro areas
- Offices must support fixed costs through the cycle

Agency

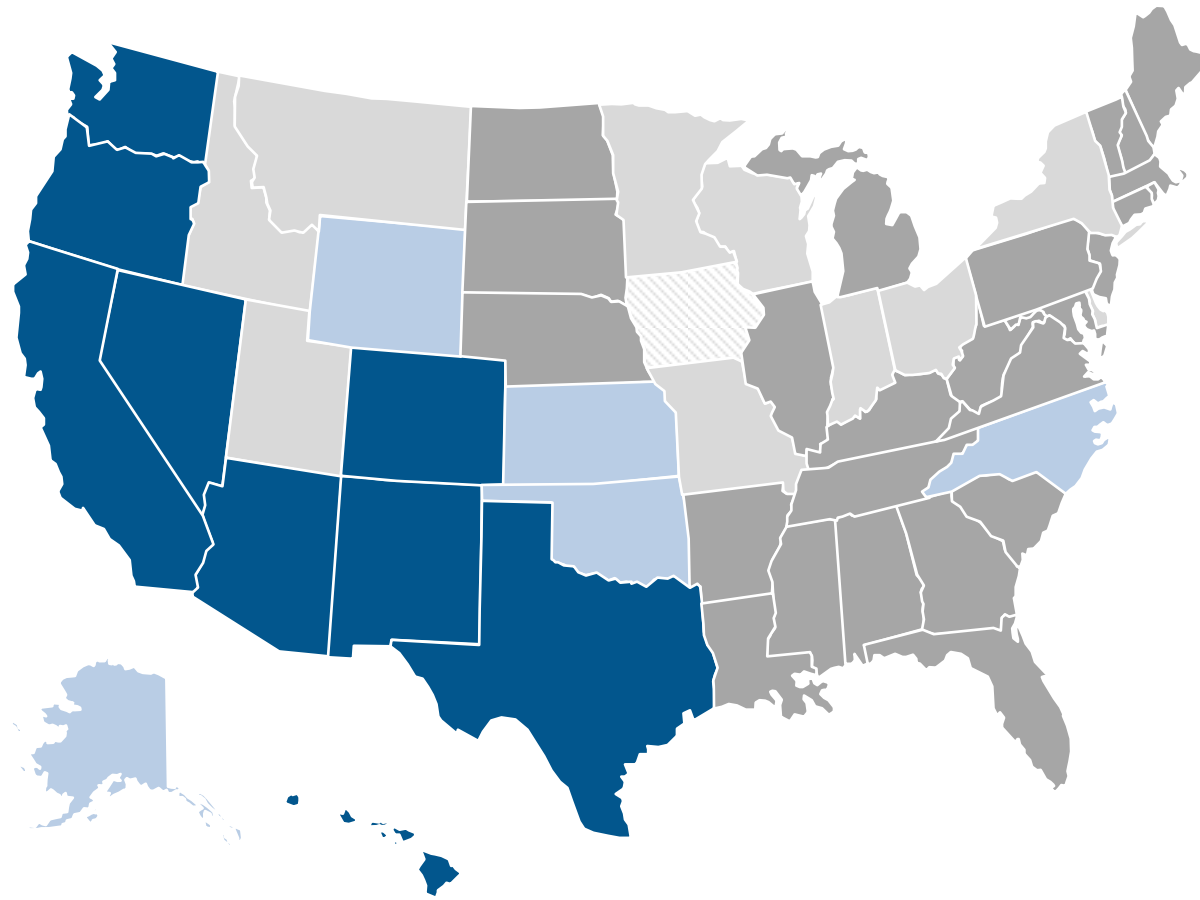
- Underwriter in 49 states
- Business in both rural and metro areas
- Highly variable cost structure

Industry Distribution by State



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Western states have a greater mix of direct distribution



Direct Premium Mix⁽¹⁾

- Less than 20%
- 20% - 35%
- 35% - 50%
- Greater than 50%

(1) Source: ALTA; data for 2016

Title Segment Success Ratio



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$$\text{Success Ratio} = \frac{\Delta \text{ Operating Expenses}}{\Delta \text{ Net Operating Revenue}}$$

Full Year 2016 Calculation

(\$ in millions)	2016	2015	Change
Personnel and other operating expenses	\$2,343	\$2,237	+105
Total revenues	5,134	4,788	
Less: Premiums retained by agents	1,802	1,657	
Net investment income	111	98	
Net realized investment gains	19	(7)	
Net operating revenues (NOR)	\$3,203	\$3,041	+162

Target

- < 60% when NOR increases
- > 60% when NOR decreases
- 60% target is only sustainable until optimized margin is achieved
- Success ratio is less meaningful when NOR is stable
- Due to the seasonality, success ratio is most useful when comparing period to prior year

Success Ratio	65%
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