

First American Financial

KBW Mortgage Finance & Asset Management Conference

June 1, 2017



First American



Safe Harbor Statement



First American

CERTAIN STATEMENTS MADE IN THIS PRESS RELEASE AND THE RELATED MANAGEMENT COMMENTARY CONTAIN, AND RESPONSES TO INVESTOR QUESTIONS MAY CONTAIN, FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS “BELIEVE,” “ANTICIPATE,” “EXPECT,” “INTEND,” “PLAN,” “PREDICT,” “ESTIMATE,” “PROJECT,” “WILL BE,” “WILL CONTINUE,” “WILL LIKELY RESULT,” OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS “WILL,” “MAY,” “MIGHT,” “SHOULD,” “WOULD,” OR “COULD.” THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT. RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION: INTEREST RATE FLUCTUATIONS; CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS; VOLATILITY IN THE CAPITAL MARKETS; UNFAVORABLE ECONOMIC CONDITIONS; IMPAIRMENTS IN THE COMPANY’S GOODWILL OR OTHER INTANGIBLE ASSETS; FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS; CHANGES IN APPLICABLE LAWS AND GOVERNMENT REGULATIONS; HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY’S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY’S BUSINESSES; USE OF SOCIAL MEDIA BY THE COMPANY AND OTHER PARTIES; REGULATION OF TITLE INSURANCE RATES; LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA; CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES; CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY’S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS; LOSSES IN THE COMPANY’S INVESTMENT PORTFOLIO; MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE; DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY’S USE OF TITLE AGENTS; ANY INADEQUACY IN THE COMPANY’S RISK MANAGEMENT FRAMEWORK; SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS OR UNAUTHORIZED DATA DISCLOSURES; ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS; THE COMPANY’S USE OF A GLOBAL WORKFORCE; INABILITY OF THE COMPANY’S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS; INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY’S ACQUISITION STRATEGY; AND OTHER FACTORS DESCRIBED IN THE COMPANY’S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

Use of non-GAAP Financial Measures



First American

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 19.3% debt-to-capital ratio
- High quality, conservative investment portfolio

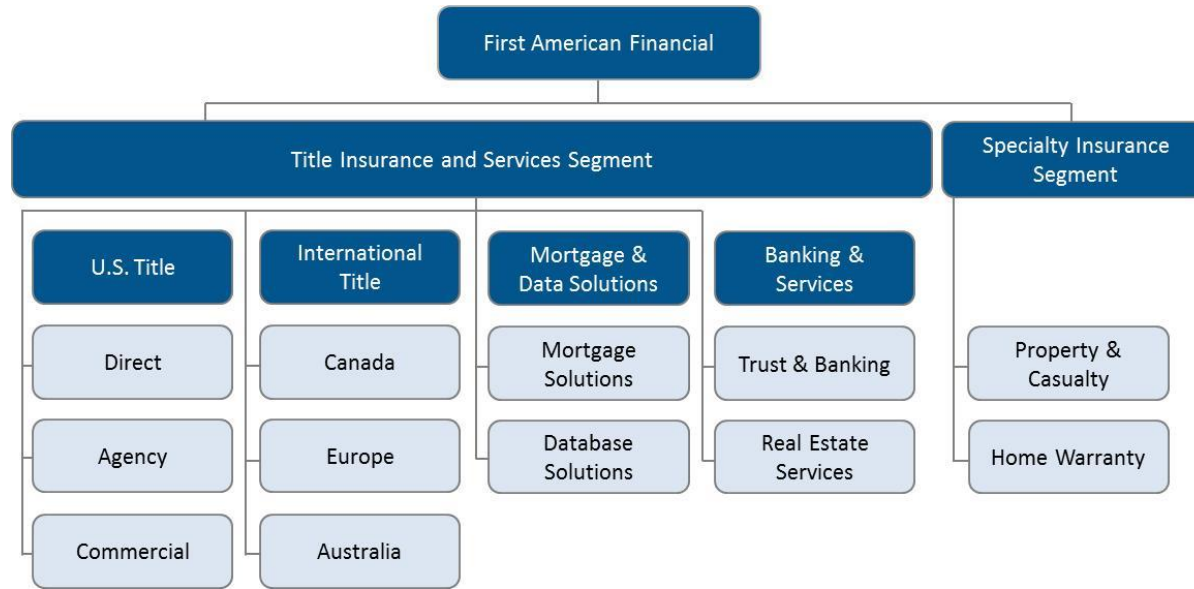
Market Trends Favorable

- 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

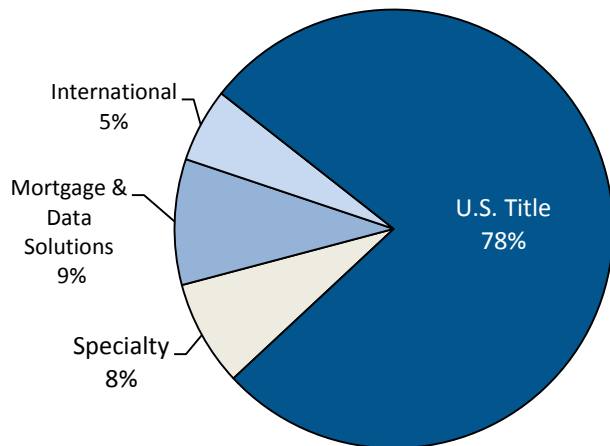
Organizational Structure



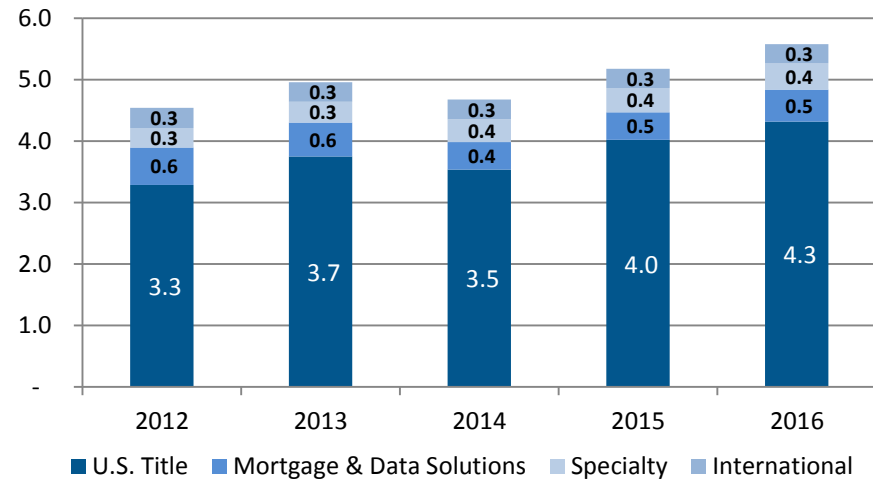
First American



2016 Revenue: \$5.6B



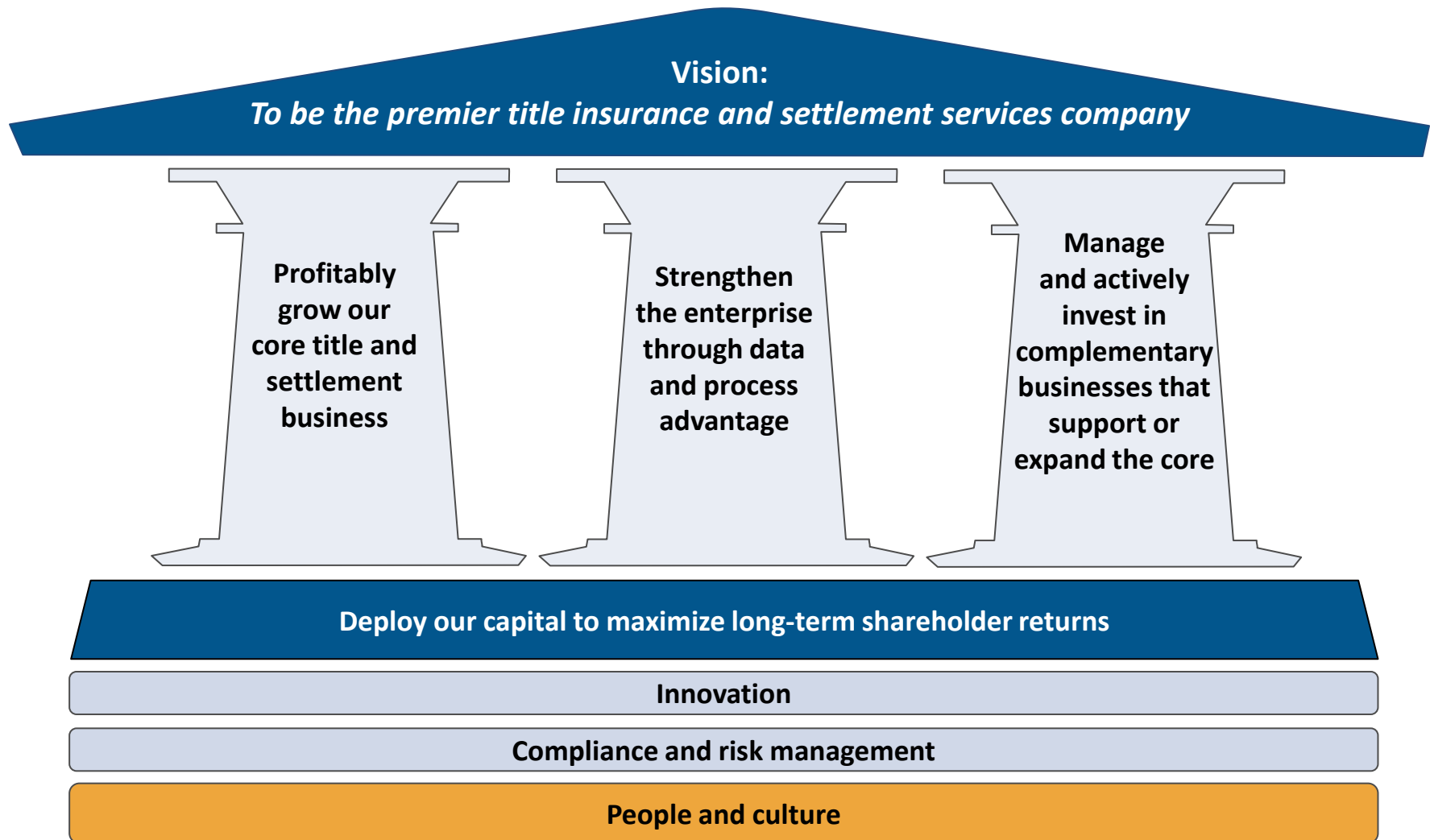
Total Revenue Trend



First American's Strategy



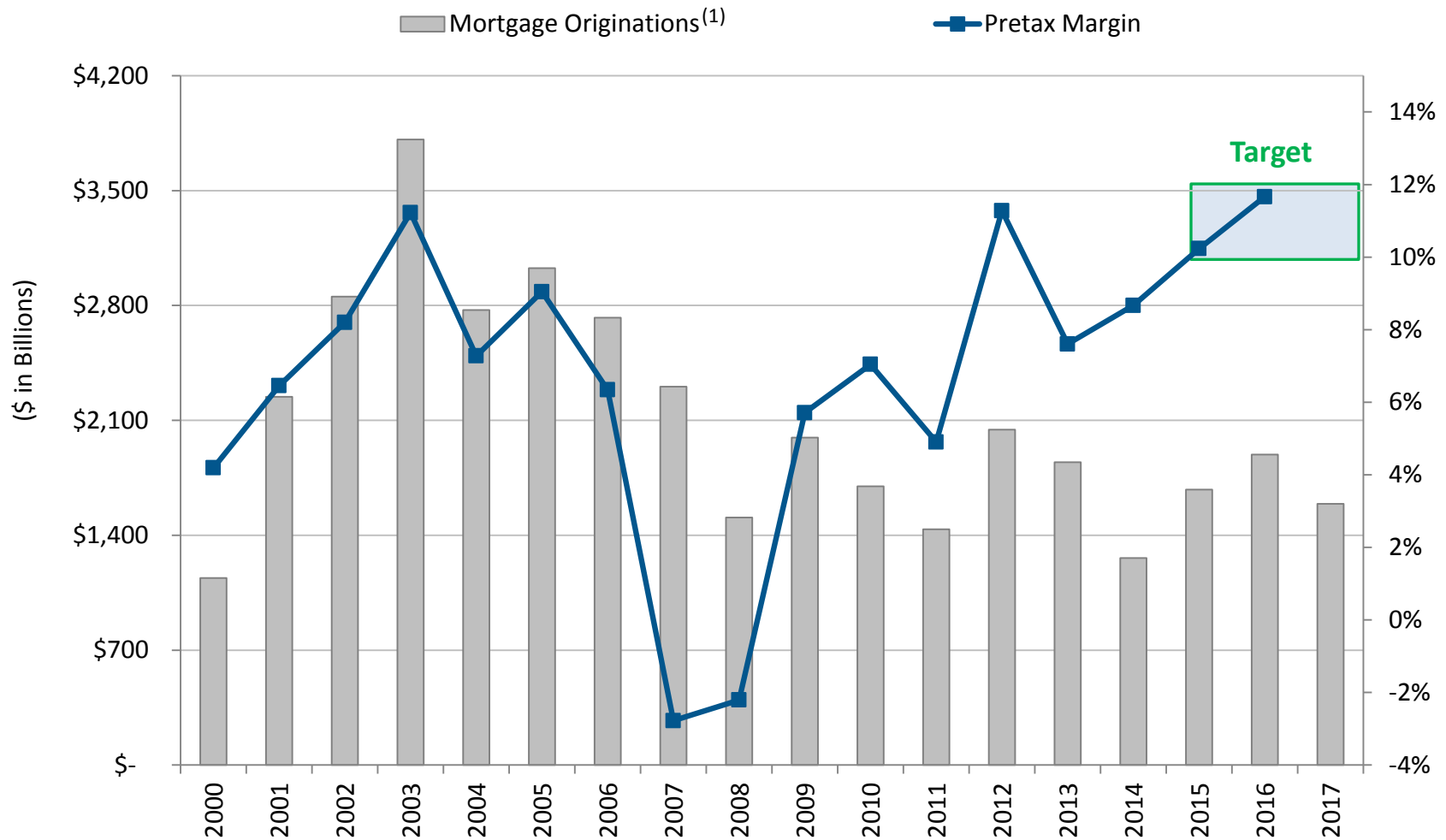
First American



Title Insurance Segment Margins



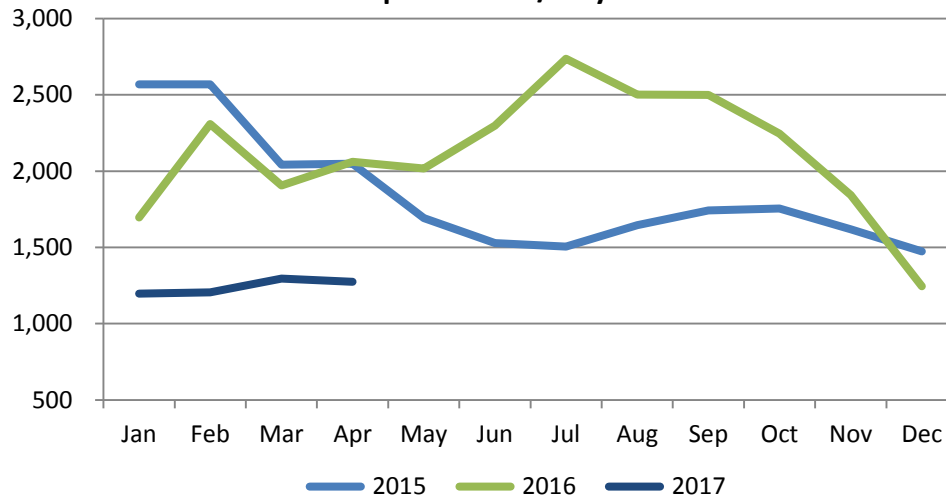
First American



(1) Source: Mortgage Bankers Association



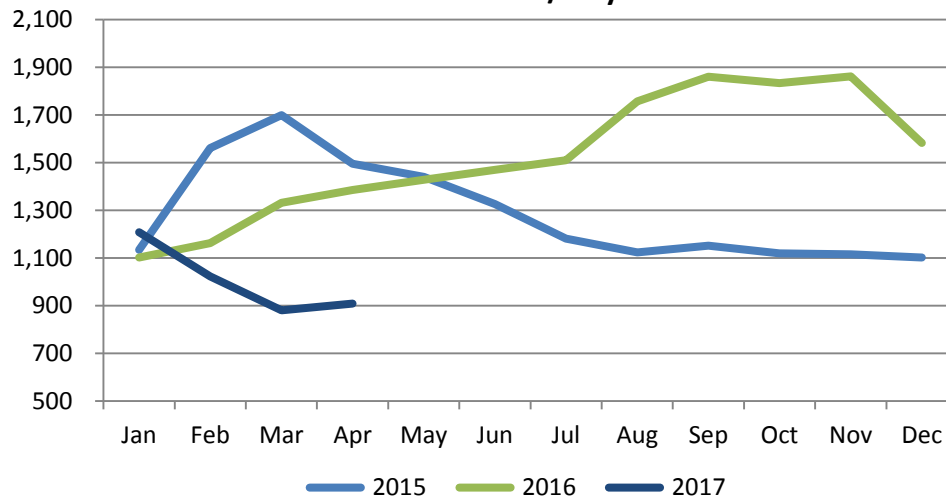
Open Orders / Day



Current Trend

- Open orders have stabilized at ~1200 per day in 1Q
- Significantly reducing resource commitments in our refinance focused businesses
- Closely monitoring order levels as always

Closed Orders / Day

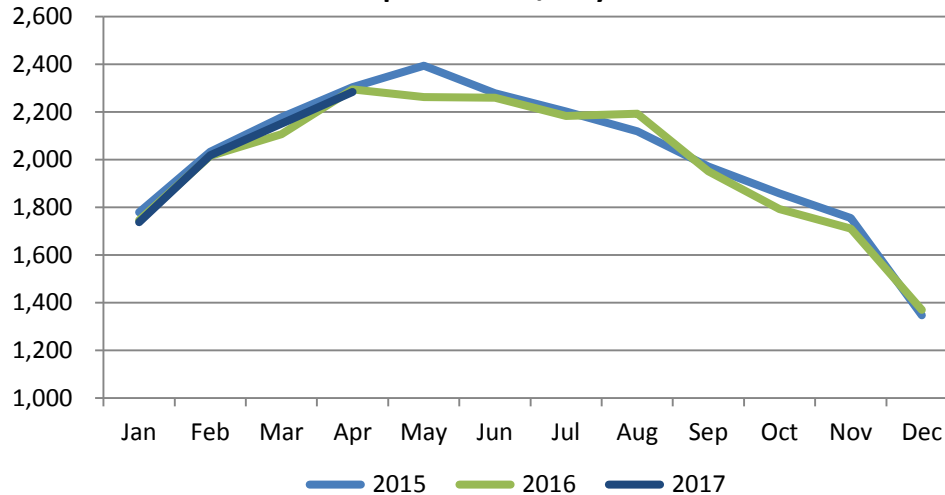


Outlook

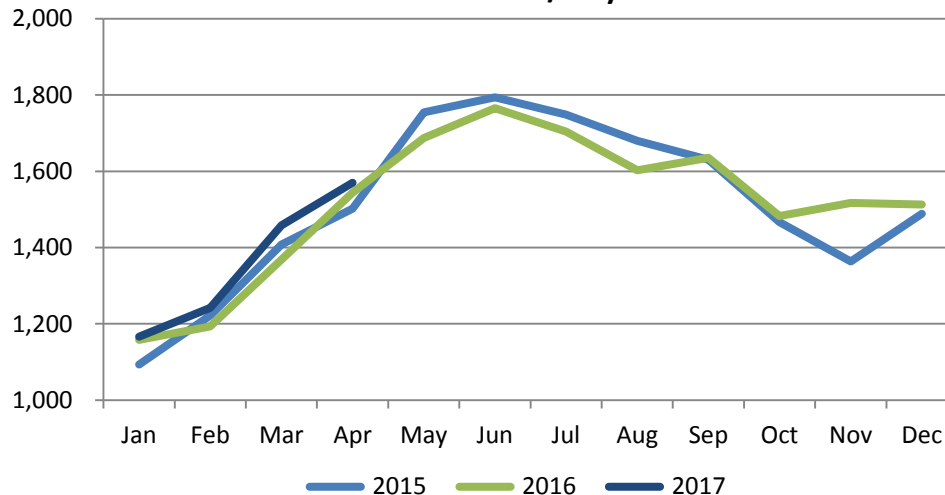
- Rising interest rates will likely continue to weigh on refinance transactions in 2017
- Longer term, expect refinance volumes to remain low



Open Orders / Day



Closed Orders / Day



Current Trend

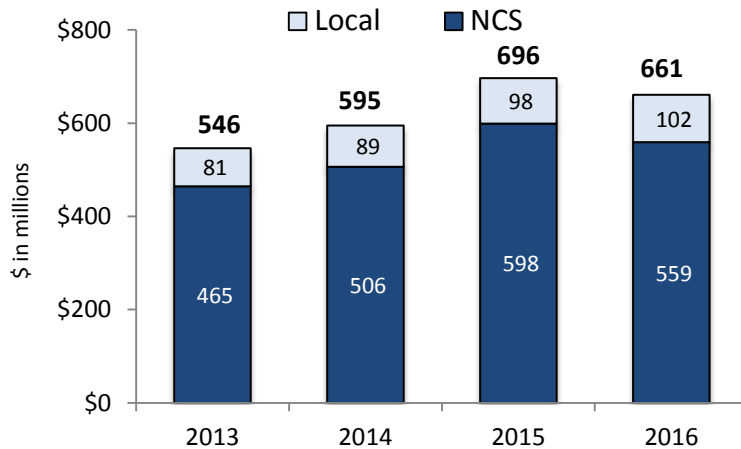
- 13% revenue growth in 1Q 2017
 - Fees per file up 8%
 - Closed orders up 4%
- Home price appreciation robust
 - Strong buyer demand
 - Lack of for sale inventory in existing homes a key factor

Outlook

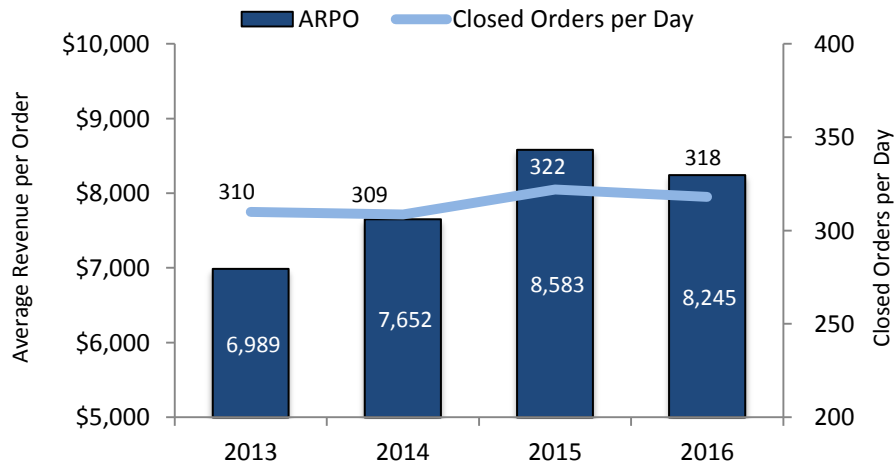
- Expect continued growth in 2017 and beyond



Current Trend



- Revenues up 2% in 1Q 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

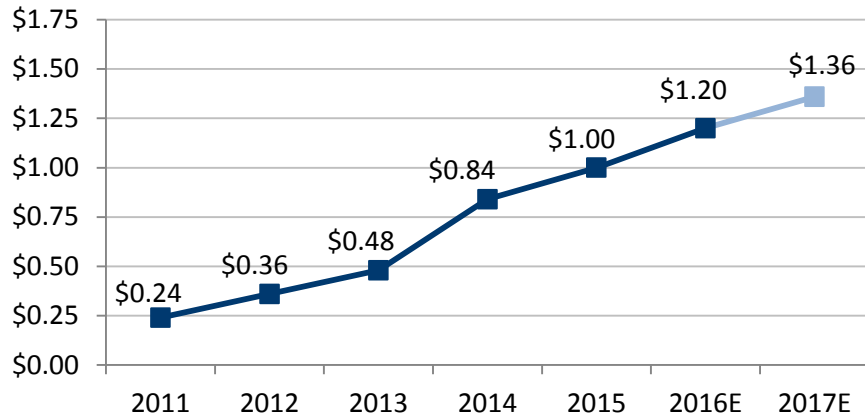


Objective: Create Long-Term Shareholder Value

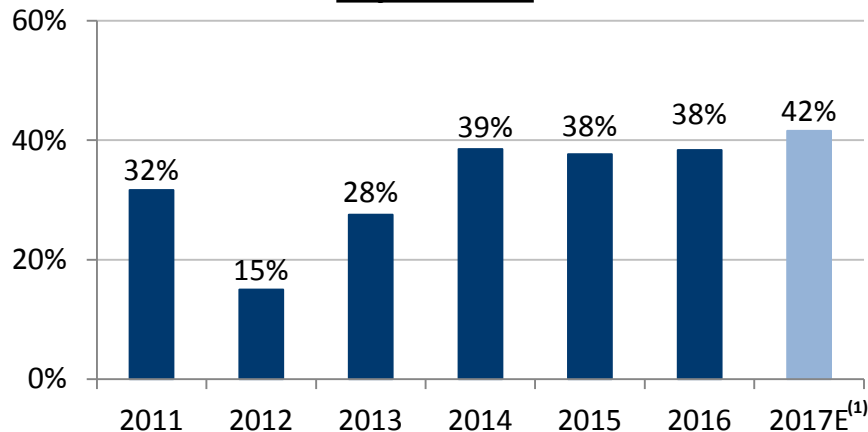
- Capital Management Priorities:
 - Make value-creating investments in our core business
 - Acquire businesses that fit within our core strategy
 - Return excess capital to shareholders through dividends and share repurchases
 - Maintain adequate capital levels
 - Manage our capital structure prudently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



Dividends per share



Payout Ratio



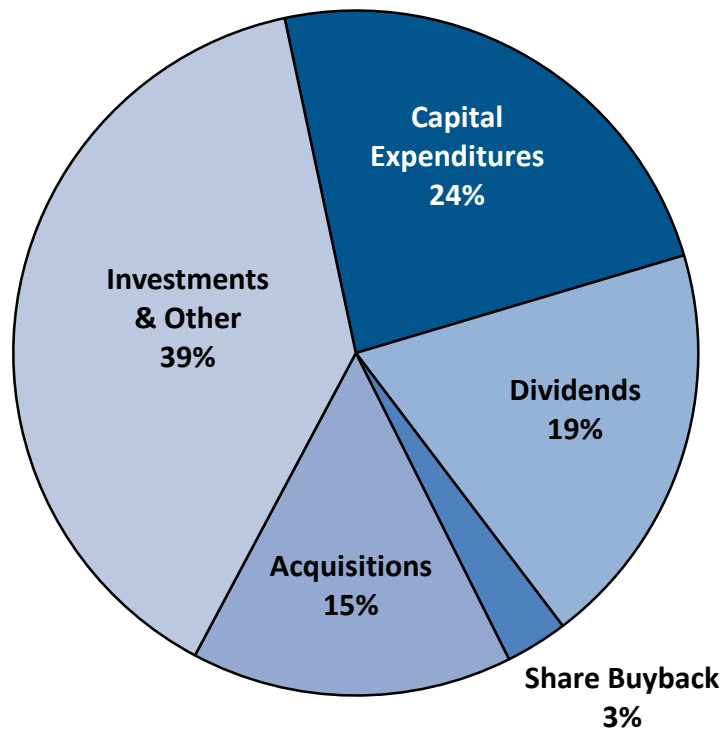
Dividend Considerations:

- First American expects to pay a meaningful dividend given the company's cash flow generation and investment opportunities
- Dividend increases should be sustainable
- Dividends are reviewed by the board regularly, with a stronger emphasis in the first quarter to determine whether to adjust the dividend
- 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) Calculated using Consensus EPS estimate for 2017. The Consensus EPS excludes the pension termination impact



Operating Cash Flow Uses \$2.2 Billion (2012 – 2016)



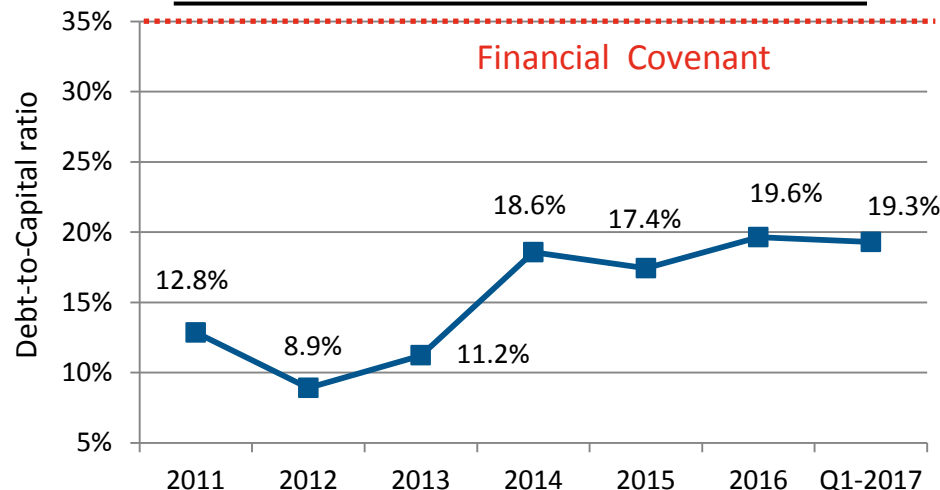
Note: Based on prior five year period 2012 – 2016 operating cash flow



As of March 31, 2017 (\$ in millions)	
4.3% senior notes due 2023	\$248
4.6% senior notes due 2024	298
Trust deed notes	26
Other notes	4
Revolving credit facility	160
Total debt	\$736
Total equity	\$3,078
Debt-to-Capital ratio	19.3%

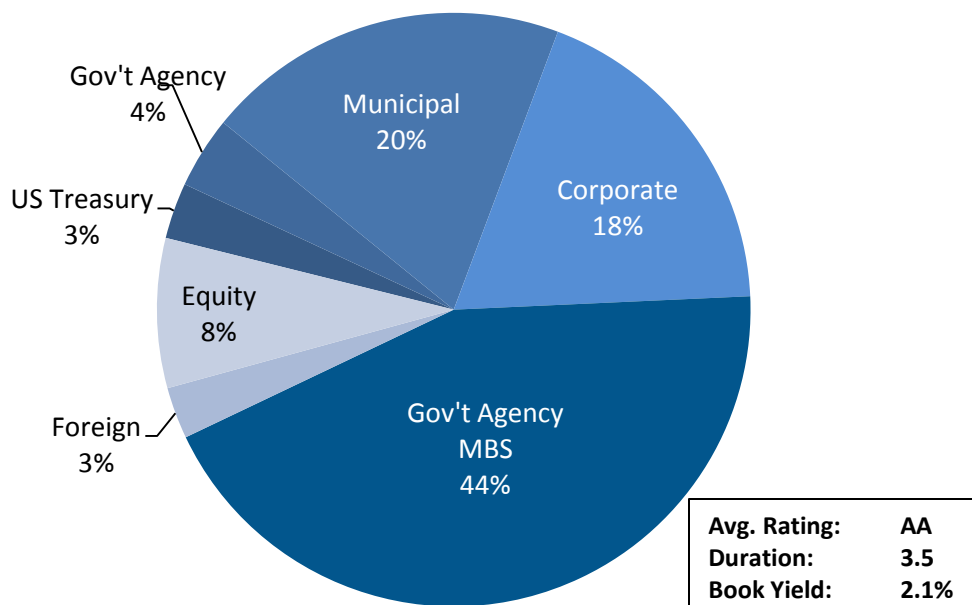
- Management's target debt-to-capital ratio is 18-20%
 - Supports target financial strength ratings
- No significant maturities until 2023
- Majority of current debt has a fixed interest rate
 - The credit facility rate floats at LIBOR + 175 basis points
- FAF has significant financial flexibility to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

Debt-to-Capital Ratio

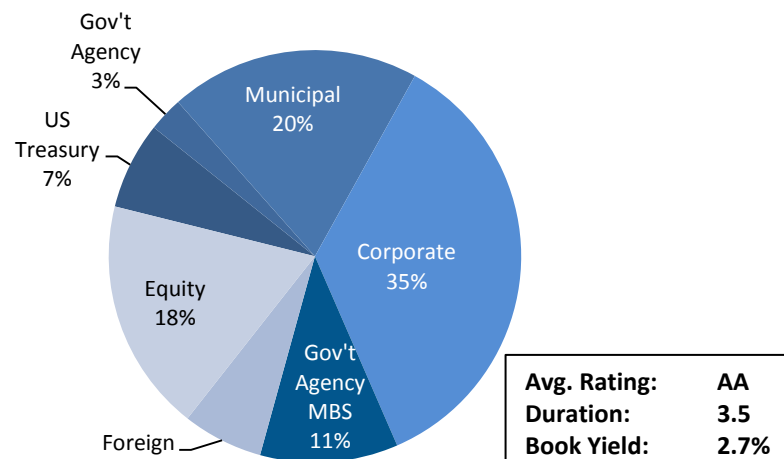




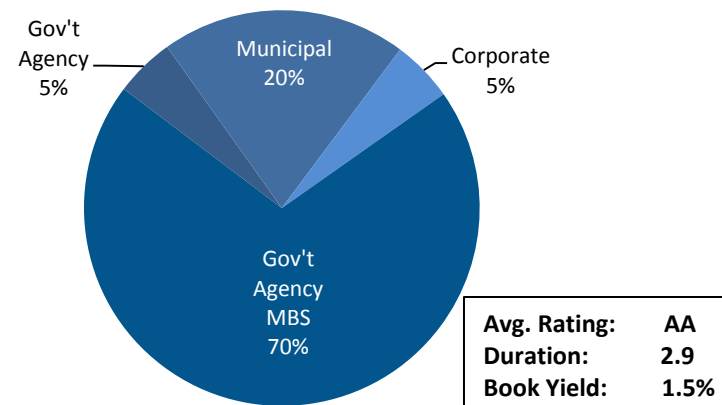
Consolidated Portfolio \$5.0 Billion



Insurance Portfolio \$2.2 Billion



Bank Portfolio \$2.8 Billion



Note: Debt and equity securities as of December 31, 2016

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

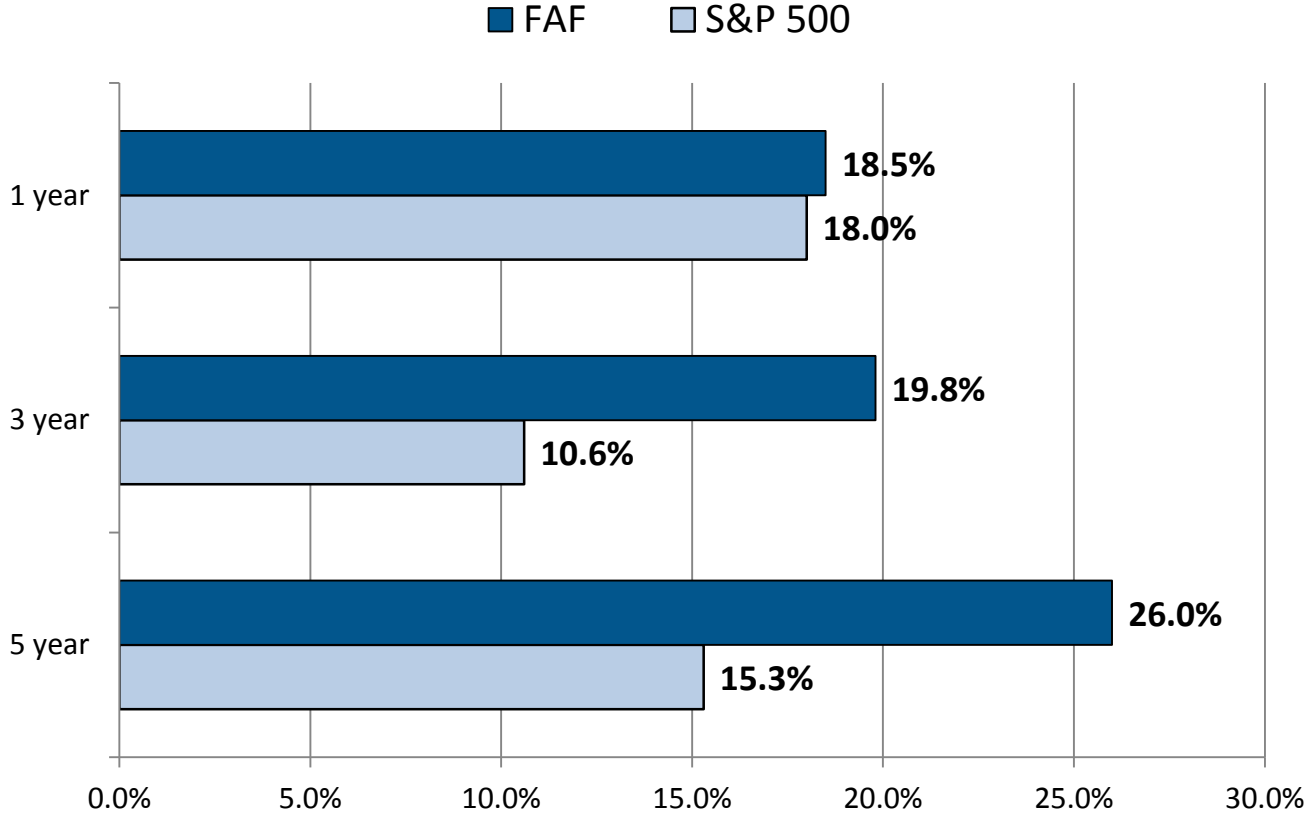
- ✗ Decreased value of fixed income portfolio
- ✗ Impact to refinance volumes
 - Refinance represented 17% of direct revenue premiums in 2016
 - 2016 average revenue per order:
 - Refinance: \$885
 - Resale: \$2,134
 - Commercial: \$8,245
- ✗ Reduced housing affordability
- ✗ Higher interest expense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



FAF Total Shareholder Return



Source: Annualized return through 5/25/2017

Appendix



First American

125
YEARS

1889 - 2014

Balance Sheet



First American

As of March, 31 2017 (\$ millions)

Assets

Cash & equivalents	\$1,047
Investments	5,183
Other assets	1,548
Goodwill & intangibles	1,096
Total assets	<u>\$8,874</u>

Liabilities & Equity

Demand Deposits	\$2,883
Other Liabilities	1,164
Reserves	1,013
Debt	736
Equity	3,078
Total liabilities & equity	<u>\$8,874</u>

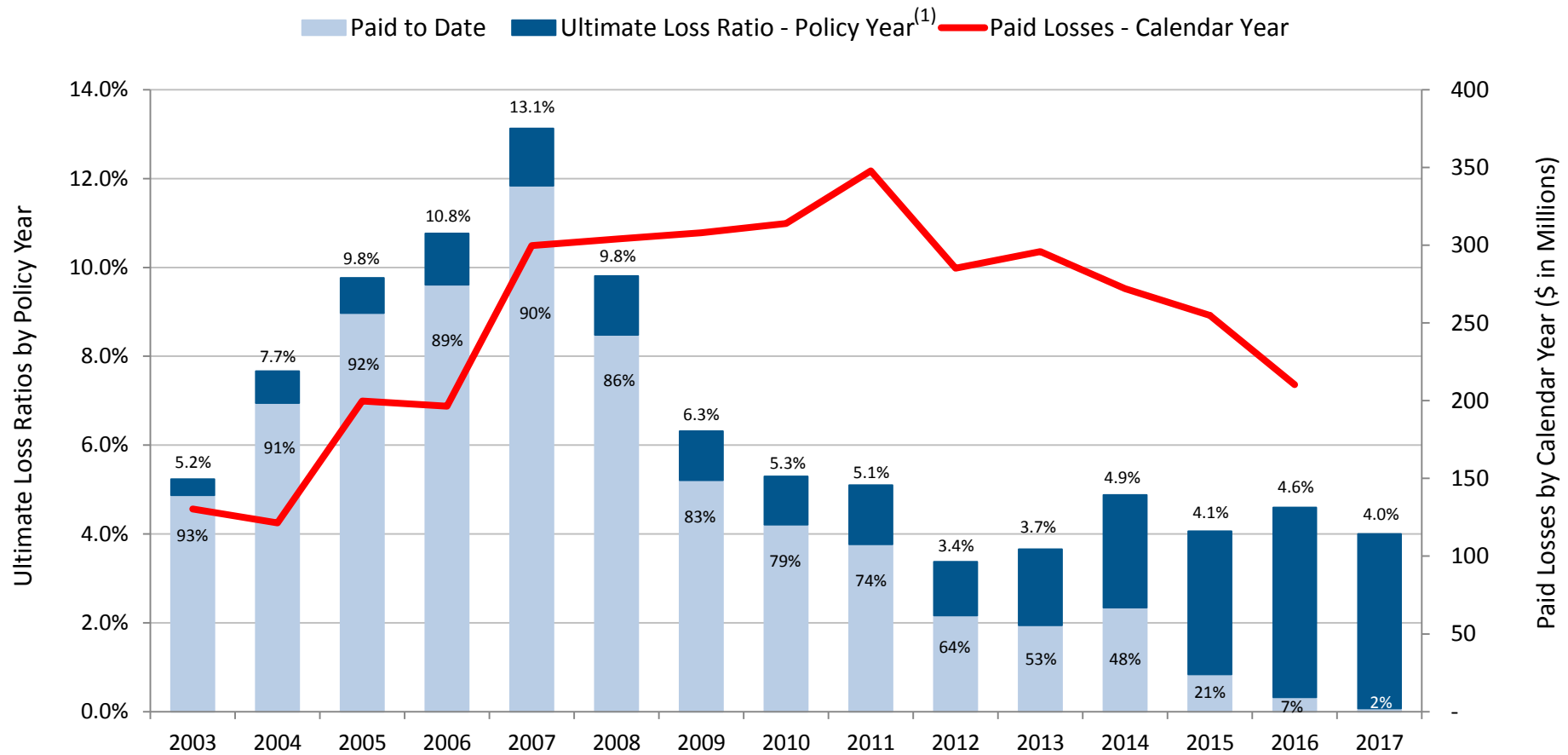
Return on Equity

TTM Net income	\$349
Average Equity	\$2,958
ROE	11.8%
Debt-to-capital	19.3%
Book value per share	\$27.80
Tangible equity	\$1,982
Statutory surplus	\$1,237

Ultimate Loss Ratios by Policy Year



First American



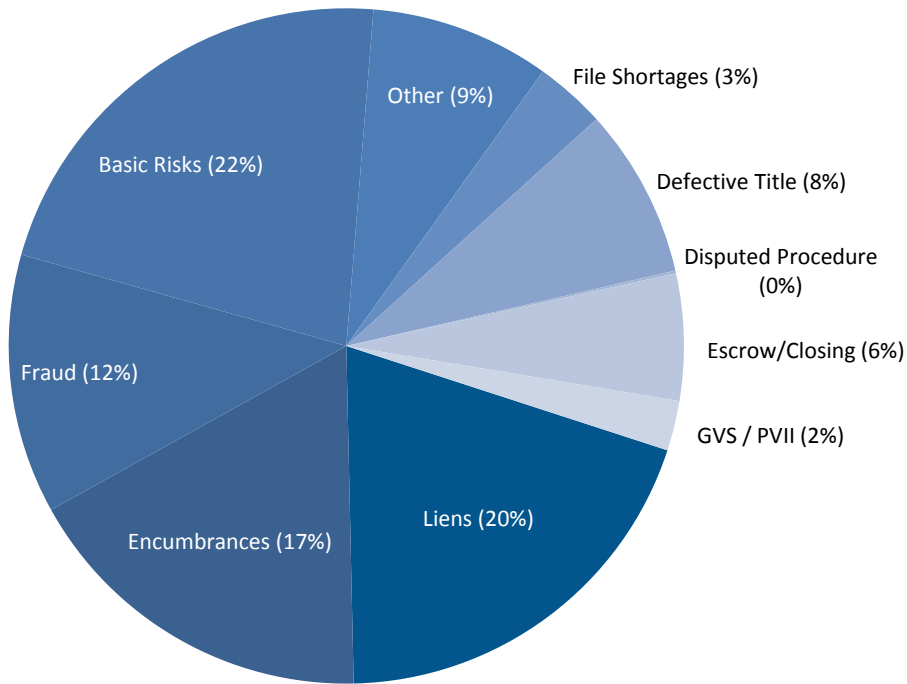
(1) Ultimate loss ratios are estimates and calculated as a percentage of title premiums and escrow fees for a given policy year as of February 28, 2017

2016 Incurred Claims Detail

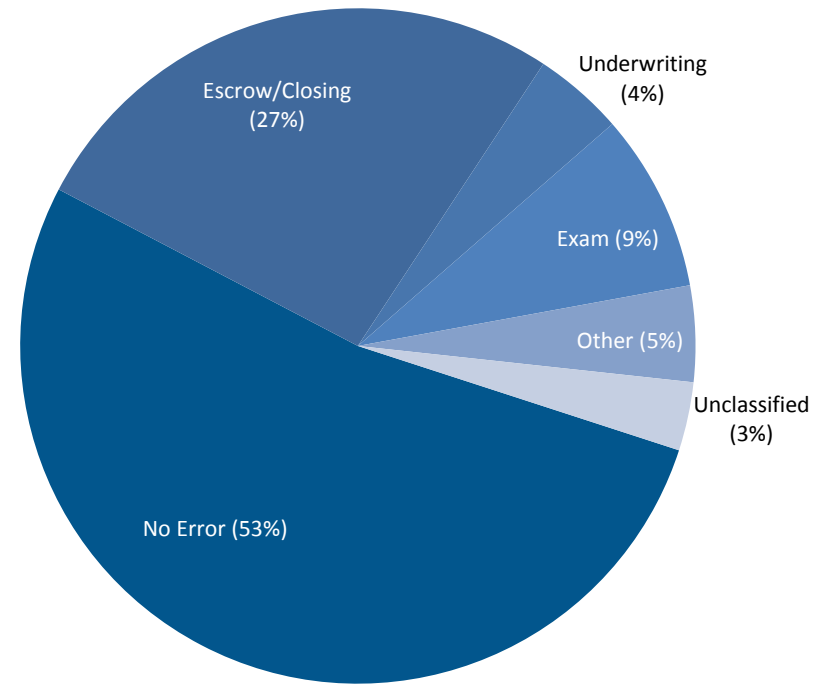


First American

Claim Cause



Process Cause

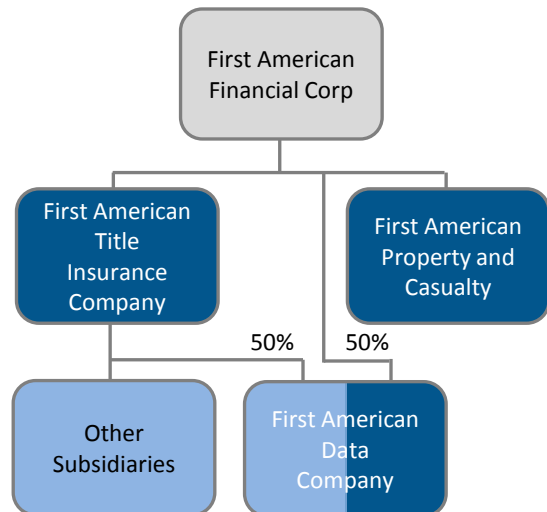


Legal Entity Re-alignment Increased Dividend Capacity

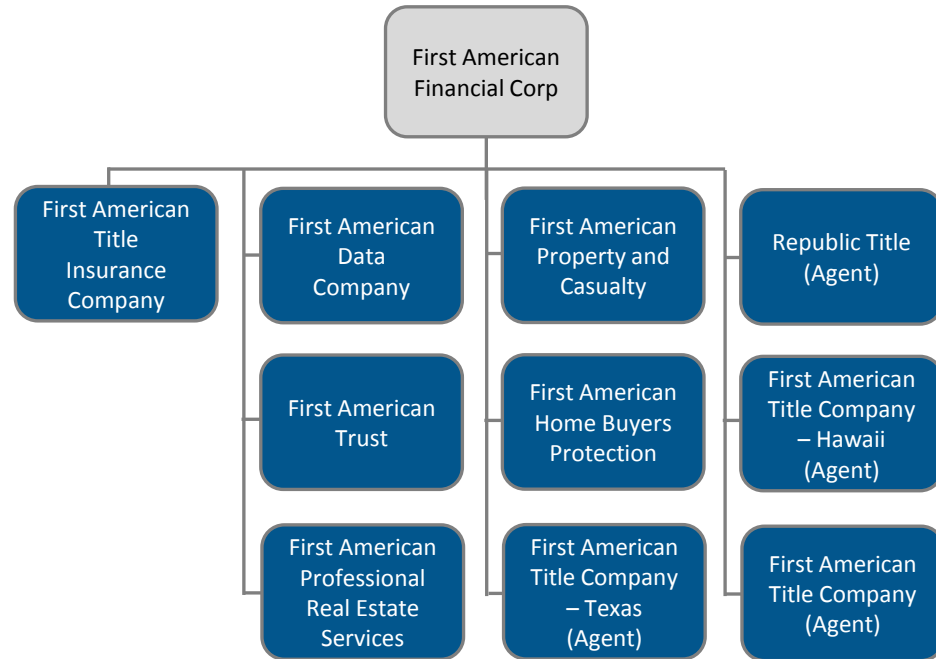


First American

2012



2015



2012 Actual dividends to Holding Company excluding FATICO	
Other Subsidiaries	\$12M

2015 Actual dividends to Holding Company excluding FATICO	
Other Subsidiaries	\$83M

Note: Legal structure as of June 30, 2012; not a complete list of legal entities

Enhanced Statutory Capital



First American

US\$ in millions	2011	2012	2013	2014	2015	2016
Beginning Surplus	868	849	956	996	979	1,104
Net Income	92	301	199	393	192	150
Dividend to Parent	(47)	(219)	(139)	(263)	(60)	-
Other	(65)	26	(20)	(148)	(7)	(67)
Ending Surplus	849	956	996	979	1,104	1,187

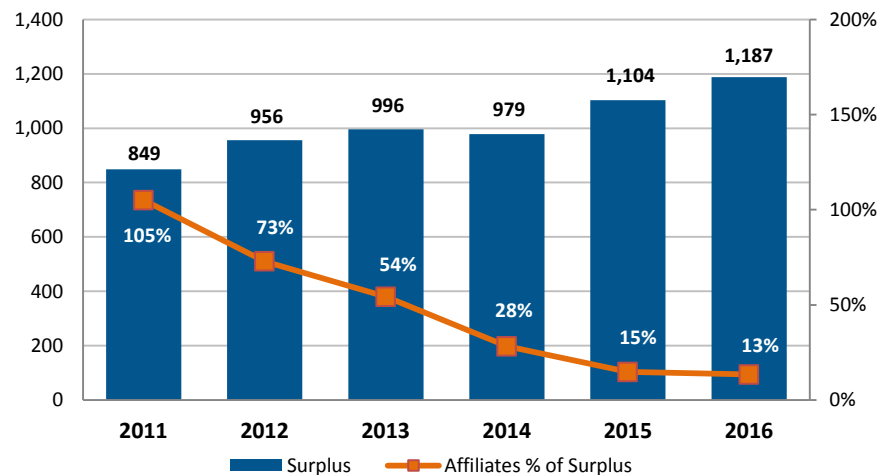
Dividend to Parent:						
Cash	45	-	40	-	60	-
Non-cash	2	219	99	263	-	-
Total	47	219	139	263	60	-

Total Non-cash dividend to Parent for the prior 6 years

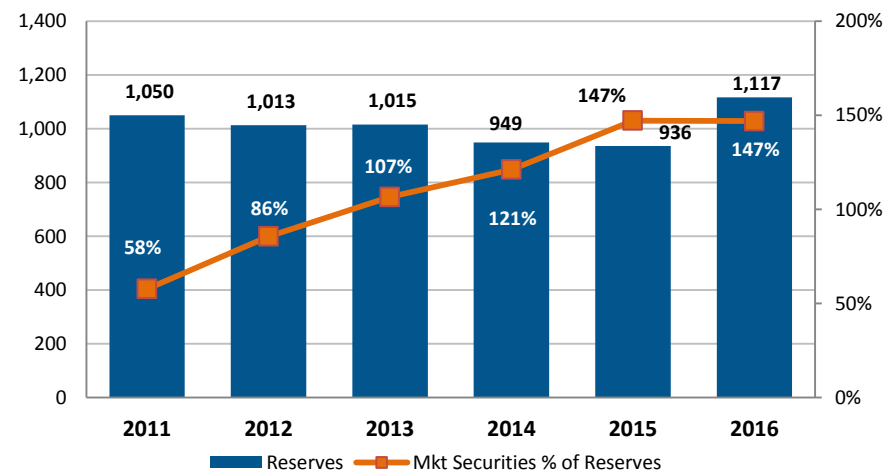
582

- Recently completed a multi-year effort to enhance the financial strength and flexibility of the company
- ~50% of free cash flow between 2011-2016 was used to grow the investment portfolio, primarily to strengthen the surplus quality of our primary underwriter - FATICO
- Future cash flows at FATICO will primarily be up-streamed to the holding company for capital deployment (dividend, M&A, etc.)

US\$ in millions

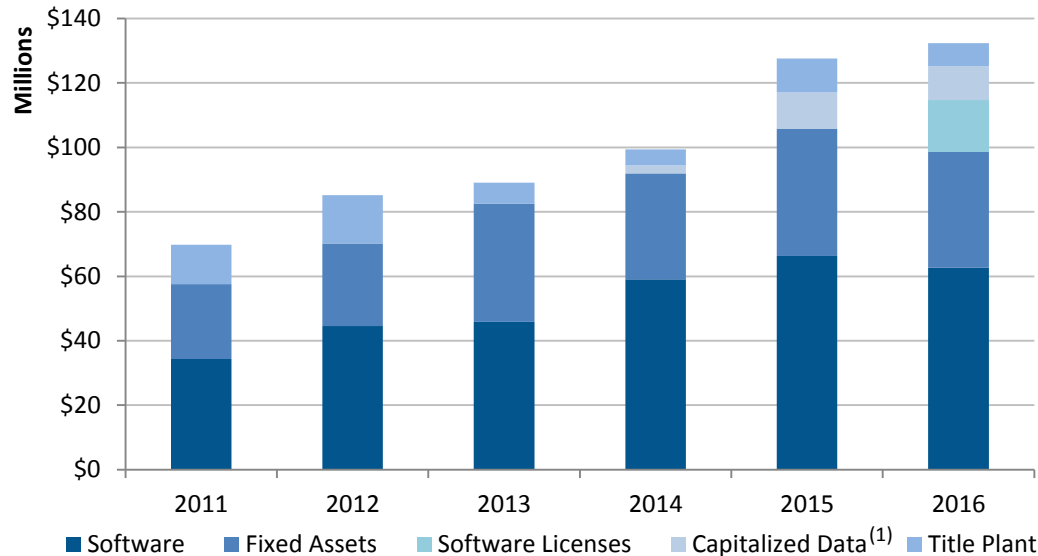


US\$ in millions





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
- ~50% of capital expenditures are growth related

Note: excludes capital leases

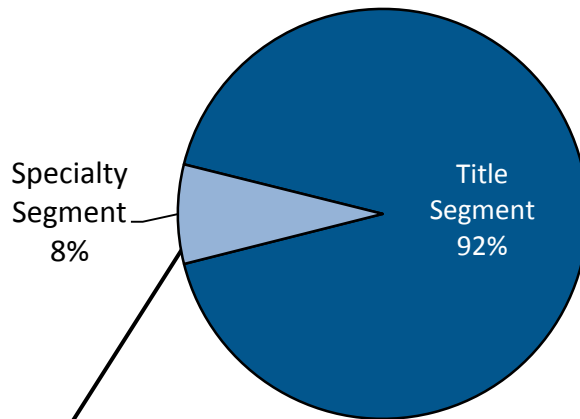
(1) The company began disclosing capitalized data expenditures in 2014

2016 Revenue Breakdown

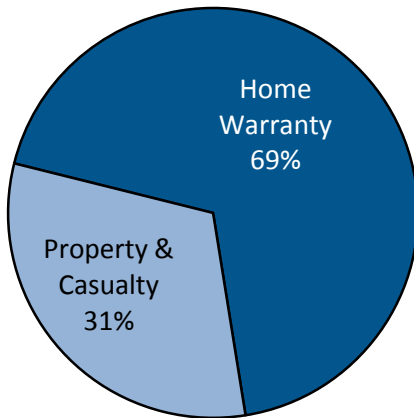


First American

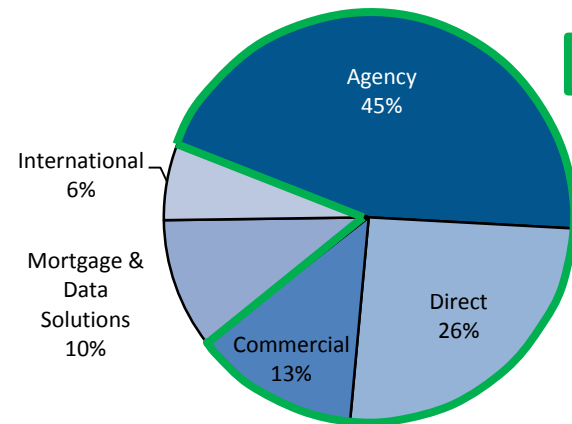
First American Financial 2016 Revenue: \$5.6B



Specialty Segment 2016 Revenue: \$0.4B



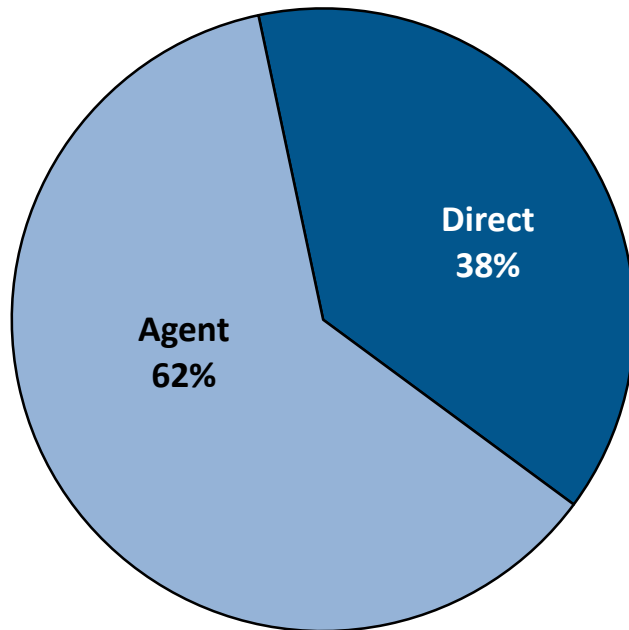
Title Segment 2016 Revenue: \$5.1B



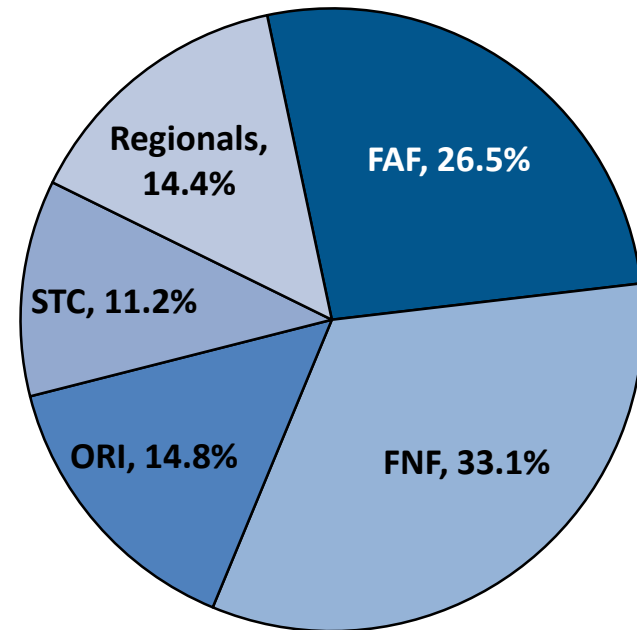
U.S. Title



**Industry Premiums - \$14.3B
2016**



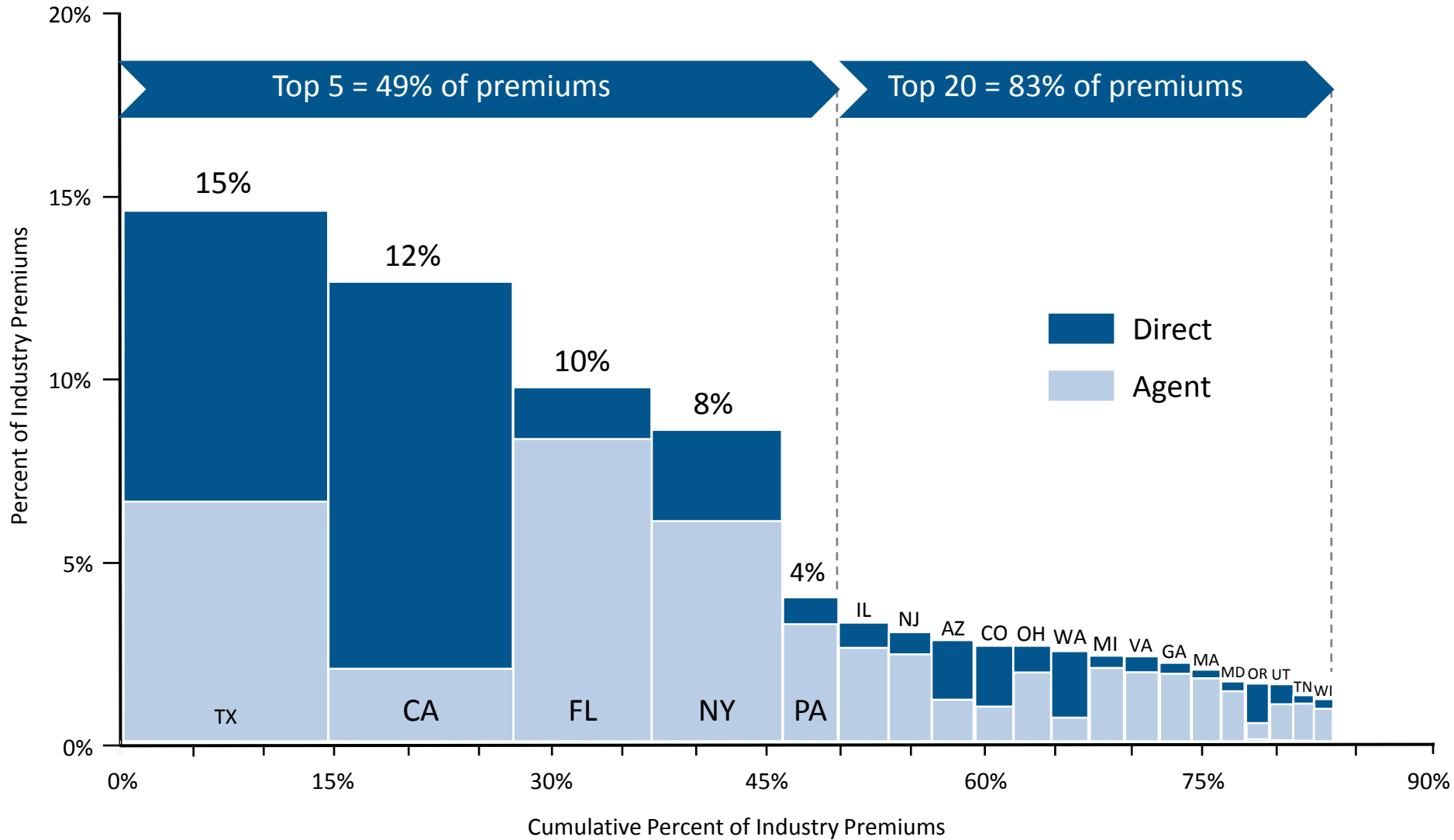
**Underwriter Market Share
2016**



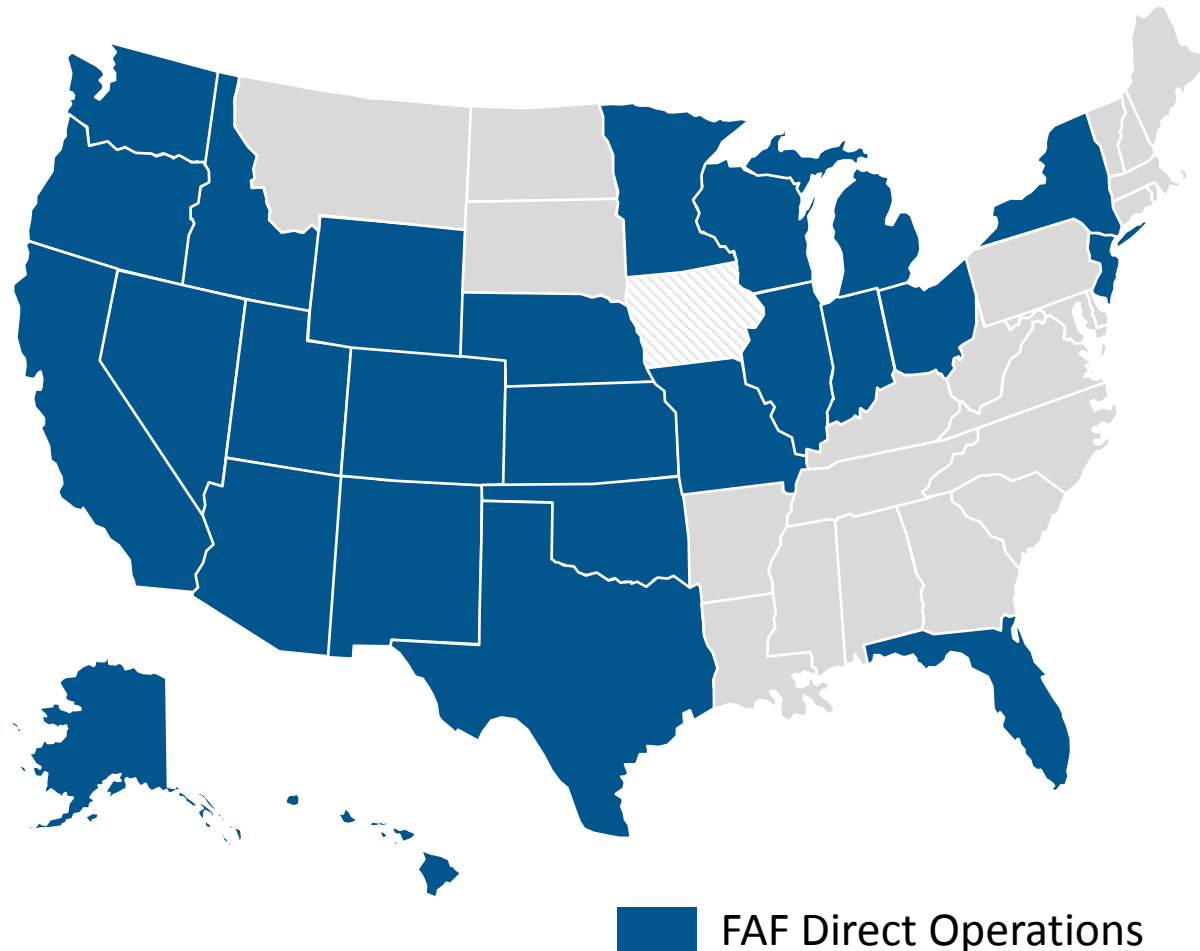
Industry Premiums by State



First American



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

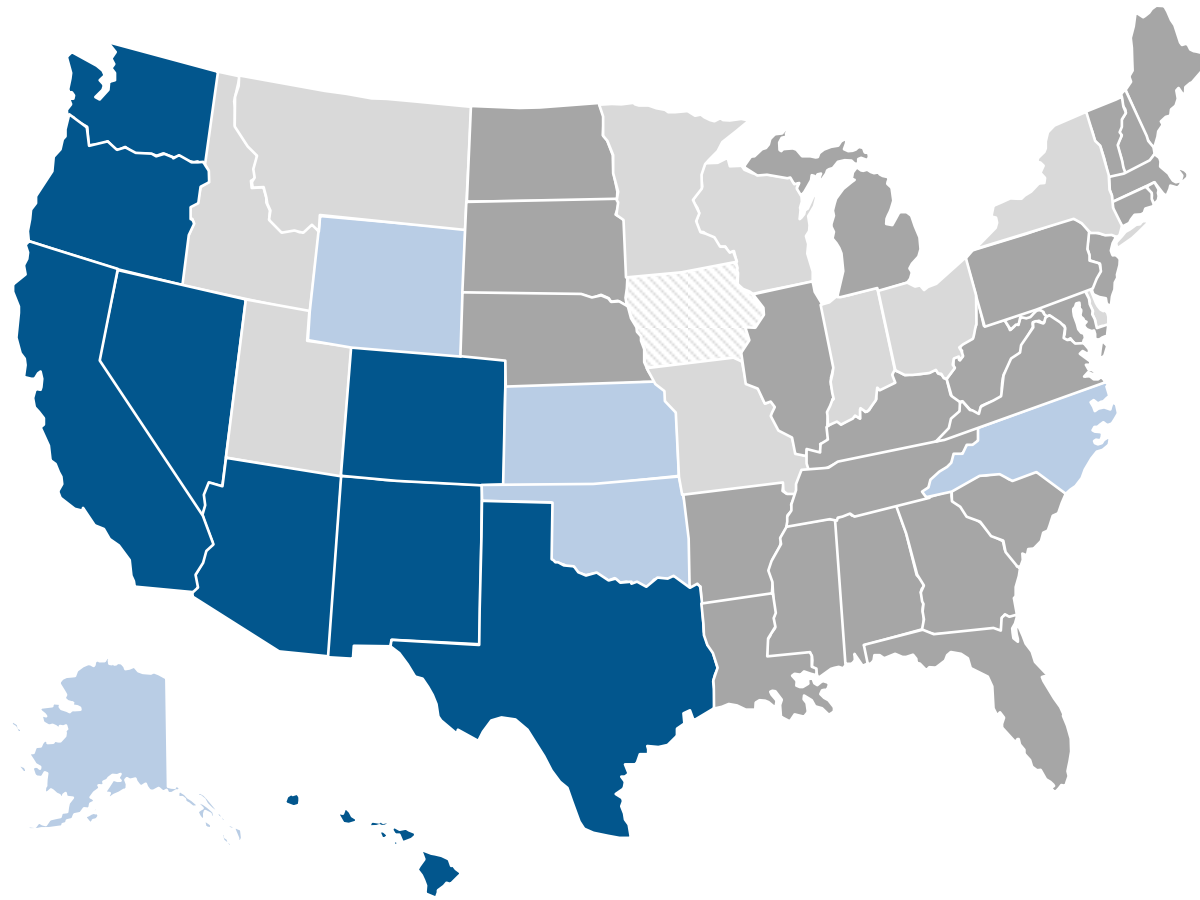
- Underwriter in 49 states
- Business in both rural and metro areas
- Highly variable cost structure

Industry Distribution by State



First American

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



First American

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

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%
----------------------	------------