First American Corporation Investor Day 2018
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Craig Barberio: All right. Good morning. Let's get started. Welcome everyone. We always look forward to Investor Day. It's the one time when we get so many of our shareholders, potential shareholders, securities analysts, and bankers all in the room at the same time to talk about our favorite subject, which is First American.

We definitely appreciate your support and want to thank you for taking the time this morning to come and join us. We have a great story to tell, and I think--I'm very confident that over the next couple of hours you will--it'll--you'll find out it'll be time well spent this morning with us.

It's been three years since our last Investor Day. We've had--we've accomplished a lot in those three years. Our performance has been very strong. And the good news is, from our perspective the outlook remains bright.

Let's take care of a couple housekeeping items first. And you each have a deck in front of you. At the back there's a single loose leaf sheet of paper. It's an evaluation form. We definitely value your feedback. And let me suggest that it'd be easier to give us your feedback after every speaker presents than wait for the very end. We definitely would like to get your feedback about how we performed today and how clear the messages are.

Moving right along, as always, during today's presentation and in response to your questions, we will be making forward-looking statements such as those described here. These forward-looking statements are only accurate as of today, and the company does not undertake any obligation to update these forward-looking statements for circumstances or events that occur in the future. Results may differ materially from these forward-looking statements due to risks and uncertainties listed here and other factors described in the company's quarterly disclosure documents.

Further, today we'll be referring to certain non-GAAP financial measures in our presentation. As you know, as a company we rarely or very infrequently refer to non-GAAP numbers, but today we'll be referring to an adjusted investment income in our title segment. Adjusted investment income in our title segment simply excludes the impact of investment in affiliates, and we are adjusting investment income to provide you a better understand of the relationship between interest rates on the company's investment income. We've also provided a reconciliation to the GAAP investment income number in the back of the--in the appendix of the book.

Today's presentation will take place in two blocks. We'll start out with a companywide review of performance, strategy, and outlook. We'll then move into our U.S. title operations, which covers our key divisions of commercial, direct, and agency. We'll then take a--we'll then pause to take your questions, and then we'll break for a short period of time, come back at about 10:50 in--A.M., and pick up with our specialty insurance segment, which includes both our home warranty and our P&C business lines.

And then we'll wrap up with the financial review of the company. And again, we'll break--we'll compete the day with another question and answer period and we'll break for lunch. It should be no later than noon. We'll get you out of here on a Friday afternoon. Fortunately, there's no rain and it's the nice springtime weather in New York, so pretty good until tomorrow when the tornados hit, right?

With that, I'm going to turn it--I'm going to introduce our first speaker, Dennis Gilmore. He's been with First American for 25 years. Not only does he have significant title--experience on the title side, but he's also spent a significant portion of his career on the data analytics side.

He was named President of the title division in 2008, and he was named CEO of First American Financial in 2010 when we became a standalone company. With that, I'll turn it over to Dennis.

Dennis Gilmore: Thank you. Well, welcome everybody. We're excited to be here and give you guys some insight on how First American is performing and what the outlook looks like for the future.

Let me start by introducing the team here. I think most people know Craig Barberio. Craig's our Director of Investor Relations, does a very good job for us. Next to Craig is Mark Seaton, our CFO. Mark's been with the company for 12 years. I think many of our investors know Mark very well. Next to Mark is Chris Leavell. Chris has been with the company 21 years. Chris runs our international--excuse me, our U.S. title operation. He's the COO of our title company. Next to Chris is Larry Davidson. Larry runs our specialty insurance division. Larry's been with us for 18 years.

In the audience we've got Ken DeGiorgio. Ken has many different hats. He's our EVP, General Counsel. He runs our international group and our bank. Next to Ken we've got Matt McCreadie. Matt's been with us for six years. Matt's our Treasurer. And we have Parker Kennedy somewhere back there. Park's been with the company for lots of years. How many?

Forty-two years. Park's our Chairman of the Board. So, that's our folks in the audience today and the executive team.

Today--and again, I'm Dennis Gilmore. I've been with the company for 25 years. And like Craig said, I've spent a lot of time in various parts of our company. Before the split in 2010, I was on the data side and I came to the title side in 2008. And when we went public in 2010, I've been the CEO ever since then.

Today we're going to cover a few things on my part. Then I'll hand it over to Chris. Then we'll spend some time at that point to take questions and answer--or do questions. Then we'll kick it back off. Today I'm going to cover--I'm going to look back, talk about our results we've had over the last five years or so, talk a little bit where we are right now in the current market, what we think the opportunities are, what we think's changing in the market, and then talk a little bit about how we see the market from a growth perspective.

So, we've had a strong track record of results. This first chart here is just going to give you guys some insight on how the company kind of looks right now. Our revenue last year was just shy of $6 billion in 2017. We have a 26% market share in the title company. That's been very stable for a number of years. We have a very trusted brand in our title company. Brand is very important for our company.

We have just shy right now--that number moves around a little bit. We're just shy of 19,000 employees around the world. We operate in about 800--a little plus 800 branches in the U.S. We operate in nine countries in--throughout the world right now. We offer policies internationally in--primarily in 11 countries. We can write in a few more.

We have--our business is split. About 92% of our revenue comes from our title company. The remaining comes from our specialty insurance segment. We'll talk a lot about it today, but also we have the largest repository of public records associated with real estate, including title plants. And that plays a big key in our future going forward.

And last, we've reorientated the company aggressively around a people first strategy. And we're proud that we've been on the Fortune 100 Best Places to Work for the last three years in a row.

This is an interesting chart. It's kind of really over the last seven years what's happened at the company and since we've been public. We've had a good run, no question. We've had returns at 22% annual on the company. But it's interesting what's happening over a few segments of the chart.

In this timeframe right here, in the early years we were basically focused on reorganizing our company and driving efficiencies. This is where we centralized all of the back office, centralized all how we run the administrative side of the business, big effort there. That's always continuing, but most of the heavy lifting occurred in the early years.

This section kind of in the middle, this is where Chris Leavell reorganized the title company to a consumer viewpoint. We were organized differently. We were geographically organized earlier. Chris reorganized the company all around our customer base, a major change for the company. It's also where we started to accumulate our databases aggressively. So, in the center of this chart is when we were really aggressively building out our real estate databases. We continue that effort, but the main focus was in the early years.

And then the latter part of the chart is really where we honed in, really refined our strategy, really detailed our strategy, and focused on growth and other things at that point in the time. And again, we really nailed the customer--the employee aspect of our company in those later years. With that, we ended the year last year with our best performance ever. Our pre-tax title margin for the company was 12.1%, even in a volatile declining refinance market.

I've introduced the management team here already, but I will just make a point that this is a very seasoned team. We've all worked together for many years. Everybody on this team understands and knows their customers very well, their employees very well, and the markets segment we operate in very well. It's a very experienced management team.

I'd like to transition right now and just talk a little bit about the strategy of the company before I kind of review some of the financial results over the last five years. This--let's just kind of talk a little bit how we think about strategy. First of all, we review our strategy every year, and we review it in great detail. We also tweak and modify it every year ever so slightly.

So, our strategy really came together aggressively probably in the 2012, '13 timeframe. Again, earlier than that, we were primarily focused on recovering from the recession and re-streamlining our company. So, the key part of the strategy right up in here. It kind of gives us our baseline of how we operate. We want to be the premier title and settlement service provider.

I didn't say number one or have to be the biggest. We just want to be the best. And how we define best is best for our employees, best for our customers, and best of our shareholder. That's what guided us almost in all decisions. Also, it tells us how we'll deploy capital, by the way, very important.

We look at that and we say we like the space we operate in. We like the title industry a lot. It has good return potential. It has strong moats around it. And we like things around the title space. So, it's unlikely that we will deviate aggressively from that core space and deploy capital in what I would call new or adjacent verticals that we have no expertise in. I can never say never, but it's not likely right now. We like the return profiles of this company.

We also look at it every year and we'll tweak it ever so slightly every year. So, when you go down into the pillars, let's start right here, kind of everything is driven off of our title company, both U.S. and international. It represents the bulk of our revenue. It represents the bulk of our profit. So, everything we do there is to try to make the title company better, more efficient. We'll talk about this--that today, how we position the company for future changes in the marketplace and how we grow it.

But I should point out on growth, growth in an insurance company, you need to be careful. We've got a very stable market share, but we won't grow if we think it's noncompliant, nor will we grow if it's not profitable. So, everything that drives us is profitability too also going forward.

We'll spend a lot of time in the center column later today, but we continue to build out our databases aggressively. Two key issues here we're trying to achieve; number one, drive greater efficiencies in the title company. Number two, secondarily we can sell to third parties. But our data strategy is all about driving efficiencies in our title company. Everything else is secondary to that for us.

And then the third column over here is all of our other complementary businesses. Boy, over the last five or seven years we've done a lot of streamline these, get rid of things that we don't think we want to be in, that we don't want to have a competitive position in. And how we think about it there is, if we're not active, if we're not willing to invest capital, we ask ourselves why are we in that business.

And basically, everything either ties back to the title company directly or it has to use a common set of customers and we have to have some leverage back to the title company. Two examples, our bank, directly beneficial to our title company. We'll talk about that later. Another example using the common customer base would be our home warranty company. So, that's how we think of the businesses where we compete.

The section down at the bottom section here, always driving us is delivering long term value to our shareholders. We're very focused on that. Always have been, always will. We think that's one of our key missions for us.

How we think about capital, Mark will cover this in greater detail. But how we think about capital at the very highest level, first and foremost when we have excess capital after we've done everything and paid all our bills, those type of issues, we want to deploy it back into the company through CapEx if we can get a return on it. We want to keep investing in our business because we think it has the best possibility for a return profile going forward.

Second, we want to buy things but only if they fit our definition, fit our strategic value and we think we can get a return appropriate for the deployment of the capital. And third, excess capital deployed back to shareholders. I think most people know we've been a big dividend paying company. Over the last--since we've been public, we've raised our dividend seven times. So, we always look at dividends as an appropriate way to give capital back to shareholders.

This is a newer one. It's--and it came in over the last two years, innovation. We are running this company very effectively right now. And we think to get the next level of gains in the company, we really need to strive for innovative solutions to how we do things. So, we're pushing hard about it. We'll talk about it today.

Risk and compliance, we have very aggressive and very sophisticated risk management strategies in the company. We are a heavily, heavily regulated business and industry, and we always strive to do it the right way. And we also have a very sophisticated ERM structure in our company, so how we look at risk, how we manage risk throughout the company.

Then the last, kind of how I started already, I'll end with it, the people side of the business. It's really important that our shareholders understand this. Our people are our key assets. There's no question about it. Our number one asset is our people. We orientate around our folks. And sometimes this may frustrate some shareholders, but it's just the way our industry works.

And that is if we provide our people with the services and tools and options and the ability to have a successful career, they always, always take care of our customers. And then if we run the company collectively effectively, we'll take care of our shareholders. And that's just how our business works. People are the key asset.

That's basically the strategy. It's done a very good job for us. It's worked very well for the company. And again, every year we tweak it ever so slightly. Every year we may go in a little different direction. Every year we may emphasize a little different things as we go forward.

We also look at a strategy as a--much as a living document. We think of it--we craft it every year and we think of it as a two to four year document. And then every year we kind of tweak it a little more and we look out two to four years. That's our view of strategy.

So, moving back to the last five years, this upper chart up in here, pretty good revenue growth. We're growing at about a 4% growth on our revenue through a volatile market, by the way. And we'll talk about that later. So, good revenue growth; probably more impressive is our leverage on the business, 22% growth on our EPS. These are all GAAP numbers, by the way. We've really driven efficiency out of this company. We will continue to do that going forward.

The cash flows have been strong, a little volatile. Mark will talk about some of the volatility, things we've done with our cash. But we've got a 14% CAGR on our cash. And then last on the chart over here, we have a 13% ROE on the business last year.

A key metric for the company, many of our analysts focus in on this, and this is the title pre-tax margin. We're always looking to grow our title pre-tax margin. I should start that last year, even in a volatile market with refinances going down substantially, we still had a record pre-tax margin of 12.1% in the title company. And we'll talk later in the presentation how refinances really impact the company. It's probably a little misunderstood of their importance to us.

We operate in--we're operating in a good market, by the way, right now. And that's probably also a little different than some people may think. And how we think about is, since 2008--or specifically since 2010 since we've been public, this is the best mortgage market we've operated in. So, we don't really go back and look at 2003 or '04 or '05. It's really irrelevant to us. Since 2010, this is the best mortgage market we've been in, and we think '18 will be another good year and we're optimistic going into '19.

I've talked about it already. We've driven a lot of efficiencies out of the company. We've got a very favorable claims experience right now. Mark will cover that in great detail. And the other thing is we're really benefitting from rising short term rates driving our investment income higher. Now, I will point out in this chart, for us to continue to get the leverage in the business with the current markets, we need to execute on our strategic plan. We need to drive those efficiencies in the business for us to continue to grow our returns here.

Interesting--not to brag, but we've done well. I guess I'll say it that way. The blue line up at the top, First American. The darker line is the S&P. We've performed at a 22 plus percent return on the S&P versus a 16--excuse me, versus 16% on the S&P over this timeframe. Last year a real strong year for the company, up 58%. I'm sorry to tell everybody this. We will not do 58% every year. That is highly unlikely. A very good year, though, and the S&P was up 22% last year. We started off the year a little slow. We had a little negative performance on the stock. But I'm optimistic. It's a good market, and we are well positioned going forward.

So, that's kind of how we've been, where we've been. It's been a good five years. The company has done well over the last five years. So, let's kind of look forward. What's changing in the world and what are we excited about? This slide here is just to get everybody orientated what we're--kind of where I'm going to go and what I'm going to talk about.

So, over here, clearly we're operating in a changing interest rate environment, no question, and we'll talk about the impact. Up here, highest level, the real estate and the mortgage processes are moving to a digital solution, not overnight. It's a evolution, not a revolution. It will take time, but no question in our mind we're moving towards a digital solution. And then here, I spend a lot of my time down in here. A lot of emerging technology is occurring in the company that I'm very optimistic about, actually.

So, let's start. I'm now in the section down on that little--just to get you orientated, down here talking about interest rates and what's happening in our marketplace. After I don't know how many years or decades, we finally believe we're in a rising interest rate environment. It's happening to us now, right now. We see it. So, what's the impact to the company?

A very interesting chart, and let me explain it. The lighter blue line up here is the 30 year fixed rate mortgage, and the choppy line or the dotted line is our refinance orders. What's really interesting and no surprise at all, over many, many years if not decades, whenever mortgage rates go up, our refinance volume drops, a direct correlation. Whenever rates go up, refinance volumes drop.

But what's interesting right now is--what's happening is right over here. Big spike in rates, our refinance orders are flat. I can't tell--I can't predict the future, but it looks like to us the correlation is breaking down and we're probably getting near a trough in our orders.

We're running about 1,000 orders a day, 1,100 orders a day. We just typically don't see that correlation right there, so I don't know if it's a trough but it sure starts to feel like it over the last three or four months. We'll see. We'll see what happens. If rates go up considerably more, it may drop. But it's just interesting to see what's happening right now with the chart.

This is an interesting chart. It kind of shows our direct revenue and our refinance percentage of that direct revenue. If we were to show the chart back in '09, '10, '11, refinance was clearly keeping the enterprise moving and functioning 'cause it was such a predominant piece of the business. But over the last five years, you can see it's jumped from 20% to 10%, so it's volatile.

We had record margins last year. We were down to 11% on our refinance volume. So, it does not drive the profitability of the enterprise at all, and we're even lower than that right now. So, important to us; we'll take all the refinance business we can get when we can get it, but it is not what drives the enterprise.

Far more important to us is this chart here. What we've got going on here is our investment income in the blue line and then the Fed fund rate on the darker line there. And I think probably most people really don't get this one right now. You can see a direct correlation. As the Fed fund rate increases, we benefit from rising investment income. It's about--roughly 12 million annualized every 25 basis points, direct correlation.

So, the counter to this one would be it's great as long as we don't get long term mortgage rates moving too fast. If they go up considerably faster than where we are now, clearly it will slow down the market. But so far so good; very strong performance. We're really seeing the benefit of investment income right now in the company.

Probably the most important channel for our business, for our industry, and I would even argue probably for the economy to some degree is the health of the purchase market. And if you step back and think about it, if we have a strong purchase market, things are going well in the country. If we have a very weak purchase market, probably things aren't going so well in the country. Well, I will tell you we've got a very good purchase market now. Can it get better?

Yes. Probably will it get better? We think it will, but let's look what's happened over the last five years.

We've had 8% growth in our purchase revenue for the business, a nice CAGR on the growth. Probably the issue to focus in on is how the CAGR is created. Nothing is a surprise here. Everybody knows this in the room. But what we've faced over the last three plus years is really strong inventory shortages across--pretty much across the country, almost in all markets.

And that's a dynamic that--we would actually like to see this start to mitigate. We actually thought we would start to see it slow down a little bit and get a more normalized market in '18. That is not happening right now. Nationwide, we've got about a three, 3.5 month inventory of properties for sale. Probably a more normal market would be five or six months. So, we have inventories continue to happen--inventory shortages continuing to happen around the country right now.

The benefit we get is it drives our fees up 'cause the average fee purchase transaction is 2.5 times a refinance transaction. And so our ARPO, or our average fee per order, continues to accelerate. But I think it would be better for us and probably for the industry if we just saw a little less price appreciation and a few more transactions. Not in our control; we'll see how that plays out.

But the market's very similar to what it was in 2017 and '18. On that point, we've also grown. It's an interesting sign. We've grown over the years about a point and a half on transaction volumes. The first quarter of '18, we were up 3%. And I think year-to-date we're up about 2% year-to-date, so a little better than our historical average. Transaction volumes are robust, just not enough properties for sale.

I'm going to change gears now and look at what's happening in more of a global perspective of the world we operate in. It's really going towards a digital experience, but it will go to this experience over many years. It's not going to be overnight in any shape or form. We've got lenders moving in that direction. We have realtors moving in that direction. We're moving in that direction.

And the key thing on this slide, and we'll talk all about it, is we--oops. We sit right--I'm sorry, hitting the wrong button. We sit right in the middle of a transaction. That's what the title industry does. That's what we do in our direct operations. That's what our agents do. We coordinate transactions. We close transactions. We're the ones that coordinate with the lenders, with the real estate brokers, with the consumers, and we bring it all together to close a transaction. That's our value prop from a closing perspective.

So, what's happening going forward? Well, we think a few things are happening. Not only is it moving to a digital experience, which Chris will cover in much greater detail, it's moving we think, we believe and we're betting on this, that it'll also move to a faster experience. It's interesting right now. Our transactions to typically close a purchase order are around 50 to 55 days.

We believe--we don't know if this will happen, but we believe and we're tilting the company in this direction, by the way, that we think it could be possible to close down in the 30s. We think consumers would accept it. We know the lenders would like it. We think the realtors would accept it. The faster a transaction closes, the more certainty there will be of a close.

So, we're not the long pole on the tent right now to close a transaction, by the way. But our average transaction is taking about 50 to 55 days. We want to do everything in our power to be able to drive that shorter. And even if we're wrong, I don't see a downside. If we're ready to go in 30 days, I don't see a downside to that.

And so how are we doing that? And we're going to talk about it later in my presentation, but we're aggressively trying to use our information to drive greater efficiencies in the organization, number one. We couple that with advanced technology, advanced analytics, and couple that with our expertise in underwriting. These are key skill sets we have, how to do title, how to underwrite title, the information we maintain, and how we use that with the new technologies available to drive greater automation in the titling process. We are absolutely focused on automating a large portion of our titling efforts in the years to come.

The second thing we see happening is the digitization of a closing. And it's interesting right now, the timeframe, what's happening. We think all the parties will move in this direction, both the consumer, the broker, and ourselves, the title company in the closing. And why is that? Well, I think the millennial generation will definitely want something in the--in electronic form, no--format, no question. And we're working towards that direction.

Chris is going to talk about a product we've recently rolled out called a secure portal, which helps us really take first steps in that direction. It also helps deal with the risk of the transaction. So, the more we can digitize the transaction, the more secure that transaction becomes, the less suspect it is to wire fraud, and the more secure the communications are with all the parties. So, we'll talk about that later. But we really are excited about what's happening here, and we're leading the charge on these efforts.

Changing to the last section of this early grouping, I personally spend a lot of time here on all of these topics. And we just are really excited about what's happening from the emergence of new technology and how it can change our business. I think the possibilities are almost unlimited for us to continue to drive greater efficiencies in this business going forward. And this is--I said it earlier on a slide, the 12.1% margin on the title company. For us to get to the next levels, which we're focusing on, this is what we've got to use, some of these technologies.

So, I'll start down at the bottom here in no particular order, bots, robots, robotic process. Really two things we're doing here, both chatbots and we'll call them production bots. Kicked this off in a big way about a year and a half ago, and really what a bot is is we're going in and automating repetitive tasks. And in a company our size with as many tasks we have, we have a tremendous amount of things that are repetitive.

We kicked it off very quickly. We've got multiple IT teams doing this now. We have quickly over 100 projects going on. We've got 10 in production. I think that this will continue to pay dividends for us for the years to come where we will continue to drive the next level of efficiencies in the company. And it's pretty straightforward, and we're very aggressive at this ever--effort.

Up here I think has opportunity for the biggest change for the company, AI. We hear it all the time, AI or machine learning. Think of it this way. We're taking our datasets, which are the largest by far in the industry or our space we operate in, public record information. We're applying machine learning and AI against those datasets to drive better, faster, more accurate decisions with a better risk profile. That's what we're up to.

And I'll give you one example of many things we're working on right now, one example. And I'll get a little technical so I hope you follow me. If you don't, I can talk to you after the break. In our business, in our industry, one of the key components of our business, what we do on a title policy is we render a legal description, right? That's part of a title policy. If the legal description is wrong, we possibly have a claim. We have a problem for sure. The consumer potentially has a problem. We've got to deal with that.

Well, where does the title industry typically get its legal descriptions? It typically gets them off the last title policy issued. That policy is issued. We take the legal description forward. We look at it manually and we assume it's right. If somebody catches something wrong, they correct it. That's the way the industry has worked for decades, by the way. And it's worked well, but I believe there's a better way.

We also maintain millions, millions--actually billions of documents that have legal descriptions in them. We have millions of starters and title information in our own database. Legal descriptions are held in all public record documents. They're held in tax documents. And I could go on.

Why not, and we are, take our databases, scrub them with machine learning, drive them with artificial intelligence, and render a confidence score on what the highest and best legal description is bar none versus how we've always done it? That's just one example how we're going to use this to drive greater efficiencies in our company. And again, really high level; I could talk to folks afterwards if you'd like to go into more detail.

And then last but not least, blockchain, a lot of discussion on blockchain right now. I'm really intrigued by the technology. I'm just going to go right on record and say it is not going to displace the title industry or anything of that manner. But with--what I'm interested in is the technology, so a little background on blockchain.

It's really distributed ledger technology. It's an interesting technology. It's an interesting database technology that we are intrigued by. It's best for a nonphysical asset like cryptocurrency, by the way. It's best in a non-trusted environment, I should point out. We are the trusted environment. That's what the title industry does, by the way. We provide the trusted environment to transact for real estate across the country. We are one of the most efficient transaction industry--real estate industries in the world. That, again, is what the title industry does.

But with that said, where do I think blockchain could be interesting to us? Well, we've got a couple POCs, or proof of concepts going on. We're devoting resources to it right now simply because we want to have better expertise on the technology. We think that's important. We've got a couple going on. One is very small with a lender right now on a piece of a closing that we think the technology could be interesting. We've got one going on internally with titling information.

So, there are places and times where we think a distributed ledger technology could be a superior data technology for us, and that's how we're thinking about it. So, we look to blockchain and we say to ourselves, where could we deploy it and where could it benefit us, not that we're scared of it, okay? That's how we're thinking of all of this.

I'll wrap on this chart here, big efforts. I think the biggest change in the company will come out of AI over the next five years. Bots will drive efficiencies in the company. And we'll see ultimately where blockchain is deployed within our spectrum. That's kind of how we're looking to the last--we're looking out to the next five years, what's happening in our marketplace. So, let me kind of recap that.

Clearly, we're operating in a rising interest rate environment and what's the--what the impact is to our company. I've covered that. I've talked about emerging technology issues, the digitization of the close, the acceleration of the titling efforts and we'll lead and play in those spectrums. And we're talked about the emerging technology and how we'll deal with those issues. And we're excited about all of them.

So, when we look forward, I think we have some attractive growth opportunities. So, at the very highest level right now, let's just kind of break them down on our revenue side. We think we have a favorable market we're actually operating in right now. Purchase is strong in '18. We think that trend comes--continues into '19. Our commercial has been very strong for a number of years.

We actually expected it to trend down. I've been completely wrong on this one, by the way. I thought it would trend down starting in '16 and '17. I was wrong. And '18 is continuing to be very strong. So, we continue to have a very, very strong commercial market. And when I say trend down, I mean start to peak and start to move on a downward trend. We're not seeing that right now. That is positive to the company.

I've talked about it, but our investment income is becoming a greater and greater component of our profitability of the company as short term rates rise. And who knows if I'm right, but I think we're getting close to a refinance floor right now.

I've talked also that we're a very disciplined company from an operations perspective. We run a very efficient company right now, and we'll continue to drive for greater efficiencies. We haven't spent a lot of time, but our--if you look our claims history, Mark will cover this in greater detail, very strong performance basically from 2011 forward. We're running right around a 4% claim rate right now, and we--a provisioning rate. We think that's appropriate for '18. And again, Mark will cover that.

And so--and we're also--I'm going to just hit on this one last time. I really believe that the leveraging of data and technology not only can drive efficiencies and make our processes faster and more accurate, it helps us with risk decisioning in ways that weren't even possible five years ago. So, I think we can make different and better risk decisions going forward.

With that, I'm going to talk a little bit about our M&A strategy. Nothing really has changed here over the last few years. I've been very consistent, but I should lay it out for everybody so you understand again how we think about capital and specifically M&A. If we can't reasonably invest in the business from a CapEx perspective, our next most opportune thing we look to deploy capital is M&A, but we're very focused.

If you go back to that first strategy chart, it's going to be in the titling or settlement space or somewhere closely aligned with that for us to drive greater efficiencies in the company. Again, we are not attempting to go to what I could call new frontiers with our capital.

With that, we kind of focus in on a few key spots. Anywhere we can plug in some appropriate title agencies that help our direct, we will look at them aggressively. And we will try to do those deals if they're priced appropriately. All of our M&A, Mark does a great job holding us to this, have to be done with the appropriate risk-return profile. We need to make a return on our capital investment. We've got a few deals in the pipeline right now on that from that aspect.

The other things we look at are really twofold. I call it product extensions that either directly benefit the title company or build out against a common customer base, or any data asset that will allow us to drive greater efficiencies in our company. So, data assets or product extensions or title--what I would call tuck-in title acquisitions is our focus.

It probably goes without saying, but we really don't want to do a deal that--if it's not a strategic fit. It's very important to us. It's got to have the right return profile. And we will always--I can't imagine we wouldn't. We will always look to integrate all of the back offices on transactions.

I'll talk a little bit about the data businesses. I've kind of covered some of this already in my presentation. But when you hear First American say we have the largest collection of public records in the industry, I mean we have the largest collection of public records, bar none, associated with real estate. So, what do I mean by that?

We know everything about a property that we can find--that we can get. We know where it's on the face of the earth. We know its characteristics. We know how it's financed. We know how its tax statuses are, for example. And we continue to try to collect that as aggressively we--as we can because this is the engine. This is the core information that allows us to start to drive greater automation in the title business. With no data, the only way to search title is to literally use people to go to a courthouse, and now that's becoming rarer and rarer. The more robust our databases are, the more automated the process can be.

Specifically focused on here, we are the industry leader in title plants by far, but we're not as large as we'd like to be, actually. I'd like to get the coverage up here, right there, to about 80% of the population, and we're focused on that. And we're building plants differently than we used to. We're using very sophisticated extraction techniques, again AI, to extract the information off the public records to build our plants in a far accelerated way than we used to do it.

Last year we brought plants on throughout the Texas market, Houston and Dallas and other places. So, we look across the country right now. We look where we can expand. We also did a deal last year, or maybe a year and a half ago, of RedVision that helped us build out some of our data assets and our abstracting access--assets. And what it allowed us also to do is pick up 62 plants that are what--technical jargon, thin plants, but we're building them out to be a full, robust title plant. So, again, a big effort to build out our title plants going forward.

Why are we doing all this? Again, one more time. We're doing it all, all of it, to drive efficiencies in our titling process and render a better risk decision and, secondarily, sell it to third parties. The third party sell is very important to us, but it is not the primary driver for our data strategies.

Chris will cover this in greater detail, but another big effort for the company is to expand our offerings to our title agents. So, I should start straight up with we think the title agents play an absolute key role in our industry. They're our--key partners of ours. They are what are--that happens at a local level in many markets to close real estate transactions.

We think they will remain absolutely a key part of this industry going forward, and so our desire is to greatly tighten our partnership with our agents. And through that--back in time, a title underwriter primarily provided title insurance to an agent. We believe we can provide production, we can provide closing services, and one of our big initiatives is to provide some banking services to our agents.

We have a bank. That bank has supported First American's direct operation for a number of years. It drives great efficiencies in our company. It also lowers our cyber risk. We think many of those benefits can transfer to our agents. We kicked off a pilot late last year on this aspect.

And then finally, the reveal slide, if you will. We're changing our financial metrics or objectives for the company. Let's start with the pre-tax margin. The company historically over the last few years has said we want to run the title company's pre-tax margin at a 10 to 12%. Last year we were at 12.1. We raising that to 11 to 13%. Right now, again, we started the year with a record margin in the first quarter. I clearly think we'll be at the upper end of that range.

Mark will cover this in greater detail, but we give these numbers. They're not absolute. They're based on how we see the market right now, how we see our strategy initiatives. Now, if the market improves substantially, we think we can do better than this. But this is how we see the market right now.

The second thing, we're moving our return on equity from a 10 to 12 target to a 12 to 14. Mark, again, will cover this in greater detail. We're clearly benefitting from tax reform. And again, Mark will cover that in greater detail.

So, to wrap up, a strong track record of results over the last five years, really excited about the future five years. The markets are good. We have a lot of exciting initiatives underway in the company. And I think we've got attractive growth opportunities when we look forward.

So, with that, I am going to wrap up. I'm going to pass the clicker, if you will, to Chris Leavell. Again, Chris Leavell is the COO of the title company. And there you go.

Chris Leavell: Thanks, Dennis.

Dennis Gilmore: Thank you.

Chris Leavell: And thanks, everybody, for taking time out of your Friday to come join us for our Investor Day. We really appreciate your being here. As Dennis said, I'm Chris Leavell. I run the domestic title business, among other things.

The domestic title business is organized around three primary divisions, commercial, direct, and agency. The part of the business that I'm talking about today represents 76% of the gross revenue of the entire company. And over the course--well, since 2014, we've grown those revenues year in and year out.

You'll remember the pillars document. It's kind of in the background here on this slide that Dennis spoke to. It's the one that drives all of our decisioning around our strategy. The business that I'm talking about today is the pillar around which the vast majority of our strategic efforts revolve around.

We--our market share has been relatively steady over the last few years. We're a market leader in the market channels that we operate in. We're an industry leader. We have a national footprint and a trusted brand nationwide. We have longstanding relationships with our customers, including one that spans the entire history of the company.

Our three year track record on the Fortune 100 Best Companies to Work For is emblematic of a highly engaged workforce. Those levels of engagement translate into higher levels of engagement with our clients, which in turn translates into higher levels of customer satisfaction.

Our four year track record of having improved our core title margins year in and year out is directly tied to our efforts around improving our operating efficiencies. And as you hear me talk this morning, you're going to see and hear, probably to an annoying level, a thread of continuous improvement around our expenses and our margins, because it is one of our key focus. And I think it will always be one of our key focus.

So, these are our four areas of focus in the domestic title business, starting with continuing to expand our core title margins. At the epicenter of that effort, it's not rocket science. It's fairly straightforward. It's day-to-day blocking and tackling, but it starts with always and forever focusing on reducing expenses.

It also is focused on continuing to leverage our offshore capabilities in a more meaningful and expanded way. And I'm not talking about sending more. I'm talking about doing more in a more thoughtful fashion that is changing the economics of our business.

And lastly, Dennis touched on it, innovation. Innovation is going to be and new technologies are going to be the next frontier of our improving our core title margins. So, that is I think always and forever our number one focus.

Numbers two and three are related. Dennis touched on it in one of his slides. We have these great production capabilities. We have these great offshore capabilities. We've built out a customer service layer to sit over the top of that and provide those services to our agent customers, our agent partners. That's focus number two.

Focus number three is related. We call focus number two, if you will, our agent advantage platform. It’s where we sell production and back office services to our agents. It is also where we’re providing banking services, and we’re going to talk about that a little bit more today.

Focus number four is to digitize the close. Dennis touched on it. I’m going to touch on it in greater detail. But, we are off to a really good start. I’m excited to talk to you about this thing we simply call the secure portal and what it’s doing to transform our business.

So, those are our four areas of focus. Let’s start by just kind of walking through the various divisions and then talk about some of the things they’re doing to help transform the business. Starting with the commercial division, we cover 49 states from 45 offices, with just under 1300 employees. We have a 32% market share of the commercial premiums written. We have a variety of different customer types, most of which are listed here. And, in 2017, I’d like to point out that we did almost 700 million in gross revenue.

As I think Dennis pointed out, we have had a great run over the last five years, and 2018 is shaping up to be a really good year as well. Most major asset classes and geographies are still operating at a high level. Despite a decline in foreign capital, plenty of capital remains in the market. Like we saw in 2017, certain of the hotter markets are starting to--we're starting to show signs of fatigue. 2018 is showing some of those same signs. New York is a really good example of one of those overly hot markets that's showing signs of fatigue. Nevertheless, the market and our business are showing great signs of strength. So, we're on a really good run in commercial.

Now, I'm not going to spend a lot of time talking about the initiatives we have going on in our commercial division. But, I do want to make one comment. Dennis talked about the various technologies that we're investing in, that will help us drive growth and drive profitability in the future. Our commercial division gets credit for actually having rolled out the first robotic process. So, they were the first one to introduce a bot for a repetitive process, and it's really serving them well.

So, as Dennis said, we've got over 100 robotic process efforts underway right now. We have 10 bots live, and they're going to help drive efficiencies going forward, but it's really kind of interesting to note and a source of pride certainly for all of us, but in particular the commercial leadership team, that they've rolled out the first bot in our company. I don't think if you'd bet on that, that anybody would have guessed that necessarily.

All right, so, the direct division, it's our biggest division from a number of employees and number of offices standpoint. We have just under 5100 employees in this division, roughly 550 offices, covering 26 states. Direct represents 11% of our 26% market share, and we write roughly 29% of the direct premiums written in the industry. Our primary customers are listed on this slide as well.

Our purchase refi mix is very much in line with industry norms and everything that you've read. And, our direct division is where we're focusing on transforming the closing experience. I want to spend a little time talking about that.

This--and we're not going to go through every word on this chart, I promise you. But, this slide highlights the real estate settlement process as it stands today. The process starts, for us, when the closing package is opened and it ends for us when the final settlement is done and the keys are handed over to the consumer. I think the vast majority of us in this room have transacted personally in this space and I think we would all agree that the process is ripe for improvement. And, we're working on that.

While our teams have always worked on trying to improve that process, we're elevating our game and introducing technology that's actually starting to help. So, our emphasis now, for this business which is going to impact the direct division, is on going digital. So, where does it start for us? It starts for something--or with, rather, something that we call our secure portal. So, what is our secure portal? I said the process, the real estate settlement process, starts for us when the closing package is opened.

Now, when we have an order that we are ready to open, we call it escrow in western states, but open the order in our system, we now send an email to the consumer, inviting them to connect with us in our secure portal. In the secure portal, we go through a multi-factor authentication process to ensure that they are who we think they are. And, then from there, we exchange documents.

They provide us the documents they need to do to advance their closing. They acknowledge electronically the documents that they need to acknowledge and can acknowledge electronically. Importantly, we exchange wiring instructions via our secure portal. The criminals out there have done a really good job inserting themselves in email communication and misdirecting wires. This secure portal protects against that inevitability.

And, in addition, we've also--in addition to just kind of making the process make more sense to the consumer, we have improved productivity because the work now is being done electronically. There's no follow up calls. Everything is being done in a secure fashion, and it's improving our productivity.

Now, we just rolled this out this year. We're live in four states. We started in Arizona, rolled it out in Florida, Washington, and Oregon, and we aim to have this technology rolled out across the nation, at least for our direct division, which will be 26 states, by the end of the year. It is driving efficiency, it's driving a better customer experience, and it's the frontend of our digitization of the closing process.

Now, the next focus is on eClose, and so these next two areas that I'm going to focus on are underway, and they're underway not only within First American in terms of the technologies we're developing, but they're underway from a legislative standpoint as well. So, the definition of an eClose is one where documents are signed electronically and the notary either comes to your house or comes to the office and helps facilitate the signing process for the important documents. And, in certain states now, it's evolving to where you can actually do a webcam notarization.

Now, the laws around that are still evolving. We're waist deep in that process, that legislative process, and trying to make sure that the laws are written in a thoughtful fashion. But, suffice it to say that we are working towards being in a position to provide a thoughtful eClosing experience.

And, then lastly, we're working on a more broad digital closing effort. So, the definition, in our mind, of a digital close is one where all industry participant are involved in the exchange of information electronically. It's not just the realtors, it's not just the settlement service provider and us, but it's also the mortgage lender. That--we're a far cry away from that. There are certain industry participants that are making good progress on that front.

But, the way we think about it is in terms of the spectrum, 'cause we believe that ultimately the consumer's going to want choice, choice around how they want their settlement to go. So, you're still, I think, for the rest of, I think, the most of our careers, you're still going to have folks out there who want to do it the old fashioned way, want to come into your office, they want to sign the documents, and they want to walk out with a couple inches of paper.

On the other end of the spectrum, you're going to have people who are perfectly comfortable with a fully electronic close, where they never have to see a human. And, then there's going to be hybrids in between. We're building for the entire spectrum, but for us, at least for the foreseeable future, and I define that as the next, say, three to five years, providing hybrid solutions for us is the key. We're working on it, though.

And, the progress that we're making with the secure portal has us very optimistic about our position in the marketplace. We feel like we're the only--based on what we know about the marketplace, we think we're the only underwriter with a secure portal, and we feel like we're on the forefront of transforming the closing experience for the customer and we're investing in that future.

So, that's what's going on in the direct division. In the agency division, our agency division is our biggest division from a revenue standpoint at 2.3 billion, covers 49 states from 65 offices and just--with just under 800 employees. It represents 15% of our 26% market share, and we write roughly a quarter of all the premiums written by--in the agency space is done by our agency division. Customer base is listed here.

Now, this is going to seem counterintuitive, so I want to explain myself. We have been on a five year--at least counterintuitive for a company that is focused on growing and growing in a thoughtful fashion. I guess, thoughtful fashion is the undertone here. Over the course of the last five years, we have actually reduced the number of agents that we do business with by almost 20%. So--and we've done that for a couple different reasons, not the least of which is we want to improve our risk profile with certain agents, but maybe more importantly, when you really kind of delve into the list, we really need to make better economic sense of this division.

Now, the agency business and the economics of our agency business have improved over time. But, as we've thought about it and as we've managed it more aggressively, we've come to the realization that there are certain agents that we probably just shouldn't be doing business with. And, an example would be if we have an agent in a particular space that's doing a couple hundred transactions with us a month, the economics of that relationship make a heck of a lot more sense than a competitor in that same space who's doing 10 a month.

Why? Well, primarily because the cost associated with managing that agent, and the risk associated with that agent, and the requirements that we audit those agents on a recurring basis, at some point, it just doesn't make economic sense. So, we have been driving down the number of agents we do business with, which is improving our risk profile and obviously improving our profitability. And, yet, we've grown our revenues.

How have we done that? We've grown it by getting closer to our existing agent base. We've grown it by doing more business with large commercial agents, particularly here in New York. And, in addition to all of that, we continue to work on improving the economics of our western states agency business. So, we're making a lot of progress just in the core blocking and tackling of our business and it's showing in our results.

On the innovation front, or on the growth front, take your pick, we have built a more thoughtful customer service layer that sits over the top of our production and back office processing capabilities. And, we're aggressively growing that offering with our agents through our go to market platform, which is called our agents advantage platform.

Embedded in that now, and we're just rolling this out now, so it's early stages, is the offer of banking services. Dennis mentioned that we have a bank. It happens to historically of had one customer. That's First American Title Insurance Company. And, we're now--but we're very good at serving ourselves from a settlement service standpoint, and we're now exploring and experiment--more than experimenting, we are rolling out and evolving a banking capability with our agents.

What does that do? Well, it does a few different things. For us obviously and from a revenue standpoint, it generates the income and it increases balances. But, maybe equally if not more importantly, for the agent, it makes the transaction make more sense. It makes them more efficient. I can speak to one of our western state agents who is doing banking with us, where historically they've had to rekey data from their operating system into the banking system. They no longer have to do that.

That's reduced the number of employees they need in that space from five down to three. They've reduced the opportunity for keying errors. They've reduced the opportunity for fraud to be entered into the equation, and it's made them more efficient. We're still working through the kinks, the idea of serving multiple customers when you're accustomed to serving one that's kind of captive, is new for our group, but we're doing a really good job evolving that. And, this is going to continue to be a strategic area of focus for us. To our knowledge, we're the only underwriter with a bank and we see this as an opportunity to grow the business.

So, from a company standpoint, I mentioned this when we talked about our top proprieties, expense management will always, I think and forever, be a focus of our company. The manner in which we're improving the economics of our business is changing and becoming more technical. But, we're doing a good job.

Our leadership team is very adept at managing expenses and managing to existing volumes. And, one of my favorite things that the leadership team has come up with is a seasonal workforce. So, when you think about our business, you know the seasonality of our business.

You know that traditionally, from sort of May to September, we have more volumes than in the other months.

Historically, the industry has hired temps. Temps are inefficient. Temps are expensive, they're hard to train, they're hard to bring up the curve. And, so we've rolled out this seasonal workforce. It started small, but it's growing in size. And, the seasonal workforce isn't rocket science.

You know what a seasonal workforce means, but the traditional worker that is in our seasonal workforce pool is a retiree. It's somebody who's already trained. It's somebody who's, for the most part, already worked for us. They're coming off the retirement sideline to work for us for a handful of months or a few months, make a couple of bucks, do so in a very productive way, then go back to being retired.

It's really helping us manage the ebb and flow and it's improving the economics of our business. We feel like our offshore capabilities are second to none in the industry, and we continue to evolve those offshore capabilities, and we're going to continue to leverage those capabilities.

The profitability of our agency business is obviously a big focus. It will remain a big focus. But, future margin expansion is going to come from innovation. It's going to come from a lot of the technologies that were mentioned earlier, and I know we touched on it a little bit earlier, but we are also looking to automate title in a far more thoughtful fashion. And, I'll be repeating myself if I get into a little bit--or repeating Dennis, I should say, because he touched on it pretty well. But, suffice it to say, we're trying to automate title.

Last slide, we feel like we're a strong franchise. We feel like we're a focused franchise. We feel like we're doing a good job for our shareholders. I know we're doing a good job for our customers and our employees. We're keenly--to belabor this a little bit more but it's just a thread that runs through everything we do. We're keenly focused on expense management and ultimately continuing to improve our margins.

We're obviously investing in the business. We're investing from an innovation standpoint. We're investing to improve the overall closing experience, and I feel like we're on the right track. So, with that, I'd like to turn it over to Craig so we can start our next round of Q&A--or first round of Q&A.

Craig Barberio: All right, we'll now take your questions. Let's try to keep the questions focused on the material just covered. We'll have another Q&A at the end of the day. We have a couple portable mics coming around. So, just raise your hand and the mics will go to you. Please state your name and firm for the transcript.

Geoff Dunn: Thanks. Geoff Dunn with Dowling. First, Dennis, with commercial, what's the difference versus what you were expecting to slow down the market?

Dennis Gilmore: I've stopped predicting, number one. What is different is I just thought the market had been so strong for so many years that I would just expect the market to start to peak in the

'16/'17 timeframe, and it just hasn't. So, there's really nothing different. The market just remains very strong.

Geoff Dunn: And, then on one of the slides, you pointed out that Houston/Dallas are one of the areas you want to expand.

Dennis Gilmore: --I'm sorry?--

Geoff Dunn: --Houston/Dallas, you want to expand the title plants. If the SDC Fidelity merger goes through, I assume you've been able to evaluate the concentrations in those markets. Is asset disposition something you could take advantage of if that occurs to build out those title plants? Are you already too concentrated there?

Dennis Gilmore: Just as a general statement, if there--if the deal is approved, and if there are dispositions and assets, we'll take a look at them. So, I would say we're not too concentrated anywhere.

Jason Deleeuw: Jason Deleeuw, Piper Jaffray. Thanks for taking the question. Might be jumping the gun a little bit, but the title insurance margin and ROE objectives, you did 12% margin this--or in 2017. Consensus has got you pretty much at the high end of that 11 to 13% range for this year. And, it seems like we're going to probably keep growing a little bit with the volumes. Why not have a higher high end range on the margins in the ROE? Is there anything that we should be thinking of, like investments and the technology, or is it just kind of some conservatism, or just a little bit more color on that.

Mark Seaton: I'll start with that one. This is Mark Seaton. So, as you pointed out, last year we had 12% margins. We're talking about 11 to 13% margins is the target. And, if you jump into the gun a little bit, when you look in the back, we say we'll get 11 to 13% margins in a market that's 1.4 to 1.8 trillion. And, right now, if we look at the MBA, the MBA is projecting 1.6.

So, we're kind of right in that range. Now, so far this year--last year, we were 12% margin. So far this year, we're up 40 basis points over that. And, we fully expect this year, we're going to be at the high end of that 11 to 13% range. That's our expectation. Can we do better than 13? Yes, we can do better than 13. But, a few things would need to happen.

The sources of our margin improvement going forward are going to be different from the sources that we--how we got here in the first place. We used to have 30 accounting centers and now we have one in the US. We used to have 30 data centers, now we have two. And, I can go on and on and on.

So, how do we improve our margins over the 13? Well, the first thing is we would need a little bit of help in the market. And, so we say, later in the deck, that we can get higher than 13 if we're in a market that's 1.8 or higher, which we're not too far away from right now.

The second thing is investment income, and if the Fed continues to raise rates, that really falls to the bottom line and helps our margin. So, that's the second thing. And, the third thing is just to execute on the strategic objectives that Chris and Dennis talked about, whether it's using technology to lower our expenses or whether it's growing the top line through data or agent banking or gaining market share.

So, we think we can, but we need a few things to happen.

Bose George: Bose George from KBW. Can you talk a little bit about the market share and growth opportunities, especially with the Stewart/FNF merger happening, fallout from there, how you see that over the next couple of years?

Unidentified Speaker: Well, I think--I guess for starters, the opportunity--well, it's going to be somewhat mechanical, I think, out of the gate. When I think about the customers of Stewart and wanting to distribute work, a lot of our agent customers will distribute work in a fairly even fashion. The--most of them are pretty diversified in terms of how they pick their underwriter.

There will be a rebalancing that happens, I think, fairly early on. And, then it'll be more of a, sort of a general customer acquisition game. So, I--but, I think about that first phase will be a rebalancing. In the agency space in particular, there's going to be a rebalancing of how underwriters are--well, how it's shifted around.

Unidentified Speaker: And, I would just add--again, I can't comment if the deal will close or not, but right now, we have, as you would expect, have had an active campaign of recruiting Stewart employees.

John Campbell: Thanks. John Campbell with Stephens, Inc. So, clearly, you guys have the largest property records database. You want its own CoreLogic, you want maybe monetized that same database in a much greater extent. At what point do you just make the decision to reinvest and create a CoreLogic 2.0?

Unidentified Speaker: We have--so the question is at what point do we recreate CoreLogic? We have no intent or desire to do that. Again, our strategy on data is to--it's the core of the title industry, or the title business, that we think drive the automation. The secondary benefit, like I said, though, we'll be selling to third-party opportunities, and we do quite a bit of that right now.

But, the driving decisions, the driving ability, now in new databases or new data fields or new data content, is all with the view of driving efficiencies in the title company. So, it's not our strategy to "recreate CoreLogic."

John Campbell: And, then second question, on the secure portal, that seems pretty interesting. That's, I guess, the kind of industry first. Are you creating an ongoing relationship with that consumer or is there greater ways to monetize outside of the title business as well?

Unidentified Speaker: That's a great question. We have, for a long time, asked ourselves that question about how we maybe create stickiness there, and we're really not focused on it at the moment. We're really focused on trying to roll out that portal and then build out the capabilities. It's a--from my perspective, it's a delicate conversation, 'cause that customer, while they're kind of becoming our customer, they're really the realtor's customer.

And, we're very much in alignment with the real estate brokerage community in terms of who's responsible for what, and we see ourselves as a good partner in that space, such that crossing the line that you're suggesting would be maybe just that, maybe crossing the line. So, for now, it's always a question, it's something we've always talked about, but it's something that we're just not going to do right now, because we've got so much more work to make the settlement process make more sense, and do so in partnership with. And, we see them as good partners. So, I--we would be crossing a line, I think.

Unidentified Speaker: I would only add that's our view specifically from the US title. From the data businesses, we do have opportunities to continue to have an ongoing relationship and from our home warranty company. Larry's very focused on ongoing relationships with the consumer. So, we have kind of different views, how we look at the company, from different perspectives.

Ryan Burns: Ryan Burns [sp] with Serbear Capital. [sp] Just have a quick question on pricing dynamics. We've seen post-tax reform, we've seen the mortgage insurance companies kind of proactively compete away, or price away, the tax benefit. And, then on the property casualty side, some of the states have pushed back on price increase, or price--push our price decreases in worker's compensation policies. And, just wondering how the dialogues with the states and is pricing ultimately a pre-tax or after tax metric that you guys look at with the regulators.

Unidentified Speaker: Ryan, I'll start with that one. We haven't faced the same issues that the MIs have faced in terms of pricing. In the last couple of years, we have raised rates, title and escrow rates, in several states. We've kind of cooled that process off right now. But, we're not seeing any kind of broad based pressure lower rates from the regulators.

We have very constructive dialogue. I think more and more, the regulators are asking for actuarial justification when we go into rate increases. But, we are not seeing any kind of a broad based pressure to reduce rates of any kind.

Unidentified Speaker: Okay. And, Mark, on the pre-tax, post-tax?

Mark Seaton: And, the reg--different regulators look at different things. But, the vast majority of them--and I can't think of one, but the vast majority look at things on a pre-tax basis, at least in our business. They're not really looking at things on an after tax basis. So, they might look at our claims experience, our expenses, our pre-tax margins. But, by and large, they're looking at pre-tax.

Jason Deleeuw: Jason Deleeuw, Piper Jaffray. When we think about the tech investments and getting the closing time to be reduced from 50 to 55 days, down to something in the 30s, how should we think about the economic impact to First American? So, first, on the revenue, is this going to drive market share? Are there opportunities for price increases? And, then on the expenses, what about--is it cost saves primarily? And, then maybe lower claims. Just kind of help us think about the P&L impact.

Unidentified Speaker: Can I--I'll start with that. I mean, I think the main driver initially is going to be efficiencies. It's what we're seeing already with our closing teams in the States, where we rolled out the secure portal. Effectively, what's happening is the workload is shifting from our closing assistants to the consumer, and the consumer's fine with it. And, it's way more efficient, it gives us--it gives those employees more time. We're going to have a 26 state waive associated with that.

Now, not all consumers necessarily want to connect with us via the secure portal. But, to me, that first phase is going to be in the economics of the relationships, which should improve the economics. We're also protecting against fraud, and that's a big thing we face, really, every day, is criminals trying to hijack the wiring effort. So, I really kind of think of the first couple year phase is being improving the economics.

Unidentified Speaker: So, I'll just add, Jason, that it'll be all incremental. Back to your earlier question, too, we do not anticipate any material change to our CapEx to fund these activities. So, it's part of our run rate right now. But, all of these issues will be incremental and they'll play out over time. I think what you'll see, actually, will be as we bring great automation to the titling process, our titling expenses will go down. We'll probably increase the ability to sell to our agents also, to our third-party agents. So, I think it'll--but, it'll play out over a number of years. It will not be anything quick.

Unidentified Speaker: Any other questions out there? Going once, twice. We'll have another session at the end of this today.

We're going to take a break now. Why don't we start up--let's see what time we've got. Let's go ahead and start up directly at 10:45. There's snacks out on the foyer there. Help yourself, and we'll have some discussions as well. 10:45, we'll start back up. Thanks.

[Break]

Craig Barberio: If everybody could start to take their seats, we'll get started here. Our next speaker is Larry Davidson. He heads up our specialty insurance segment. Larry?

Larry Davidson: Thank you, Craig. I'm excited to be here, talk to you about our specialty insurance group. Our specialty insurance group is First American's property and casualty business and our home warranty business.

As you can see by the slide, this is a group that's had consistent growth over the last five years, and most of that growth has been driven by our home warranty company. The revenue for the segment represents about 8% of First Americans overall revenue, and within the segment, the P&C business is 25% of specialties revenue, home warranty is the other 75%.

So, I'm going to talk about both businesses, and we'll start off with the P&C group. P&C Company is a western regional underwriter, where 83% of our premiums are standard home owner insurance policies. We write home owners in six states, all western, and we're pretty heavily concentrate. 97% of our premiums are in three states. They're in California, Washington, and Arizona.

The main way we get business, we get it really two ways. One is through our title company's closing process. When someone's closing on a transaction, we get notified of that lead early. We're able to quote it early in the process. It's a very efficient way to sell insurance, and it's at the right price, good acquisition cost for us.

The other way we get business is through independent agents and brokers out in the marketplace. In addition to those six western states where we do home owners, we do write renters insurance in 47 states. So, the P&C industry, any P&C company, the primary driver for financial success is claims. It's claims, claims, claims.

The entire P&C industry 2017 was negatively impacted, and that's an understatement. There were a historic number of cat losses in 2017 around the world, but in the US. So, think Hurricane Irma in Florida, Harvey in Texas. And, then you talk about California, largest wildfires in the history--in the state's history in terms of loss. There were somewhere near 10,000 homes completely destroyed in California.

So, for us, the good news was that we have no home owners exposure in Florida or Texas, and that's purposeful. We've stayed out of those states for a reason. But, we did incur losses in both the northern and southern California wildfires. And, in both cases, we hit our 5 million cat loss reinsurance limit.

The other thing we look at is, what's our market share in the state? And we felt somewhat fortunate--is looking at what market share we have in California, have implied a much larger loss than we experienced.

But, the other thing that happened in 2017 is we had an increase in our non-cat losses, our core loss ratio, and so we've been very aggressive to address that. And we've either increased our rate, or we're in the process of increasing it. In all six states we underwrite homeowners. But, the other thing we've done is we've strengthened our underwriting standards. And I'll hit a little more on that in a second.

Priority simple for this business for us--we want to improve the profits. We had a rough year in 2017. We strengthened the underwriting. It's not just on the new business that we write. But, every time a policy is up for renewal we're looking at that and determining if we want to stay in that risk. And so, that underwriting has been clamped down. We're raising rates to up the margin, and our priority is really margin and profit right now. It's really not top line growth.

Transitioning over to our home warranty company, Home Warranty Company is First American's largest non-title business. And, as tough a year as we had in the P&C business in 2017, the Home Warranty Company last year had historical highs in revenue, pre-tax profit margin, and profit dollars--very proud of what they were able to do.

But, just what is a home warranty? Home warranty is a one-year service contract that covers the repair or replacement for major systems and appliances. We sell these home warranty contracts in 35 states. We manage five call centers, we have over 700 domestic employees. And where the real heavy lifting goes is we manage a comprehensive network of nearly 3,000 contractors to fulfill that obligation we have to repair or replace.

We market home warranties a number of ways. We market to existing homeowners, so these are people who are not involved in a transaction. They are just minding their own business, owning their home. We sell in a transaction to homebuyers and sellers, and we sell to real estate agents and brokers. We enjoy a number two market share in this space in the U.S., and we are pretty heavily concentrated in our top five states. The top five states represent two-thirds of our business.

In terms of the industry size it’s approximately a $2.2 billion industry, and we really like our growth opportunities in this business. We have grown. We think it’s got great potential, but it’s a low penetrated market. There’s a fact out there that less than 5% of existing homeowners have a home warranty, so it’s a low penetrated market. There’s a lot of opportunity.

If we look at our earned premium of $312 million, 36% comes from real estate, 8% direct-to-consumer--that's the business we sell to the existing non-moving homeowner--and then 56% is our renewal book. So, we get new customers two ways, through the real estate transaction, or we sell to existing homeowners through our direct-to-consumer DTC efforts. Then, our focus shifts to renewing those customers on a long-term basis.

The real estate channel is the channel that started our business in home warranty a little over 30 years ago. And that business renews. And renewals are the key to the business, the renewal, retention model. They renew at 21%.

The subsequent renewals renew at over 80%. So, you might say, why such low renewal rates in that first year? Well, it's really a function of how the customer transacted in the first place. What typically happens is a seller of the transaction pays for the warranty. The buyer of the property is the recipient of that home warranty. So, when it comes up for renewal, we're essentially selling them for the very first time. After that we got them. We renew at over 80%.

The next channel direct-to-consumer to the non-moving homeowner--eight years ago, roughly, we launched our direct-to-consumer efforts. And that business has steadily grown ever since. It enjoys a 73% renewal rate immediately. And then, finally, the renewal book. It's our largest and most profitable by far, and it consists of the real estate and DTC that we've renewed.

As you can see by the chart we've had some nice growth, 10% CAGR over the last five years. And if you look back to 2010, home warranty business, the entire revenue of the book, has doubled since 2010. And we think, and really have every reason to believe, that we can continue to grow this business.

Currently, the direct-to-consumer business--it represents 25% of our entire book. And that's a--it's been a driving force for our growth. But, that's a book that didn't exist eight years ago.

Let's talk a little about direct-to-consumer. It has been that key channel behind our growth. I already mentioned it's a low-penetrated market. Less than 5% of homeowners have a home warranty. What I like about the business is that we do not have to depend on a real estate transaction to get a sale. And so, that can withstand up-and-down real estate market cycles. So, we're selling it to the folks outside of a transaction.

And we get interest in home warranties in a variety of ways. We utilize a lot of different marketing campaigns. You may have seen a television ad of ours. But, we use standard media, doing TV and radio. We're very active on the Web. We use search engine optimization, search engine marketing. We buy partner leads. And we do some old-style direct mail, direct marketing. We use e-mail, and we do telephone campaigns as well. The big focus is on the

Web. That's where we get the most cost-efficient leads. It's where we get the most leads. And it's where we have the most opportunity. And so, we're going to continue the focus with our web-based-driven direct-to-consumer efforts.

As you can see, there are some puts and takes with this business. The direct-to-consumer business has a slightly elevated first-year claims cost. Customer acquisition costs have to be watched very closely. But, those things are really offset and outweighed by the high renewal rate and the lifetime value because when you think about our DTC business, the life of a direct-to-consumer lasts an average of four-and-a-half years versus 1.7 years for a real estate-transacted home warranty, so we really like that aspect.

Let's move on to technology. Technology--we have been busy deploying technology to make things easier for our customers to transact with us. As we all know, our own expectations, our customer's expectations, keep changing. And they keep changing, and they're rising. Their expectations are very high. And so, creating a digital platform for our customers will not only meet those expectations, it's going to enhance their experience. It will improve the chances that they stay customers long term with us. And the good news for us is it creates efficiencies for us that really create scale, so we can continue to grow the business and maintain profitability.

A lot of the technology that you see here we've already deployed that connects the consumer with our contractors and the company, and we want that to be done seamlessly. What we're really embarked on right now is something we're calling our omnichannel initiative. An omnichannel--what that's all about is allowing our customer or our contractor to deal with us on any device they choose. They can choose their telephone, smartphone, web, text. And this is all about having the exact, same experience for our customer, regardless of the device they choose. And we think that will lead to a more satisfying, streamlined, long-term relationship for the contractors and the customers. In fact, we know it will.

The strategy for home warranty is to keep driving the technology. It's going to improve the customer experience but also our company and contractors' efficiency. We will remain focused on our service delivery. And it's an ongoing effort to continue to build and fortify our network of high-quality contractors. And we're really excited about the growth in this business and the opportunities it presents--so going to keep driving our acquisition channels, both in real estate and direct-to-consumer, and keep feeding that renewal book that's going to lead to continued growth and profitability.

With that, I would like to turn it to Mark Seaton, our CFO.

Mark Seaton: Thank you, Larry, and thanks, everybody, for being here and taking an interest in First American. So, I'm going to talk about a few topics. First is our capital management strategy--go into more details on that. I'll go into a little bit of a deeper dive on our financials, and I'll talk about our claims experience.

So, first capital management. So, our financial objective is to create long-term shareholder value. That is our first and foremost financial objective. We're trying to grow revenue, we're trying to improve our margins and earnings per share, we'd like to raise the dividend. But, more important than all of those, we want to create long-term shareholder value. That's the most important thing.

So, how do we do that--obviously with our strategy and operations that we talk about. But, we also do that through our capital management. So, what are our priorities? Our number one priority is that we want to make value-creating investments in our core business. That's our number one priority. We've talked a lot about data and technology today, so we want to continue to enhance our competitive advantages, and that's our number one capital priority.

Our second priority is we want to acquire businesses that fit within our core strategy. And there's really two broad conditions that need to exist. The first is a target has to be strategic. It has to fit within those three pillars that Dennis talked about. There's got to be some reason why it's part of the First American umbrella. And the second is we have to get a good price for it. If those two conditions exist, we'll look to deploy capital through M&A.

So, at the end of the day we're trying to invest as much as we can in our business, either organically or through M&A--as much as we can responsibly. But, the reality is that the company generates more cash flows than we have opportunities, and that's why we pay dividends. And so, we--our third priority is to return our excess capital to our investors. We do that primarily through dividends. Sometimes we do that through share repurchases, which I'll talk about in a few minutes. But, that's our third priority.

We also want to maintain A- financial strength ratings. It's very important for our commercial business and for our international business, so it's very important for us through the cycle, not just in the high parts of the cycle but even in the trough. We want to have A- ratings. And, and we want to maintain ample financial flexibility and holding company [sp] liquidity. I'm going to go into each one of these in more detail here.

So, this is a chart of our capital expenditures, and you can see we've been growing in the last five years. We spend about $40 million a year on fixed assets, so computers and servers and tablets, hardware--about 40 million. The rest of it, about 90 million or so, is really on data and technology to, again, help fortify our strategic positions in the industry to help advance our competitive advantages.

So, we do that through customer facing technology that we're investing in to make it easier for our customers to do business with us, to improve our customer experience. We have a system called FAST [sp], which is our production system. All of our escrow officers and our title production people go onto our system FAST every day to produce our orders, so we want to make sure that continues to be the best system in the industry, so we invest in that.

Dennis talked about expanding our geographic title plan coverage. So, we want to automate the title production process, and we can't automate it unless we have the data in those areas. And so, we want to continue to build out the breadth of our title plans. And we also invest in our property record database. So, this is our number one priority.

In terms of M&A, you can see we have listed here every acquisition we've done in the last five years. It's over $5 million. And I'm not going to go through each one of these. You have the details here. But, all of these acquisitions fall within two broad categories. They are either title companies, which is obviously our core business, or they are complementary businesses that aren't title companies. But, they get--they either get strength from our core title business or they help supercharge our core title business. And you can see the total spend there on the right. The last two years we spent about $100 million or so on acquisitions. This year in 2018 we think we'll spend at least that much, based on the pipeline that we have.

So, again, this is an area that we really want to deploy capital in. There's two broad areas that we're looking to invest in. One is, again, title companies that just strengthen our geographic presence. We've always done those, and we'll always look to do those. But, also we want to look at companies that enhance our product breadth, too. We analyze the return on a risk adjustment basis--the riskier the transaction, whether it's key man risk or market risk, that's a higher return we would expect. And we also aggressively integrate the acquisitions [unintelligible], whether it's HR, IT, or accounting--what it might be.

So, in terms of dividends, dividends are very important to us. We feel like we need to pay a meaningful dividend to our stockholders. That's a key part of our capital allocation strategy. You can see the graph on the upper left here is our dividends per share, going back the last five years. And we could have taken it back even further, and it would still show the same graph. We have been raising it fairly aggressively. Last year we paid $1.44 per share for every dividend in our stockholder zone. Our run rate is actually $1.52, so we raised the dividend 12% last August. And so, when you look on a run rate business, it's actually $1.52.

Our payout ratio is on the bottom left there, and you can see where really it stayed under 40% payout ratio in terms of dividends as a percentage of our earnings. We made the strategic decision probably about four or five years ago to really double the payout ratio. So, historically First American has paid about 20% of our earnings in dividends. And now it's close to 40%, as you can see. So, we thought that was very important to us.

So, a few thoughts on the dividends. Again, we want to pay a meaningful dividend. We have very attractive growth opportunities. But, since we have more cash flow than we can really invest responsibly, we pay dividends. We need to pay healthy dividends. Once we raise the dividend, we want to maintain at least that level in perpetuity. We don't want to have to lower the dividend. Even if the market turns, we don't want to have to lower the dividend. And so, those are some of the things we think about when setting the dividends.

So, in terms of like our future outlook for the dividends, we look at the market, we look at our ability to get cash as a holding company, we look at alternative uses for that capital. But, I think as a general statement, if our earnings continue to improve, and they have been so far this year, and we feel confident in our ability to maintain those earnings, we're going to look to raise the dividends. It's a key part of our allocation strategy.

In terms of share rate [sp] purchases, obviously this is another way we can give capital back to our shareholders. You can see our--on the upper left there is our stock price. The last time we really bought back shares of any meaningful amount was back in 2013. Back then we bought back 3 million shares for $65 million, and at the time that was actually more than our annual dividend. So, it was a material amount back then. Now, in hindsight we wish we would have bought back two or three or five times as much back then. We've gotten a 26% return on that investment that we made, so our shareholders have done well.

Buybacks are a part of our capital allocation strategy, so just to give a few more comments on this. We're not going to buy back shares just to hit some consensus EPS estimate for a given quarter, and we're not going to buy back shares just 'cause we have nothing better to do with the capital. We're going to buy back shares when we feel like it's going to be a good investment for our stockholders. We think about it just how we think about M&A or capital expenditures or dividends. We look at it on a risk adjustment basis. So, it definitely is part of our capital allocation strategy. We have got $182 million remaining under our share [unintelligible] purchase authorization.

We want to outline for our investors where we've spent our cash for the last five years, and that's represented by this doughnut graph here on the upper left. So, over the last five years, when we look at our free cash flow, 21% has gone to acquisitions, 29% has gone to dividends. The red slice there is our pension, 4%. We shored up our pension and terminated [sp] our pension plan, so that was 4%. And then, 3% was [unintelligible] purchases. The biggest bucket here is cash and investments. Forty-three% of the cash flow the company has generated over the last five years has gone to our investment portfolio.

So, why did we do that? Now, the last time we had an Investor Day three years ago we outlined this. But, we called it--we had a project called the Restack Project. And so, really, going back, and if you look at our history, we have our holding company. And then, we have our primary title insurance underwriter, which is called First American Title Insurance Company. I'll call it FATICO for short. So, we have our holding company, which owns FATICO, and then we had--underneath FATICO we had all of our cash flow paying subsidiaries through our home warranty business and our data businesses and our bank. And many subsidiaries were owned by FATICO.

And so, really what we have done is we have moved all those subsidiaries out directly underneath the holding company, and we've replenished that capital with primarily fixed income securities. So, this has really given us two big advantages. The first thing is we get a lot more cash flow up to the holding company by doing a structure. And we would not have been able to raise the dividend as substantially as we have unless we did this restack project.

And the second thing is it has really increased the quality of the capital at FATICO. So, a couple points I'd make on this slide--we think about, how is this doughnut chart going to look going forward the next five years? Where are we going to spend our cash flow the next five years? There are some things we know, and there are some things we don't know. We don't exactly how much is going to be to acquisitions or how much is going to be to shared [sp] purchases 'cause those are very opportunistic activities.

But, we do know that we're going to spend more on dividends, going forward. As I mentioned earlier, our payout ratios are close to 40%. Since we have been raising the dividends so substantially in recent years, just going forward--we know that more of this is going to be in dividends going forward than it has in the past.

The other thing we know is we don't have to invest in our investment portfolio, going forward. Our balance sheet is as strong as we really want it to be, given a company of our size. We can grow premiums 10, 20%, and we don't need to incrementally add to the portfolio. So, if we do, it's just a temporary parking spot until we can use that capital for more value-creating activities. So, that's a little bit of how we think about, you know, our go-forward cash flow uses.

There's a lot of numbers on this slide, but I'll walk through this fairly quickly here. We wanted to give investors a little bit more transparency on how we think about our excess capital. And we think about it in terms of three buckets. We have our cash as a holding company, we have our excess surplus at FATICO, and then we have our debt capacity. There are other sources of excess capital, but they are--in other offering subsidiaries, but it's fairly immaterial, since we're trying to get as much cash to the holding company as we can. And this is how we think about it in our management reports and how management thinks about it. This is exactly our methodology. So, let me walk through this real quick.

In terms of our cash as a holding company we want to have enough cash to fund one year of cash outflows, so our dividend, our interest payments. We want to have one year of cash as a holding company. And that excludes cash that's earmarked for tax and benefit accounts. So, it's not a hard-and-fast rule. Sometimes we're higher than that target, sometimes we're lower, but generally speaking we want to have a target of one year in cash outflows.

In terms of surplus at FATICO, at the end of the first quarter we had about 1.2 billion of surplus. And so, we do our own risk-based capital assessment, and we exclude our affiliated investments, which are illiquid investments, we exclude our title plans, and then we shock the portfolio, the investment portfolio, for a stress scenario. And then, we add back something called a bulk reserve. We feel like we have redundant reserves in our statutory level, not our GAAP basis. We don't feel like we have redundant reserves from a GAAP perspective. But, from a statutory perspective we do feel like we have redundant reserves.

And we feel like we need to have 800 million of surplus to maintain our A- financial strength ratings. Different rating agencies care about different things, but in our discussions with the rating agencies, they say, you know, roughly 800 million of surplus will be good for an A- rating, which we want in a [unintelligible] environment. So, when you walk through this methodology, at the end of the first quarter we had about 151 million [sp] of excess capital at FATICO. And we're going to look to giving that up to the holding company over the next couple quarters. Again, as I mentioned, we don't need to put that in the investment portfolio. We want to get that out to the holding company for productive uses.

And our third bucket is our leverage, so we have a 17.4% debt-to-cap, and to get to 20%, that gives another 139 million of excess capital. So, at the end of the first quarter, when you add all these up, we're at about $250 million of excess capital, which is a good amount for us. We want to have some excess because it gives us flexibility. Now, we have more flexibility than this 250 million. We could borrow 540 million on our line today. So, we have a lot more flexibility than this. But, if we did borrow from the line that much, we would be sort of in debt pay-down mode.

So, this 250 million represents about 6 -percent of our total capital. And one of the things we ask our sales is, well, how much capital is too much? At what point are--is your hand forced to do something with this? And we've just outlined these 12 to 14% ROE targets. So, if our excess capital ever got to be such a drain that we weren't really going to hit our ROE objectives, we would look to deploy more actively. But, we feel like we're a couple years away from that. So, anyways, we want to give investors transparency in how we think about our excess capital.

I won't spend much time on the ratings. I've mentioned that A- is really important for commercial and for international business, and we're really there with all the rating agencies. We're A with A.M. Best and Fitch. We're actually A3 positive [sp] with Moody's. so, we have good momentum with the rating agencies. We're in good shape there.

Our capital structure is very flexible. So, we have two public bond deals, and one is due in 2023, and one is due in 2024. So, we have a lot of runway still there. Our debt-to-cap is 17.4, and our target is 18 to 20. So, we're a little bit less than our target, which is still a very comfortable place to be. But, Ideally we'd be in that 18 to 20% range. And our covenant says we can't go above 35%, so we have a lot of flexibility.

We have a revolving credit facility, and it's $700 million. And we have 160 drawn. So, we have 540 million available. And the term ends a year from now, in May of 2019. So, in the first quarter we'll look to amend the credit facility. We're just having very preliminary conversations about that right now. So, it's a very flexible capital structure.

The next two slides go to speak to my comment about strong we are from a financial strength standpoint. The vertical bars here represent our surplus, and you can see over the last few years we've been growing our surplus. It's about 1.2 billion today. The light blue line there is the percentage of our surplus that is tied up in affiliated investments, investments like operating subsidiaries. And you can see back in 2010 almost 100% of our surplus was tied up in these affiliated investments. Today it is 7%, so it's about as low as it's going to get. So, this is why we say, again, going forward we don't need to use our cash flow to buy our fixed income securities because our balance sheet is really as strong as we want it to be at this point.

The next slide shows a similar story with different metrics here, but the vertical blue bars are our reserves for statutory purposes. These are the reserves in FATICO. And the blue line represents our marketable securities, securities that we can sell and get cash for in two days. So, back in 2007 we had $1 billion in reserves. We had $60 million of marketable securities that supported those reserves. Now, we had other assets back then, but they were really illiquid assets.

Today we have 1.3 billion of reserves at FATICO, and, as I mentioned, we feel like those are redundant reserves. And we have 1.8 billion of marketable securities. So, it's a very strong position to be in, and we don't want to get any stronger than this. One thing I'll point out here on the slide is you can see from 2016 and '17 our reserves really jumped from about a billion to about 1.3 billion. And the reason we did that is in consultation with our regulator we took what's called a bulk reserve. And when we did that prior to the tax reform, we were able to take a deduction, a tax deduction, for that reserve. Again, so we strengthened our reserves for statutory purposes, not for GAAP purposes because, again, we feel like we have a very solid reserve there.

But, this really allowed us to generate another $100 million of cash flow, didn't show up in our earnings, didn't show up in our earnings per share, but if you look at our cash flow statements, you'll see that we converted 100 million of deferred tax asset [sp] to cash. And so, this is really cash we use to fund the pension and that's going to benefit our stockholders over time. But, this just goes to show what's the financial goal. The financial goal that we have is to create long-term shareholder value, didn't show up in earnings, but it definitely helped our investors.

So, in terms of our investment portfolio, we really think about our portfolio as two general portfolios. We've got the insurance portfolio, which includes our title companies and our home warranty business and our property and casualty business, and then we have our bank portfolio. So, our insurance portfolio is $2.5 billion, and it's a very well-diversified portfolio. Here we've got 81% fixed income, 19% equities. Today it's more like 85/15. But, it's a very conservative portfolio. We've got--rating is--average rating is A, the duration of the assets is

4.7, which is very similar to the duration of our liabilities. And our book yield [sp] is 3%. It has been creeping up these last few quarters as the rates have been rising.

And then, our bank portfolio--we have to have at least 55% of our assets in our bank in mortgages, and we choose to buy government agency mortgage-backed securities to the tune of 59%. So, we have some munis and some corporates in our bank, but most of them are agency MBS [sp]. So, when you look at our consolidated portfolio on the left, that's the reason why we're overweight mortgages--is because of [unintelligible] bank.

Shifting to claims for a minute or two, this is a graph of our ultimate loss ratios by policy year. So, you can see between 2005 and 2008 we had very high-loss ratios, 10 to 13%, some of the highest we've had on record. And there were a lot of reasons for that. Our whole industry had high-loss ratios. The whole financial services business had high-loss ratios. But, when you look at our claims experience the last six or seven years, it has been exceptional. And why is that?

Well, one, the underwriting standards of the lenders have tightened. There's fewer foreclosures today. We get claims when there's foreclosures, for a variety of reasons. Our own underwriter standards have tightened. We have been raising rates these last few years, which improves the loss ratios. It has been a good economic environment to write title insurance. A good environment is when you write title and housing prices rise over time. And so, that's been a very good time for us. So, we feel very good about the loss ratios that we've been posting these lasts few years. Last year we were at 4%. In the first quarter we booked at 4%. And based on everything we see now we feel like a 4% loss ratio is still a good number to use for 2018.

The red line is our paid claim by calendar year. So, the high-water mark there was in 2011. we paid $350 million of title claims in 2011, and it has really been trending down fairly consistently since then. And we feel like we've pretty much bottomed out now. We pay about $180 million of title claims. And we feel like it's not going to go much lower than that when you look at the actuarial triangles. But, we're proud of our loss ratios that we have posted these last few years.

This is a graph of something we call the incremental incurred losses by development period. So, it gets to--it shows you a little bit of how the curve is for our title claims. You can see the gray line there was the unfortunate year of 2007. And really to walk you through the slide here--so, the policies that we wrote in 2007, after the first 12 months, so in 2008, we had incurred about $50 million of claims. The next year, in 2009, we incurred about $110 million of claims, if you follow that--this gray line, $110 million of claims in 2009 for policies that we wrote in 2007. and then, it falls off after that.

So, a couple things I'd say on this slide. We need about three to five years of experience for us to really understand what the ultimate loss ratios are going to be. We don't really know, like for 2018 I just said we think it will be 4%. We don't really know. We don't have enough seasoning. That's just our best estimate. But, what we do know is that after two years, we know if the policy year is on a good path or a bad path. So, you can see in 2007 it started off poorly and just kept going poorly. The more recent years here, 2015, '16, '17 have really started off well and we think are going to continue to start off well. So, that gives us more confidence that the policies we're running now are going to be very good for years to come.

This is a graph of our cumulative losses by policy year. So, it's really--every time we get an incurred claim the line just keeps going up and up and up. So, you can--again, you can see 2007 and 2008 were difficult years for us. You can see the long-term average there in the green. And really line that we have since then has been below the long-term average. One thing I'd point out here in 2014, it's kind of in line with the long-term average, and the reason for that is the first year we had fraud claims. We had a lot of fraud claims in 2014. And ever since then it has performed very well.

And when we had those claims in 2014 we started something called the Special Investigative Unit. And there are certain attributes to orders that we know have a higher propensity for fraud. And so, we flag those orders in an automated way, and we take those orders through the slow path, and we do much more underwriting using our data and our analytics and our technology. And that has really helped bring our fraud claims down. And you can see in 2015 and '16 and '17, again, they are very exceptional, some of the best loss ratios we've had. There's a lot of reasons for that. But, one of the reasons is we're using more data and technology and analytics than we ever have before in terms of our underwriting.

Dennis touched on this, and I'll just add a few more comments. But, investment income is a big driver to our earnings, especially this last year or so. So, this is a graph. The gray line is the Fed funds rate, and the blue line is our investment income, excluding affiliated investments. And you can see there is a very tight correlation here. So, we get benefits from our 1031 exchange business, our escrow deposits that we manage, our cash deposits, our bank earnings. And we feel like we're going to perform better than our peers in a higher rate environment for several reasons, one of which is because we have a bank that we use. And the bank is going to do better in a higher interest rate environment. It's a good hedge for us against interest rates. So, that's one reason why we think we're going to out-perform in a higher rate environment.

One of the questions that we get frequently from investors is, what does the market not understand about First American? What are we missing? And the answer that we give often is the market doesn't understand how well we'll do in a higher rate environment. And if you think about these last two or three years, what has happened? Rates have gone up, and our refinance business has really fallen quite dramatically. We're running the lowest refi orders we have in many, many years. But, we're still operating at record margins and record earnings. And why is that? Well, a big reason is because of our investment income. So, the benefits that we get from the investment portfolio have outweighed the loss in our refinance business, and that has played out. And so, we continue to see that.

We have talked about every time the Fed raises rates 25 basis points, we expect that we'll get about $12 million annually in investment income. That's a--that has played out. We've gotten that so far. And so, when we talk about the 12 million annually, we're really talking exclusively about the title segment. So, all of the benefits that we talk about from rising investment income, it's exclusively in the title segment, not specialty, not our corporate segment--title.

One of the questions we had in the last earnings call was about, why is your investment income negative at corporate? How can that be? And I didn't give a good explanation. I want to try to make amends here. I won't spend a whole time on the slide. But, again, we have a deferred compensation plan at corporate. And when the markets rise, like they did every quarter in 2017, we're going to show investment income. And when the markets fall, we're going to show an investment loss in investment income at corporate.

But, that is going to be substantially offset by changes in personnel cost, which--we've highlighted those two lines here in the light blue. So, when the markets rise, we're going to have higher personnel costs, and when the markets fall, we're going to have lower personnel costs. And so, they effectively substantially offset each other.

And so, when we look at our corporate segment, we expect about $75 million a year of pre-tax loss on an annual basis, regardless of what happens to the markets. So, again, when we talk about our 12 million benefit it's exclusively to title. Corporate investment income is going to be volatile, but it's going to have a negligible effect on earnings.

Tax reform--we were obviously a big beneficiary. Our tax rate used to be 34%. Today it's 24%. It might even be a hair lower than 24%. But, one thing I will point out, too, is the shift to a territorial tax system is a benefit to us. We have a very strong international operation. It's a key part of our business. We have been in our international jurisdiction since, I believe, the early '90s, and we've never really taken a dividend out. And the reason why is because there have been very attractive growth opportunities over the years.

But, more recently it has been too cost prohibitive for us to do that. Now, those barriers are a lot less than they were before. And so, we're going to look to take dividends from our international subsidiaries. And we don't have a material amount of excess capital parked offshore. But, it does give us more flexibility at the holding company. It is a benefit to us.

So, this is a graph that we're really proud of. You can see the vertical bars there are the market for mortgage originations, which I know you're very familiar with. And you can see the last seven or eight years the market has been relatively flat. It's up and down, but it hasn't really moved a lot. Now, the mix has changed obviously more to purchase, which helps us. But, the market has been flat, and yet we've been able to really improve our margins almost every year since 2007. Last year, again, we had a 12.1% margin, which is the highest we've ever had.

So, how are we going to get to higher than 12% margins? Dennis talked about our target of 11 to 13%, and we feel like we want to be at 11 to 13%. As long as we're in a mortgage market of somewhere between 14 [sp] and 1.8 trillion. If we're in that market, 25% refinance, we feel like we can get to 11 to 13. Now, we've never been at 13% margins in our company's history, but we feel like we can get there.

So, how do we get higher than that? How do we exceed this range? And we feel like based on what we're seeing this year, in 2018 we're going to be at the high end of this guidance that we're giving you of 11, 13. How do we exceed that? As we mentioned a little bit earlier in the

Q&A, we're going to get there if we have a better than a $1.8 trillion market. So, if the market improves, our margins are going to improve, given the operating leverage of the business.

If the Fed continues to raise rates, which we think they will, this year perhaps into next year, that's going to help our margins. And then, if we execute on these strategic initiatives we've been talking about today, whether they are expense reduction initiatives or growth initiatives, that's going to help us. So, we're very focused on this. We'll get to 13, and then we'll see how much we can get after that.

So, my last slide here is just our investment considerations. So, we have a very focused strategy. We're a pure play in the title and settlement [sp] markets. Dennis talked about our vision of becoming the premier title and settlement services company. So, we want to be the best place to work for our employees, we want to have the best service to our customers, and we have the best returns to our shareholders. And if we do those things, we're the premier company.

So, you're very unlikely to read a press release saying we did some billion-dollar transaction that's really outside, afar from our space 'cause we like our core business. We love our core business. And we want to continue to invest in it. So, we've got very attractive industry characteristics. And when you look at the characteristics of our title insurance industry they actually get--they have gotten better over time. And we think they'll continue to get better.

We've got a very strong, competitive position in our business. There's not one market in title. There's the commercial market, there's refinance, there's purchase, default, new home, international. And we are a leader in every single one of those verticals. And so, some are going to be up, and some are going to be down, but we are going to benefit in the strength of all of those verticals.

And we have something we're very excited about. We have got a unique opportunity to grow by leveraging assets that nobody else has. So, when you look at our business, our revenue in any given year is going to be driven by the market. But, we feel like we can outperform the market over a long period of time because we have data assets that we're using to leverage, because we have a bank that we're just on the cusp of leveraging to third parties. And so, those are things that we're very excited about.

So, we expect to grow our earnings and margins as the market improves. We've got a very strong balance sheet. We don't have a need to use our cash flow to grow our investment portfolio like we have in the past, which gives us a lot of flexibility. And we have a commitment to return our capital back to the shareholders in one form or another.

So, we think we have a good value proposition. We hope you do, too, and thanks for your time. I'm going to hand the mic over to Craig, and we're going to kick off the second Q&A session.

Craig Barberio: All right. Same process. Please get the mic, and then state your name and your firm. First question over here.

Mark Hughes: Thank you. Mark Hughes, SunTrust. Mark, you said maybe in a couple years you'll get to the point where you've got too much capital. I think you've got 6% excess capital now. Is there a percentage number that is too much capital that you would highlight?

Mark Seaton: There's not really like a percentage cap that we have. It's not like we have 10 to 12% cap. The way we think about it is we like to have some excess capital 'cause it gives us a lot of flexibility. We don't want to have too much excess capital. The goal isn't to get as strong as we possibly can. That's not the goal. The goal is to create long-term shareholder value. And so, the way we think about it is if we ever get to the point where, again, we can't really get to a 12 to 14% ROE 'cause the capital is just too much of a drag, then we're going to be more aggressive in terms of allocating our capital. But, right now, with the capital we have, we're just looking for opportunistic opportunities.

Mark Hughes: And then, on CapEx it's relatively stable the last couple of years. What's the overall outlook there? And then you described the goal to try to broaden your title plan to--in particular markets, especially, but it looks like that spending has been relatively stable or down. Is there a gating factor on how quickly you get to those 100% goals that I think you had on the earlier slide?

Mark Seaton: I'll talk about the CapEx outlook, and then Dennis is going to talk about the title plan rollout. You can see there in 2016 and 2017, the top part of that, software licenses, which is kind of that light blue color, dark blue color. There was actually an accounting change that happened in the industry where now we have to recognize software licenses in CapEx. So, there--one of the reasons why it's up is because of the accounting change. If you exclude that, we've actually been down a little bit.

But, to answer your question, Mark, we feel like we're going to be basically at this $130 million run rate for the foreseeable future. We're looking for ways to invest in value-creating projects, and we feel like we're doing as much of it as we can. So, this 130 million, I don't see it changing a whole lot from where we are. And all the digitization efforts that we're talking about, building our data bases, they are already [unintelligible] in this runway.

Unidentified Speaker: And on the title plan [unintelligible] there is really no--the gating item is the cost and access to public record information to create the back plan. And so, we just look at it market by market and then the opportunity for us to drive automation in our firm and then sell it to third parties.

Craig Barberio: A question over here.

Geoff Dunn: Thanks. Geoff Dunn with Dowling. Mark, if we assume the MBA [sp] outlook, which has rising rates, and the '16, '17 type of market with improving purchase mix, and the company continues to hit its success ratio, why isn't 12% the starting point for margins for '18, '19, and '20?

Mark Seaton: Well, I think it probably is a starting point, to answer your question. I mean, we were at 12% last year. So, if we have a rising purchase market and a rising commercial market and we get Fed fund increases, we're going to have higher than 12% margins. That's going to happen.

John Campbell: Hey, John Campbell, Stephens, Inc. Mark, I think you were pretty clear about the dividend, pretty clear message there. The last couple years you have been 38, 39% payout ratio. Is there a payout ratio--obviously that's going to go higher--but is there one that you're managing to maybe over the next couple years?

Mark Seaton: There is not really a payout ratio that we're managing to because, as you know, our business is cyclical. So, it's not like we're going to pay 40%. And when the market goes up, we're going to pay 40%. When the market goes down, we're going to cut the dividend 'cause we're--we don't target a payout ratio. But, we're very comfortable at a 40% payout ratio. We've been operating in that area for four years now. And we're very comfortable paying a much higher percentage of our earnings in dividends. And we could even--we could pay a higher payout ratio if the market turned. But, as I mentioned, we want to continue to grow the dividends. They are a key part of our capital strategy.

John Campbell: And then on the direct business, I think you guys said 8% or so revenue CAGR there. Most of that is driven by price. Is there a structural difference like [unintelligible] margin wise, if that inverses, so if it's more transaction driven or price? Is there a change in the margin profile?

Mark Seaton: I would say it's--I think the question is, our direct revenue has grown--our purchase revenue has grown 8%. But, most of it is coming from fee per file [sp] as opposed to transaction, so we're roughly 2% growth in orders, we're roughly 6% growth in [unintelligible].

If that were to flip, is there a material difference in our margin profile? I don't think it's going to be material. We--the fact that we close more orders, it's going to be more processing costs, right? But, it's not going to be material. If we have 8% growth, the makeup isn't going to really change the margins one way or the other.

John Campbell: Thanks.

Craig Barberio: We got a question right here.

Bose George: Thanks, Bose George from KBW. First, just on the loss ratio. You noted one reason that it is low is the lack of foreclosure activity. If there is a downturn, what are your thoughts on what could happen to that number?

Mark Seaton: Well, it's something that we've talked about. And the one thing is in the crisis we were 10% loss ratio, let's call it, okay? And nobody thinks we're going to have the same crisis whenever the next recession is--than we had, so it's not going to be as severe. The other thing, too, is there is a lot less [unintelligible] here. Our own underwriting standards are tightened. We don't take the same coverages that we took. As I mentioned before, we're using a lot more data and analytics in our underwriting process.

And so, if we head to the next recession, whenever that is, we're going to have more foreclosures, we're going to have higher claims, our loss ratios are likely to go up in that environment, but it's not going to be nearly to the extent that it was in '08. So, it's hard to say where it's going to go. It's going to go up, not close to the 10% loss ratios. Now, we can always get a big claim. We can have a big one-time claim, commercial claim. That's always a possibility. But, in terms of the run-of-the-mill claims, we don't think it will come close to approaching what we saw in the last cycle.

Unidentified Speaker: I would just add that we've done many things inside the company to improve our underwriting effectiveness to lower our risk profile, and as Mark said, we don't expect another '08. but, at some point there will be a slowdown. There will be a recession. It will be interesting for us to see if any one state, for example, has any value decreases to see how that performs in that state. That will probably give us our first indication of how the overall portfolio will perform, if you follow that answer. So, we'll see, but we're very optimistic of the quality of the book right now.

Bose George: Great. Thanks. And I just wanted to follow up on an earlier question on pricing and how the regulators are viewing things. Actually last week at a conference one of your competitors noted that they had received an inquiry from California about pricing post-tax reform. Just curious if you guys have heard anything in that context as well.

Unidentified Speaker: No, we haven't. we haven't been contacted by California regarding rates--have not.

Jason DeLeeuw: Jason DeLeeuw, Piper Jaffrey. When we think about the 11 to 13% margin range, again, and thinking about the downside, the low end of that range, 11%, can commercial activity be a factor that we should consider when we're thinking about the downside of that range?

Unidentified Speaker: Absolutely. I mean, our commercial business is a very strong franchise for us, running at good incremental margins--very good incremental margins. So, if we have any significant downturn in commercial, that will impact the margin performance.

Jason DeLeeuw: Thanks, and then a blockchain question. With the early work that you have done in the area, what are some of the key challenges that you have identified in terms of pursuing the technology more aggressively, or what are the things in the business ecosystem that have to get built out? Just any kind of thoughts around how the technology would actually deployed--and what are the hurdles and challenges to doing so?

Unidentified Speaker: Well, there's just a lot of challenges because there's a lot of misinformation on the technology. So, bring it to us. We're not looking to do a public chain. We're looking to do a private chain. So, it would be a permission blockchain, number one. Number two, just hiring the technologists both internally and using contract vendors for it--so that process is ongoing. Where I think the biggest benefit would be for us would probably be some of our titling information, not a title plant but titling information. There is some benefit for us to have distributive technology, distributive ledger technology in that aspect, and that's where we're focused right now. But, again, these are proof of concept projects. We'll probably run as much as we'll get any kind of--at this stage, I guess, we've learned more than we're going to get productivity gains. But, I do think there is possibility for productivity gains in the future off of it.

Jason DeLeeuw: And one challenge that we've come across is trying to get all the historical data into a blockchain protocol--and if that even makes sense from a business case to do that. Or is it just go-forward transactions where you would start building? Any thoughts on that?

Unidentified Speaker: We have got a lot of thoughts on it. It could be either, but it's more likely go-forward. Remember, a blockchain is just simply a piece of technology, and I think a lot of people misunderstand it. There's nothing inherently accurate if you put something on a blockchain, right? That's what we do. It's also a limited--usually more of a limited record. And we have a very deep, extensive title record. So, you have the core blockchain, and then you come off of that with other information. So, I think probably more likely go-forward than historical.

Jason DeLeeuw: And then one last one on blockchain. The ecosystem with the 3,000-plus counties out there, the legal system, how would that work in terms of building interfaces with those counties and the courts, and do they have to totally buy in? Like how would this--how would it work? Any thoughts there.

Unidentified Speaker: Yeah, it probably wouldn't work. We have 3,500 counties. They all have individual recording structures. We're not a torn [sp] system in the U.S. We are grant to grantee. It probably doesn't work. And there's a lot of issues with it. We can kind of go offline on that. So, I think it's probably more likely for us in our industry sharing of information that's probably a more likely aspect of it.

Craig Barberio: Any other questions come to mind? It's going to be two, three years before you're here again. Get them in.

John Campbell: Yeah. So, John Campbell with Stephens again, specialty insurance segment [sp]. Obviously replacement costs, some contractor, I guess, network costs have picked up over the last couple years. You did a kind of mid-teen [sp] margin there a couple years ago. I guess it's higher single digits now. Is there a path forward for that, or is that kind of a new, I guess--new run rate, or is that just a new course of business environment now?

Unidentified Speaker: So, the question was, we set mid-teens margins, and we achieved that last year. And we have every reason to believe we'll be able to maintain high margins in that business. It's not--I don't think it's going to go much higher, but what?

John Campbell: I guess you were--I guess I was talking about pre-tax margins for specialty insurance 'cause I think you guys at some point were 13, 14, 15% margin a couple years ago. I think that was a little bit lower this past year, maybe the last two or three years. I know you guys were running against some replacement costs that were--.

Unidentified Speaker: --Yeah, it will vary in those probably low-teens to mid-teens, depending on the year. And what can impact that business is if we have anywhere in the country extreme weather. It will drive claim volumes. So, it would have some weather dependency. But, that's an appropriate range for that business. And a return on capital--vested [sp] capital in that business is also very strong.

Craig Barberio: It looks like that's about it. We appreciate your time and attention. And a couple things. If you could take that evaluation form out and complete it, and when you're done, just leave it on one end of the table or the other that you're seated in. One other item, I'm told you need to take all your personal items out on your way. We're going to have lunch in the Ritz Irvana [sp] at this point, where we can continue discussions more one-on-one. Thanks, again, for your time and effort.

Unidentified Speaker: Thank you.

Unidentified Speaker: Thank you.