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OVERVIEW:

Company Summary

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Mark DeVries *Deutsche Bank AG - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the First American Financial Corporation second quarter earnings conference call. (Operator Instructions)

A copy of today's press release is available on First American's website at www.firstam.com/investor. Please note that the call is being recorded and will be available for replay from the company's Investor website and for a short time by dialing (877) 660-6853 or (201) 612-7415 and enter the conference ID 13761705.

We will now turn the call over to Craig Barberio, Vice President, Investor Relations, to make an introductory statement.

Craig J. Barberio - *First American Financial Corp - Director - Investor Relations*

Good morning, everyone, and welcome to First American's earnings conference call for the second quarter of 2026. Joining us today on the call will be our Chief Executive Officer, Mark Seaton; and Matt Wajner, Chief Financial Officer.

Some of the statements made today may contain forward-looking statements that do not relate strictly to historical or current fact. These forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made. Risks and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. For more information on these risks and uncertainties, please refer to yesterday's earnings release and the risk factors discussed in our Form 10-K and subsequent SEC filings.

Our presentation today contains certain non-GAAP financial measures that we believe provide additional insight into the operational efficiency and performance of the company relative to earlier periods and relative to the company's competitors. For more details on these non-GAAP financial measures, including presentation with and reconciliation to the most directly comparable GAAP financials, please refer to yesterday's earnings release, which is available on our website at www.firstam.com.

I'll now turn the call over to Mark Seaton.

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Thank you, Craig. Our earnings momentum continued in the second quarter as we generated adjusted earnings per share of $2.08, an increase of 36% from the prior year. Commercial continued to be a standout performer. Revenue increased 34%, setting a second quarter record. We closed 14 transactions, generating more than $1 million of premium, up from 11 a year ago.

Within our National Commercial Services division, demand remains broad-based, with 10 of our 11 asset classes growing year-over-year. Purchase revenue increased 2% as affordability challenges continue to weigh on existing home sales. Refinance revenue increased 18%, reflecting the brief surge in open orders we experienced at the end of the first quarter when mortgage rates reached their lowest level since 2022. While that activity provided a tailwind during the second quarter, volumes have moderated as mortgage rates have moved higher again. One of the most important earnings drivers continues to be our bank, First American Trust, which provides a growing source of investment income.

During the quarter, average deposits totaled $7.9 billion, an increase of 30% from last year. Growth was driven by deposits outside of our captive title business. During the quarter, 36% of deposits came from sources beyond our captive title operations. The largest contributor was ServiceMac, our mortgage subservicer, which accounted for $1.7 billion of deposits, up 76% from last year. ServiceMac's loan portfolio grew 54% during the quarter.

And as that portfolio expands, so should its deposits. Our second largest source of nontitle deposits came from our 1031 Exchange business. Last year, all exchange deposits were held at third-party banks. Since launching our 1031 banking solution less than one year ago, we have rapidly grown deposits, which averaged $827 million in the second quarter, representing roughly 1/3 of our total 1031 balances.

Finally, our agent banking strategy continues to gain traction. Today, 310 title agents bank with First American Trust, an increase of 37% from last year, we expect those balances to grow as real estate activity recovers. Taken together, Servicing, 1031 Exchange, and agent banking provide meaningful long-term growth opportunities while reinforcing the bank's role as a valuable countercyclical earnings driver.

Our primary strategic priority remains leveraging AI across the enterprise to amplify the talents of our people, better serve our customers and strengthen our operating capabilities. These benefits are already becoming tangible. Recently, we needed to update 1,300 forms across the company. Historically, this would have required a lengthy manual process.

Using our new AI tools, we reduced the time required by 97%. We launched a product called Exam Assist QC, which is an AI-enabled quality control workflow. It has now processed more than 50,000 orders, delivering 92% with no additional human review, a clear example of how we can deploy AI at scale for our quality control process. We are also starting to see meaningful evidence that AI can improve customer-facing service delivery.

At ServiceMac, we rolled out a virtual agent last month for loan transfer inquiries and improved self-service success from 0% in April to 42% in June. While still early, it is a useful proof point that AI can support live customer workflows in a regulated servicing environment. We expect to expand the number of self-service use cases from one to seven by the end of the year.

We are also building broader enterprise capability in agentic product development. In the past four months, we've had nearly 700 people participate in hands-on boot camps focused on rewriting legacy code and solving real business problems. The result is a growing enterprise capability to apply agentic AI across functions and workflows, moving technology teams from basic awareness to real adoption in product development.

And, of course, at the enterprise level, we are fundamentally reimagining title and settlement through Endpoint and Sequoia. And both platforms continue to achieve important milestones. Beginning with Endpoint, we remain on track to scale the platform across our local title branch network by the end of 2027. During the quarter, we converted our first First American title office in Spokane, Washington. While it is still early, every indication suggests the transition has been successful.

Escrow professionals now operate from a platform where agentic AI automates routine tasks, which will allow our teams to spend more time serving customers and managing complex transactions. This quarter, we will expand Endpoint across additional offices in Western Washington before completing a statewide rollout by year-end, followed by a broader national deployment throughout 2027.

We have also improved automation rates from 30% in Q1 to 34% in Q2. And so far in July, we are at 39%. We expect those rates to improve as the platform matures. This represents a fundamental shift in how title and settlement work gets done. As workflows become standardized, the role of our people increasingly shifts from executing routine tasks to validating AI-generated work and focusing on higher-value customer interactions. We also continue to make excellent progress with Sequoia, our AI-powered title decisioning platform.

Since our last earnings call, we expanded Sequoia's refinance capabilities beyond our local direct operations into our centralized lender division in Southern California. We also broadened our refinance coverage in California, increasing our footprint from 8 counties to 41. During the quarter, our automation rate improved from 35% to 40%, and we expect further gains as the platform continues to learn and mature.

Purchase transactions remain a more complex challenge. We launched purchase capability in three counties during the first quarter and expanded into Orange and San Diego counties during the second quarter. Currently, in these counties, Sequoia provides instant title decisioning for approximately 16% of purchase transactions at order opening. Over time, we believe we can automate title decisioning for approximately 70% of purchase transactions and 80% of refinance transactions in markets where we maintain title plants. That capability is made possible by our industry-leading title plant data, deep underwriting expertise and innovative technology.

By year-end, we expect Sequoia to be deployed across California and Florida, with a broader national rollout planned for 2027. Once Endpoint and Sequoia are fully rolled out, we believe they will create a durable competitive advantage by improving the experience for employees, delivering better service for our customers and creating meaningful long-term value for shareholders.

Turning to our outlook. We remain optimistic about our earnings trajectory for the second half of the year. Six months ago, we said our commercial business was on pace to deliver a record year, and we continue to believe that. Our commercial pipeline has never been stronger. We've already closed three transactions, generating more than $1 million of premium during July. And commercial open orders were up 9% over the first three weeks of the month. We remain more cautious than the broader consensus on the residential purchase market. Through the first three weeks of July, our open purchase orders are flat relative to last year as existing home sales remain sluggish.

Finally, I'll comment on capital management. Our business continues to generate substantial and growing cash flow. During the first six months of the year, our free cash flow was $285 million, up 32% relative to last year. This is a result of improving operating cash flow and declining capital expenditures, which were down 18% year-over-year. We expect cash generation to strengthen during the second half, particularly since the first quarter is our seasonally weakest period.

Our first capital allocation priority remains investing in the technology, platforms and products that will extend our leadership position in the industry. Importantly, these investments are already embedded within our existing run rate. In fact, our company-wide technology spend has remained relatively flat since 2022, and we do not anticipate the need to invest materially more in our business than what we're currently investing.

Our second priority is acquisitions. The bar for acquisitions is higher today than it has been in many years. We are pleased with our geographic footprint and portfolio of businesses, and we have no interest in pursuing acquisitions simply for the sake of scale or diversification. However, we will continue to pursue opportunities that have strong strategic synergies with our current business, whether in title or near adjacencies.

Finally, we remain committed to returning capital to shareholders through a combination of dividends and opportunistic share repurchases. We expect to continue increasing our dividend over time, reflecting our confidence in the company's long-term earnings growth. We will also repurchase shares when we see attractive opportunities, like we did in the second quarter.

In summary, we remain intensely focused on reimagining title and settlement through AI. We have a strong balance sheet and disciplined strategy, unique assets like First American Trust and industry-leading title data that position us to capitalize on the transformational opportunities AI presents. Together, these strengths give us a differentiated competitive advantage and position us well for years to come.

Now I'll turn the call over to Matt, who will discuss our financial results in greater detail.

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Thank you, Mark. This quarter, we generated GAAP earnings of $2.12 per diluted share. Our adjusted earnings, which exclude the impact of net investment gains and purchase-related intangible amortization, were $2.08 per diluted share.

Focusing on the title segment, adjusted total revenue was $2 billion, up 14% compared with the same quarter of 2025. Commercial revenue was $314 million, a 34% increase over last year, driven by a 31% increase in average revenue per order.

Average revenue per order was $19,980 per transaction, which reflects a record level for our commercial business. Purchase revenue was up 2% during the quarter due to a 6% increase in average revenue per order, partially offset by a 3% decline in closed orders, which reflects the continued weakness in home sale activity.

Refinance revenue was up 18% compared with last year due to a 12% increase in closed orders and a 5% increase in the average revenue per order. This growth was supported by a temporary decline in mortgage rates earlier this year, though activity has since softened as rates have moved higher. Refinance accounted for just 5% of our direct revenue this quarter and highlights how challenged this market continues to be compared to historic levels.

In the agency business, revenue was $820 million, up 14% from last year. Given the reporting lag in agent revenues of approximately one quarter, these results primarily reflect remittances related to first quarter economic activity. Information and other revenues were $295 million during the quarter, up 12% compared with last year. The increase was driven by revenue growth at ServiceMac, higher demand for noninsured information products and services and refinance activity in the company's Canadian operations.

Investment income was $164 million in the second quarter, up 11% compared with the same quarter last year despite the Fed cutting rates 3x. The increase was primarily due to higher interest income from the company's investment portfolio, driven by growth in the size of the portfolio. The growth in the portfolio was attributable to the increase in deposit balances at First American Trust that Mark discussed.

Personnel costs were $572 million in the second quarter, up 9% compared with the same quarter of 2025. The increase was mainly due to incentive compensation expense resulting from improved financial performance and higher salary expense. Other operating expenses were $319 million in the quarter, up 15% compared with last year, primarily attributable to higher production expense driven by higher volumes and increased software expense.

Our success ratio for the quarter was 66%. This is somewhat higher than our target of 60%, primarily due to investments in certain businesses outside of our domestic title operations such as ServiceMac. The investments being made at ServiceMac are to support the meaningful growth in its loan portfolio. The provision for policy losses and other claims was $45 million in the second quarter or 3.0% of title premiums and escrow fees, unchanged from the prior year. The second quarter rate reflects an ultimate loss rate of 3.75% for the current policy year and a net decrease of $11 million in the loss reserve estimate for prior policy years.

Interest expense was $30 million in the current quarter, up 33% compared with last year due to higher interest expense related to the growth in deposit balances at First American Trust. Pretax margin in the title segment was 15.7% or 14.0% on an adjusted basis.

Moving to the Home Warranty segment. Adjusted total revenue was $112 million this quarter, up 1% compared with last year. The loss ratio was 40%, down from 41% in the second quarter of 2025. The slight improvement in the loss ratio was due to lower claim frequency, partially offset by higher claim severity. Pretax margin in the Home Warranty segment was 21.3% or 20.2% on an adjusted basis. The effective tax rate in the quarter was 22.8%, which is slightly below the company's normalized tax rate of 24%.

Our debt-to-capital ratio was 31.4%. Excluding secured financings payable, our debt-to-capital ratio was 21.5%. During the quarter, we repurchased 330,000 shares for a total of $20 million at an average price of $61.99.

Now I would like to turn the call over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Terry Ma, Barclays.

Terry Ma - *Barclays Services Corp - Analyst*

Maybe just on the deposit growth. Can you maybe just expand on some of the comments? And maybe for the ServiceMac piece, how sustainable is that above average kind of deposit inflow? And as we look to the back half of the year, what's the cadence of investment income?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Thanks for the questions, Terry. I'll start with the deposits and Matt can talk about the investment income for the back half. But we have a bank, and it's a real strategic advantage for us. And for many years, really what we've done is we've put our own First American title deposits that we manage in connection with the escrow process into our bank. And we've really maximized -- almost maximized that.

And maybe about five years ago, we woke up and said, hey, instead of just providing banking services to our own First American title insurance company, let's provide banking services to others within the title industry. There's a lot of agents out there that they manage escrow deposits too, and they put their deposits at third-party banks, and these are customers of ours. And so we started off with agent banking, and we're making progress on that, as I talked about. There's about 20,000 different settlement agents out there. And we're -- not all of them are going to want to use First American Trust, but a lot of them will. And so we're making really good traction there.

And also just it ties our agents closer to us, too, which is a good thing. And then in the meantime, the last couple of years, we found other sources of deposits. I talked about this 1031 solution and also ServiceMac, too. I mean ServiceMac is growing really well. I think the amazing thing about ServiceMac is they're not getting any help from the markets either, and yet their loan growth is up 54% from last year. And so they're growing despite the fact that the market has been flat. And those deposits -- so whenever we get customers from ServiceMac, if banks are customers of ServiceMac, typically the bank is going to want their own deposits. But there are other customers that are somewhat indifferent, and we try to push those to First American Trust whenever we can. And so we feel like it's sustainable in terms of where we are with these third-party deposits. And with that, I'll hand it over to Matt to talk about investment income.

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Yes. Thanks, Mark. Terry, so investment income, like I discussed, was up 11% year-over-year, driven by really the growth in the investment portfolio, which was related to this increase in deposits at the bank. While at the same time, since now we have more deposits at the bank, interest expense also grew year-over-year. Interest expense grew 33% year-over-year. So when I look at investment income, I like to look at it net of interest expense. So investment income net of interest expense grew 8% year-over-year. And I think that 8% is a good proxy for the growth that you'll see in the back half of the year.

Terry Ma - *Barclays Services Corp - Analyst*

Got it. That's helpful color. And then just as my follow-up, maybe just on the commercial ARPO, it's continued to see robust year-over-year increases. Certainly appreciate all the color on the larger $1 million-plus premium deals. What's the outlook for that in the second half? And I guess like ultimately, how sustainable are those ARPO increases as we look out to the back half of the year?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. No -- thanks a lot, Terry. Commercial, we're very bullish on commercial. Our order counts continue to grow, as I mentioned. Our fee per file or ARPO continues to grow. We're getting a lot of bigger deals now. The big deal pipeline is really strong. We think ARPO continue to grow in the second half of the year. And I'll just say, too, I mean, one of the things we get from investors a lot is how sustainable is this commercial market? Is this going to go away? We just feel like the commercial market has legs for a lot of different reasons. But when we look at our pipeline, we have conversations with our customers. When we look at the commercial real estate dynamics, we're still in the early innings of the next commercial real estate cycle. And so we feel really good about commercial, our ARPO for the second half of the year and well into next year.

Operator

Oscar Nieves, Stephens.

Oscar Nieves - *Stephens Inc - Equity Analyst*

My first question is on margins in the title segment, which were strong at 14%. That's roughly an 80-basis-point expansion year-over-year. Can you give us a sense of where you see the full year margin landing at this point and whether the back half plays out differently than the first half given the comps?

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Oscar, this is Matt. Thanks for the question. Yes. So year-to-date, our margin in the title segment is 12.3%. When we look at the back half of the year, I think we can expand on that, but the level of expansion that we get from the 12.3% is really going to be tied closely to the commercial business, which, as you know, is hard to forecast and particularly the strength of it in Q4.

Oscar Nieves - *Stephens Inc - Equity Analyst*

Okay. That helps. Kind of related to the margins, when we look at the trends in the operating expenses, your personnel and other OpEx ratio improved nicely year-over-year. But if we look at the incremental margin this quarter specifically, it kind of looks like it was a little less efficient than what you posted during the first half overall. Another way to say that, if you look at the success ratio, it's not -- the rate is a little bit mixed there. What can you share with us on that?

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Yes. Thanks, Oscar. So from a success ratio, so the ways that we look at how efficient we are as we look at the success ratio, right, which is the change of net operating revenue divided by the change in personnel and operating expenses. And the way we think about it is 60% is our target for our success ratio. We still think that's a good target for our business. I think last year, we may have come in a little bit under that. It can change from quarter-to-quarter based on onetime items or certain investments we're making.

When we look at Q2, we came in at 66%, so a little bit elevated from our target. And that was due, like I said, to some investments that we're making in businesses outside of our domestic title operations such as ServiceMac. And really for ServiceMac, we're investing in order to support the significant growth that they've seen in their loan portfolio.

Looking ahead, when I think to the success ratio, I think we'll see maybe it being a little bit elevated kind of like we saw in Q2 due to some of these investments. And then also when we look further out into Q4, like I said, onetime items can impact it. And as we talked about in the Q4 2025 call, we had some onetime items that benefited the title segment, and that will show up in the success ratio when we get to the end of the year.

Oscar Nieves - *Stephens Inc - Equity Analyst*

Super helpful. And just one last one on capital allocation, specifically on buybacks. You bought back about $20 million stock in 2Q. How are you thinking about the pace of buybacks from here on through the balance of the year? And does the recent increase in your debt-to-capital ratio change that thought process at all?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Well, just on buybacks. I mean like -- at the moment here, we're not in the market at the moment, but it's always something we look at. And we look at most of the last five years, most of those quarters, we've been repurchasing shares. So it's something we're always going to look at. I mean there's always like these dislocations in the market where somebody puts out something and people get worried about the future of title or people get worried about title plants going away. And those seem to be like good moments for us to pick up shares.

And so we're just looking at it on an opportunistic basis. We're very fans of the buybacks. When you look at the prices we bought back, it's been good for our shareholders, and we'll continue to look at that. The debt to cap doesn't really play into that now. Our target debt to cap is 20%, and we're a little bit higher than that now, but it's still very comfortable, especially considering we're at kind of the trough of the market. And so I don't think the debt to cap at these levels weighs in on the buyback decision at all.

Operator

(Operator Instructions) Bose George, KBW.

Bose George - *Keefe Bruyette & Woods Inc - Analyst*

The 6% increase you noted on the purchase ARPO, it seems a lot higher than sort of HPA itself would imply. Is there more activity just on the higher end of the market? Or any just color to add on that?

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Bose, yes, it's really due to geographic mix, particularly California. We had a higher mix of orders coming from California, which California has a higher ARPO.

Bose George - *Keefe Bruyette & Woods Inc - Analyst*

Okay. Great. Makes sense. And then on the commercial side, can you just remind us what are the biggest buckets? Like how much of the premium is coming from data centers? And is energy, are those the two biggest buckets?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. No, thanks for the question, Bose. We track 11 asset classes. And just a couple of things here. Our biggest asset class is industrial. It's 23% of our premium was industrial. Some data centers go into that, but there's a lot of other warehouses and different things that go into that. Multifamily was 16% of our premium. Development sites were 14% of our premium. And data centers also go in there. If -- for example, if it's just raw land, it's going to be built into a data center, we'll go into the development site. And then 14% is retail. Those are our top 4 asset classes.

Bose George - *Keefe Bruyette & Woods Inc - Analyst*

Okay. Great. And then actually one just on the regulatory or political front. In late June, Bill Pulte posted that comment on X about FHFA working on expanding title and that we'd be expecting something soon from Fannie Mae. And have you guys heard anything incremental about that?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Haven't heard anything incremental about that. So we're still kind of waiting for that. We -- they've already announced that they're extending this title acceptance pilot through November '27. And so we know that's been out there. But relative to the Pulte tweet, we haven't heard anything incremental. So we're kind of in wait-and-see mode.

Operator

(Operator Instructions) Mark DeVries, Deutsche Bank.

Mark DeVries - *Deutsche Bank AG - Analyst*

Yes. I have some follow-ups on commercial. I heard you say, Mark, that you're seeing strong growth across 10 of the 11 different asset classes. Could you just talk about where you're seeing the strongest growth across those asset classes with a particular focus on data centers and office?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. Give me a second here. So just following up on commercial. So when we look at -- earlier here in this call, I talked about where the premium came from.

When you look at the strongest growth, our development site bucket is up 33% from last year. Multifamily has grown 23% from last year. Retail is up 59% from last year. And really, when you look at everything except for data centers, our commercial business is up 11%. Data centers, obviously get a lot of attention. Our data center revenue is up 140% -- 147% relative to last year.

But I think the point here is we're seeing broad-based growth. It's not like we're just doing a few data centers that are driving our revenue. We've got a lot of other businesses that are just -- within commercial that are just growing. And that gives us strength that this market will have legs.

Mark DeVries - *Deutsche Bank AG - Analyst*

And is office the one that's not growing? Are you seeing any green shoots there?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

We haven't really seen much in terms of office. Like -- well, I'd just say it's growing year-over-year of our 11 asset classes. The only one that's not is healthcare. So it's growing. It just hasn't made our top 5.

Mark DeVries - *Deutsche Bank AG - Analyst*

Okay. Got it. And then turning to the data centers. Could you help us think about how premiums on that compare to the average commercial transactions? And also how the premium size differs across the kind of three discrete revenue opportunities you get with the average data center?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. So with the data centers, I mean, typically, the transaction is the principal will buy land. That's one transaction. They'll get a construction loan to build the data center. That's the second transaction. And then there's a takeout refinancing, which is the third.

And I would just say that there's just a strong pipeline with all these deals. The data center transactions, we're talking in -- some of these are $1 billion deals, a lot of them are. And so when you look at the growth in ARPO, a lot of it is driven by these huge deals. I mean the average ARPO for a data center deal isn't our $19,000, which is our average ARPO. Some of these deals are $1 million-plus premiums. So it does have an -- there's not that many of them, but the ones that we get, there's a very high premium.

Mark DeVries - *Deutsche Bank AG - Analyst*

Okay. And then -- but of those three premiums you will receive, is it kind of -- is the land the smallest and each one kind of progressively larger? Is that how it works?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

You know what, I'm not really sure about that, Mark. It's a good question. Typically, I would say the takeout refinance at the end is probably going to be the least premium. But the first two, I'm not sure how to rank it 1 or 2 and have to do some work on that.

Mark DeVries - *Deutsche Bank AG - Analyst*

Okay. And do you also include in the policy they take out the actual servers, the equipment in the building? Or is it just the building itself?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

We don't insure. Typically, when a principal is going to get a title policy, they'll get it for the amount that it takes to build the data center, right? And that includes the servers to get it to function. But if the data center doesn't work because of the servers or something like that, I mean, we're not on the hook for that. But yes, I mean, they will get a construction loan for the amount that it takes to build the data center, including all the equipment in it.

Operator

And there are no additional questions at this time. That concludes this morning's call. We'd like to remind listeners that today's call will be available for replay on the company's website or by dialing (877) 660-6853 or (201) 612-7415 and enter the conference ID 13761705. The company would like to thank you for your participation. This concludes today's teleconference. You may now disconnect.
