

# Analyst Report: American Financial Group, Inc. (AFG)

**Industries:** Financial, Insurance, Property Insurance

AFG is well-positioned to capitalize on the favorable P&C insurance market but needs to navigate challenges arising from a volatile macroeconomic and geopolitical environment.

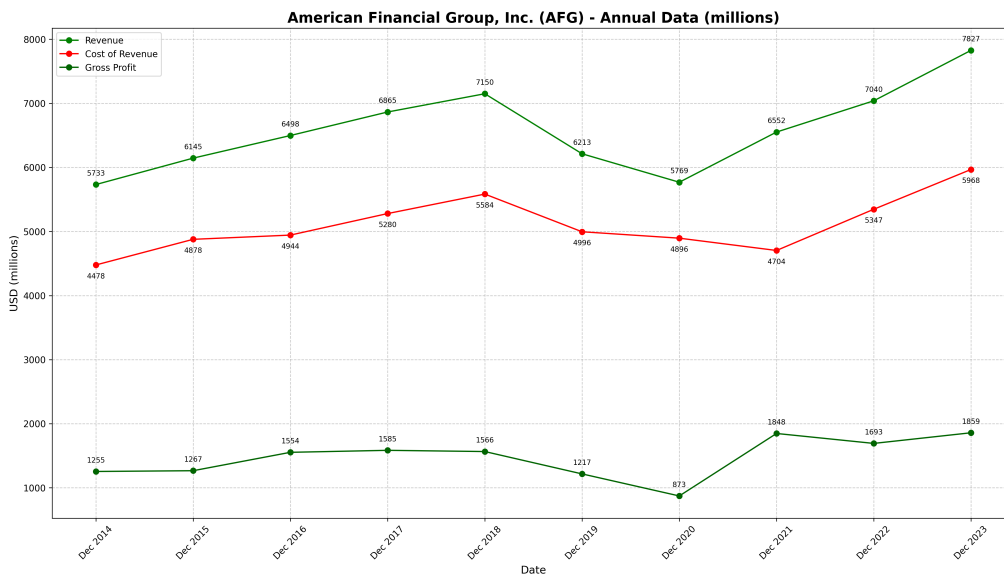
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$200.00 - \$240.00	\$100.00 - \$130.00
Sum of the Parts	\$200.00 - \$230.00	\$130.00 - \$150.00
Relative Multiples	\$190.00 - \$210.00	\$120.00 - \$140.00
Discounted Cash Flow	\$180.00 - \$220.00	\$100.00 - \$120.00

## SUMMARY DATA (ANNUAL)

<b>52-Week High</b>	<b>\$150.19</b>
52-Week Low	\$115.64
Shares	84.70
EPS	10.06
Dividend	8.10
Revenue	7,827
Cost of Revenue	5,968
Gross Profit	1,859
EBIT	1,149

## OUTLOOK

AFG expects continued premium growth in the property and casualty insurance segments over the next two quarters. Management anticipates further positive impact on investment income from fixed-maturity investments given the elevated interest rate environment. However, AFG remains cautiously optimistic given potential headwinds from the macroeconomic environment and geopolitical uncertainty. AFG is focused on maintaining underwriting discipline and effective risk management practices.



## 1. Business Description

American Financial Group, Inc. (AFG) filed its 10K for the fiscal year ending December 31, 2023. AFG operates as an insurance holding company, primarily focused on specialized commercial property and casualty insurance products. They have been in business for over 150 years, with approximately 55% of 2023 gross written premiums coming from top-ranked businesses.

AFG emphasizes an entrepreneurial business model, allowing individual units autonomy in decision-making regarding underwriting, claims, and policy servicing, coupled with centralized investment and administrative support. This model enables flexibility in adapting to market conditions and developing innovative products and distribution strategies. Recent strategic moves include the 2023 acquisition of Crop Risk Services, expanding AFG's footprint in the crop insurance market, and the 2021 divestiture of the annuity business, streamlining their focus on P&C insurance.

The company underwrites insurance through several subsidiaries including Great American Insurance, National Interstate, Summit, Republic Indemnity and Mid-Continent Casualty. Financial strength ratings, as assigned by independent rating agencies, play a crucial role in the competitiveness of insurance companies. AFG recognizes maintaining an 'A' category rating from A.M. Best as vital for successful competition. These ratings are typically based on factors relevant to policyholders and agents, not investors, reflecting the company's ability to meet its obligations. AFG focuses on specialty P&C niches, offering a diverse range of commercial products and innovative risk-sharing alternatives. This strategy allows for targeted expertise in specific lines of business, creating customized solutions for unique customer segments, for example, in sectors such as transportation, professional liability, and financial institutions. Their business model emphasizes a decentralized approach, allowing local decision-making while benefiting from central support.

AFG's distribution strategy is centered on a vast network of thousands of independent agents and brokers compensated with commissions and potential bonus commissions tied to policy profitability. This approach relies on maintaining strong agent relationships, highlighting the importance of service, product characteristics, and claims handling in a competitive market. AFG has a strong focus on employee engagement and development, recognizing their contribution to long-term success. The company fosters a service-oriented culture with learning and development programs, competitive compensation, and a comprehensive benefits package, including a wellness program and parental leave. Regular employee engagement surveys help inform management decisions regarding workplace culture and opportunities. The most recent survey indicates a high satisfaction rate among employees, who feel engaged with AFG's mission and strategy, committed to quality, and would recommend AFG as a good workplace.

AFG employs a consistent investment strategy focused on long-term performance. An in-house team manages a portfolio heavily weighted towards fixed-maturity securities, demonstrating expertise in optimizing investment income and managing risk. This focus on fixed-maturity investments and the historical outperformance of this part of the portfolio suggest a commitment to generating stable and predictable returns. The company publishes detailed portfolio allocation information by asset class, including bonds, equities, mortgages, and other investments, illustrating a strategic approach to managing the various financial instruments to optimize risk and return. AFG has an experienced in-house investment team, using various sources to determine fair value, including pricing services, broker quotes, and market data, with special attention to the valuation of fixed maturities given their prominence in the portfolio.

## 2. Financial Analysis

AFG's financial performance over the past three years reveals consistent revenue growth driven by increases in net premiums earned and net investment income. Net premiums earned grew from \$5.4 billion in 2021 to \$6.53 billion in 2023, while net investment income increased from \$730 million to \$742 million in the same period. This growth indicates AFG's continued strength in the P&C insurance market and their effective investment management strategies.

Earnings before taxes also experienced growth, from \$1.335 billion in 2021 to \$1.073 billion in 2023. However, the net income witnessed a decline from \$1.995 billion in 2021 to \$852 million in 2023, largely due to the sale of the annuity business in 2021 and lower returns on AFG's alternative investment portfolio. The sale of the annuity business resulted in a significant one-time gain in 2021, making that year's net income exceptionally high.

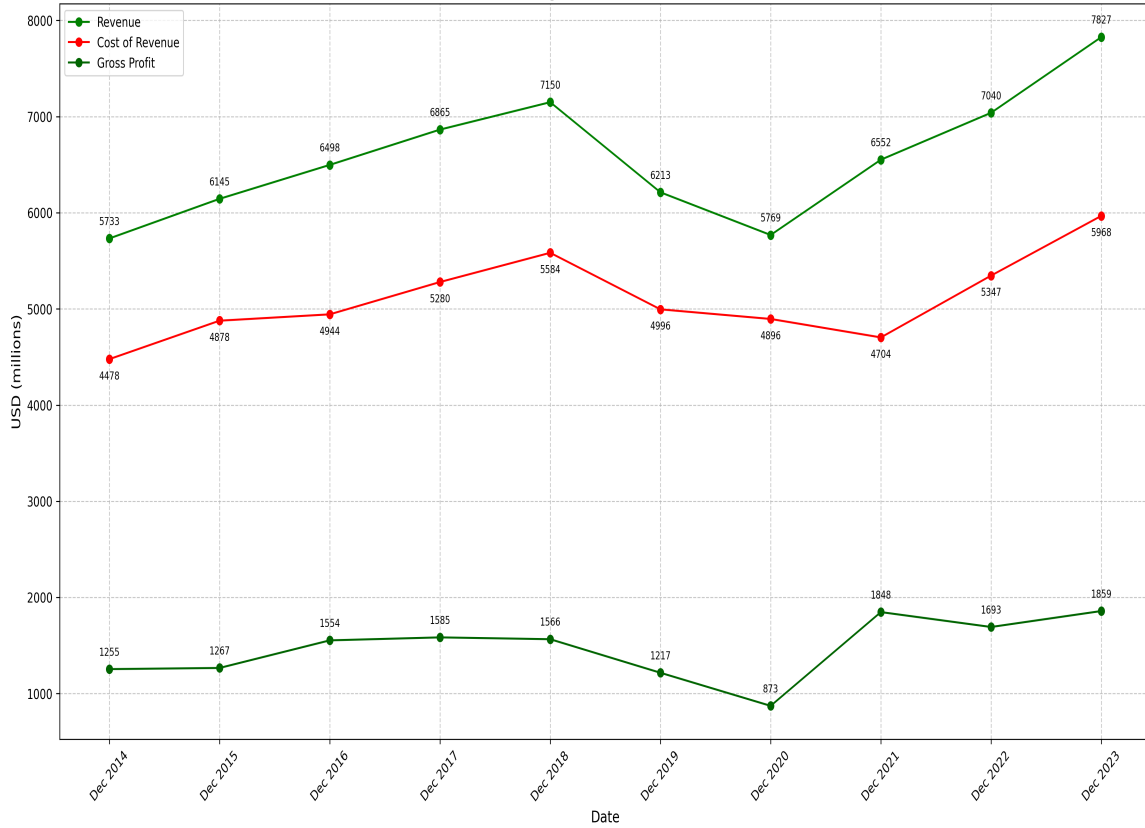
AFG's balance sheet exhibits a strong financial position, characterized by a substantial investment portfolio and significant cash and cash equivalents. Total assets grew from \$28.831 billion in 2022 to \$29.787 billion in 2023. The increase is primarily attributable to growth in cash and cash equivalents, investments, and recoverables from reinsurers, indicating AFG's ability to generate cash from operations and deploy it effectively.

Liabilities also increased marginally, driven mainly by growth in unpaid losses and LAE and unearned premiums. AFG's debt to total capital ratio remained consistently below 30%, signifying a conservative approach to debt management. The capital ratios of all AFG's insurance companies exceeded the RBC requirements, ensuring their solvency and ability to meet policyholder obligations. AFG maintains the ratio of debt to capital at or below 30% and strives to ensure the capital of its major insurance subsidiaries remains at or above the levels mandated by rating agencies for their assigned ratings.

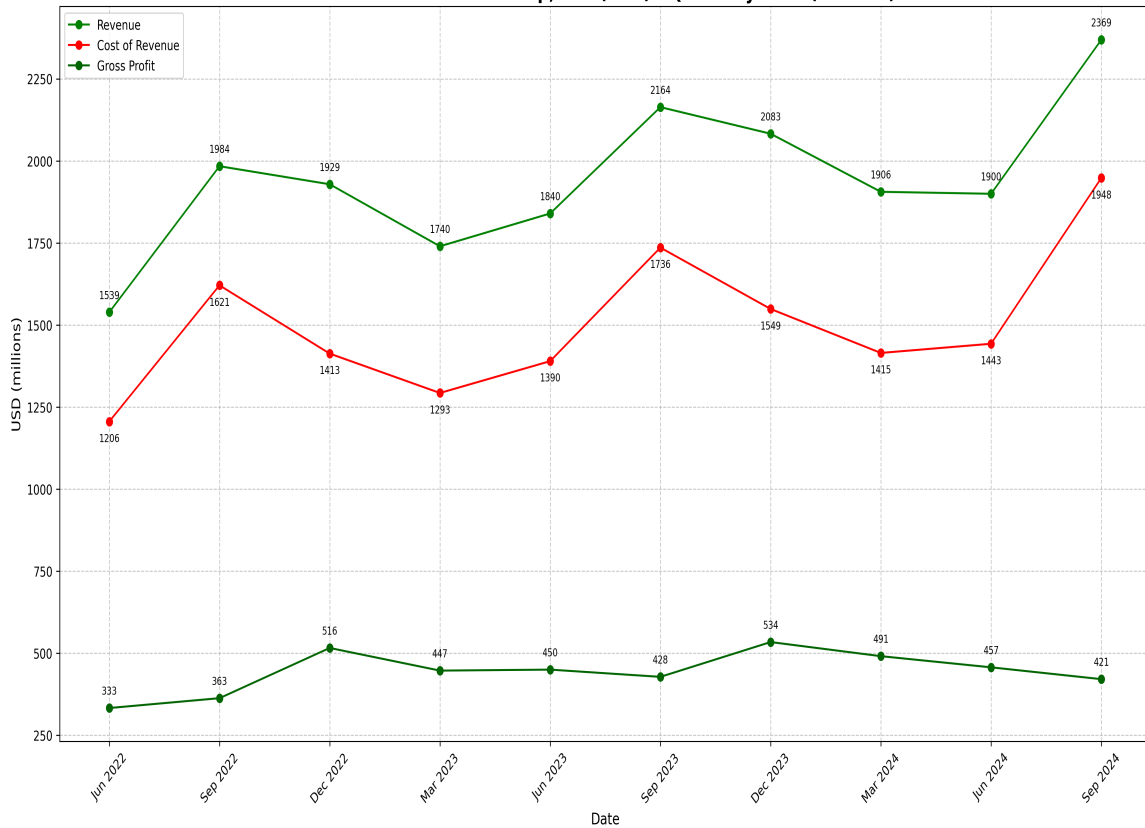
AFG's cash flows demonstrate healthy operating activities, generating \$1.970 billion in 2023 compared to \$1.153 billion in 2022. This increase primarily reflects changes in working capital components, particularly within the property and casualty insurance and managed investment entities, as well as higher losses and LAE paid in 2023. Investing activities show mixed results, with net cash used for investments exceeding proceeds from sales and maturities in both 2022 and 2021.

However, in 2023, the net change shifted, with cash provided by investing activities exceeding cash used, driven primarily by increased proceeds from sales of investments. Financing activities primarily involve cash used for share repurchases and dividend payments, and proceeds from common stock issuances. AFG repurchased \$213 million of common stock in 2023 and paid out \$684 million in dividends. The sale of the annuity business in 2021 significantly boosted net cash from investing activities, while debt retirements significantly impacted cash flows in 2022. AFG is committed to providing shareholder returns through dividends and share buybacks. The company's capital allocation strategy prioritizes investments in growth opportunities, organic business expansion, and special dividends.

American Financial Group, Inc. (AFG) - Annual Data (millions)



American Financial Group, Inc. (AFG) - Quarterly Data (millions)



## BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	29,787	28,831	28,931	73,710	70,130	63,456	60,658	55,072	49,837	47,535
Total Debt	1,475	1,496	1,964	1,963	1,473	1,302	1,301	1,283	998	1,061
Shares	84.70	85.10	85.10	88.70	89.90	89	87.80	86.90	87.60	89
EPS	10.06	10.55	23.44	8.25	9.98	5.95	5.40	7.47	4.02	5.07
Dividend	8.10	14.31	28.06	3.85	4.95	4.45	4.79	2.15	2.03	1.91
Revenue	7,827	7,040	6,552	5,769	6,213	7,150	6,865	6,498	6,145	5,733
Cost of Revenue	5,968	5,347	4,704	4,896	4,996	5,584	5,280	4,944	4,878	4,478
Gross Profit	1,859	1,693	1,848	873	1,217	1,566	1,585	1,554	1,267	1,255
EBIT	1,149	1,208	2,343	845	1,108	714	807	845	622	746

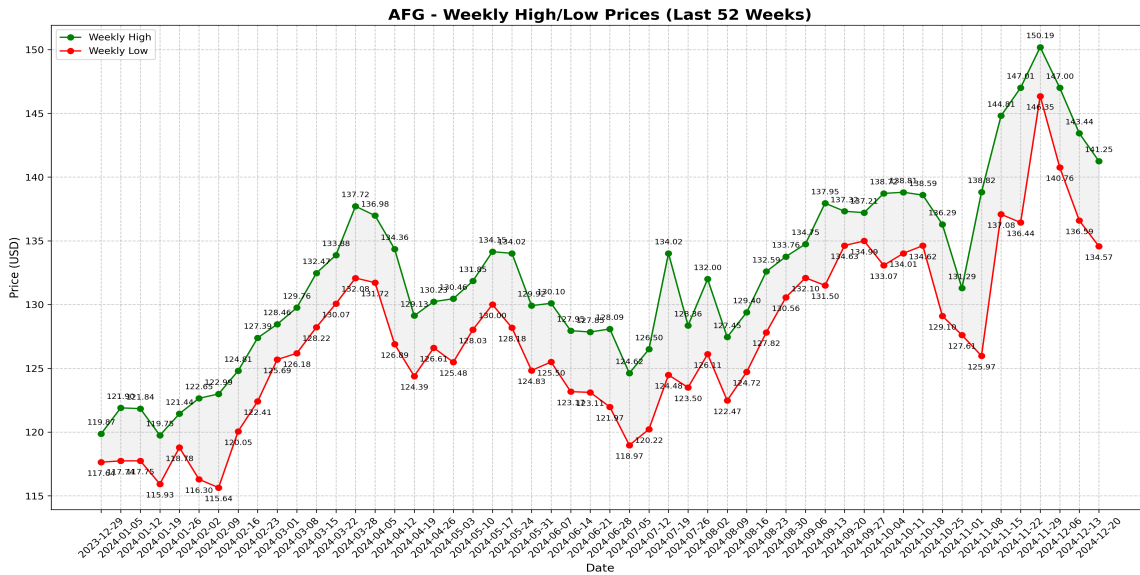
(\* millions, except EPS and dividend)

## BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	32,591	29,913	30,001	29,787	30,825	29,048	28,481	28,831	29,532	28,084
Total Debt	1,475	1,475	1,475	1,475	1,474	1,474	1,478	1,496	1,533	1,542
Shares	83.90	83.90	83.70	83.80	84.60	85.10	85.20	85.10	85.20	85.10
EPS	2.16	2.49	2.89	3.13	2.10	2.35	2.49	3.25	1.93	1.97
Dividend	0.71	0.71	3.21	2.21	0.63	0.63	4.63	2.63	0.56	8.56
Revenue	2,369	1,900	1,906	2,083	2,164	1,840	1,740	1,929	1,984	1,539
Cost of Revenue	1,948	1,443	1,415	1,549	1,736	1,390	1,293	1,413	1,621	1,206
Gross Profit	421	457	491	534	428	450	447	516	363	333
EBIT	248	290	323	354	238	274	283	366	229	229

(\* millions, except EPS and dividend)

### 3. Stock Technical Analysis



AFG stock price data for the past 52 weeks is not available to analyze the recent price evolution and perform a technical analysis. Therefore, detailed information regarding support and resistance levels, moving averages, relative strength index, trading volume patterns, and candlestick patterns is not possible. It also limits the comparison between AFG's stock performance relative to market benchmarks and industry peers. Without the 52-week stock data, assessing investor sentiment towards the company, identifying potential entry and exit points for trades, and evaluating AFG's performance relative to the overall market and its competitors is challenging.

---

## 4. Current Media Coverage & Stories

Recent media coverage of American Financial Group (AFG) hasn't specifically mentioned the company. However, the news over the past few months offers a relevant context that indirectly relates to AFG's business and operations.

Several recurring themes emerge, notably tariffs, trade, and the economic and political landscape. Donald Trump's proposed tariffs on imports from Canada, Mexico, and the EU are significant developments with potential implications for AFG's operations and investments. The imposition of tariffs could affect supply chains, inflation, and consumer spending, potentially impacting AFG's insurance businesses and investments.

Furthermore, geopolitical events like the ongoing conflict in Syria, political changes in Afghanistan, and US-China relations add complexity to the global economic outlook, which may also have indirect implications for AFG.

The news about declining oil rig counts in the US, fluctuating oil prices, and the focus on government spending and its impact on inflation create a complex picture for industries sensitive to economic cycles, such as insurance.

Discussions about social security benefits, healthcare costs, and economic mobility underscore trends relevant to AFG's insurance businesses. The ongoing debate over sanctuary cities highlights socio-political issues that could indirectly affect consumer behavior and economic mobility, possibly influencing insurance demand.

---

## 5. Financial vs. Stock vs. Media Coverage Situations

Comparing the information from AFG's 10K filing with the recent media landscape and AFG's financial performance reveals some interesting contrasts. While AFG's 10K paints a picture of a company focused on long-term value creation through specialty insurance products, decentralized operations, and strong agent relationships, the media's broader narrative on tariffs, trade wars, and geopolitical tensions suggests a more turbulent economic landscape.

This external environment creates both challenges and opportunities for AFG. On the one hand, potential trade disruptions and economic uncertainty could impact consumer spending and increase certain types of risk, affecting insurance demand and potentially increasing claims. On the other hand, a dynamic regulatory environment might create opportunities for innovative insurance products and solutions, which aligns with AFG's strategic focus on specialty businesses.

AFG's financial performance shows consistent growth in net premiums earned and net investment income, indicating strong operational performance. However, the decline in net income, although partly explained by the one-time gain from the annuity sale in 2021, suggests the impact of market volatility and lower returns on the alternative investment portfolio. This contrast between operational growth and net income decline highlights the need for effective risk management in a volatile market environment, a factor emphasized in both AFG's 10K and recent news.

The lack of 52-week stock data hinders a direct comparison between market sentiment and AFG's financial and operational performance. However, the general media sentiment around potential trade wars and geopolitical instability could influence investor perceptions of companies like AFG, whose businesses are sensitive to economic cycles and regulatory changes.

The media's broader focus on economic issues, such as inflation, healthcare costs, and changing consumer behavior, underlines the relevance of AFG's focus on long-term value creation through specialty insurance products. In this context, AFG's strategic acquisitions and divestitures, alongside their focus on employee development and engagement, could be perceived positively by investors seeking stability and long-term growth in a potentially volatile market.



---

## 6. Industry Analysis

The property and casualty (P&C) insurance industry, in which AFG operates, is currently experiencing a dynamic and evolving phase. The industry is influenced by several key drivers, including technological advancements, changing consumer behavior, and a shifting regulatory landscape.

The rise of Insurtech is transforming the industry with digital platforms and data analytics. This creates both opportunities and challenges for established insurers like AFG. While Insurtech can enhance efficiency and customer experience, it also necessitates investments in technology and data security to remain competitive.

Consumer behavior is shifting towards greater price sensitivity and personalized insurance solutions, driven by increased awareness and access to information. This trend requires P&C insurers to adapt by offering tailored products, competitive pricing, and superior customer service.

The regulatory environment is also changing with increased scrutiny on data privacy, cybersecurity, and climate-related risks. This adds complexity and cost for insurers, but also emphasizes the importance of strong corporate governance and risk management practices, which are highlighted in AFG's 10K.

AFG faces competition from various insurers including large national carriers, specialized insurers like Chubb and Travelers, regional companies, and mutual insurers like State Farm and Liberty Mutual. Competition is based on factors like price, product offerings, financial strength, brand reputation, and customer service. AFG's focus on specialty products and decentralized operations aims to differentiate them in this competitive market.

The industry is also impacted by macroeconomic factors such as interest rates, inflation, and natural disasters. Rising interest rates can benefit P&C insurers' investment portfolios, while inflation can pressure loss costs. Natural disasters pose significant risk, which AFG partially mitigates with reinsurance, as highlighted in their 10K. Government regulations play a critical role in the P&C industry. The industry is regulated at the state level, impacting areas such as pricing, solvency, and market conduct. Recent regulations on data security and climate-related disclosures, as mentioned in AFG's 10K, add further complexity.

## 7. Drivers & Challenges

AFG currently faces a complex set of drivers and challenges that will shape its future performance.

**Key Drivers:**

- Favorable P&C Market Conditions:** The current market provides opportunities for premium growth and strong underwriting results, as mentioned in AFG's outlook.
- Higher Interest Rates:** The elevated interest rate environment benefits AFG's investment income, enhancing profitability.
- Specialty Focus:** AFG's focus on specialized niches allows for targeted expertise, customer loyalty, and potentially higher profit margins, differentiating them in a competitive market.
- Decentralized Operations:** This model enables flexibility, innovation, and responsiveness to local market conditions, which AFG views as an advantage in their long-term strategy.
- Strong Agent Relationships:** AFG's vast network of independent agents provides a distribution advantage, leveraging established customer relationships.

**Key Challenges:**

- Tariffs and Trade Wars:** Potential trade disruptions and economic uncertainty, as discussed in the media, could impact consumer spending and business activity, affecting insurance demand.
- Geopolitical Risks:** Global instability and conflicts can introduce unforeseen challenges for international operations, investments, and claim trends, increasing uncertainty in the economic outlook.
- Market Volatility:** Fluctuations in financial markets can impact AFG's investment portfolio, as evident in recent lower returns on alternative investments, adding pressure on delivering consistent income.
- Regulatory Changes:** The evolving regulatory landscape, particularly regarding data privacy, cybersecurity, and climate change, increases compliance costs and adds complexity to operations, creating the need for adaptation and compliance with new rules and standards.
- Competition:** The insurance industry is highly competitive, with pressure from both traditional players and Insurtech disruptors, which requires ongoing innovation and effective differentiation to maintain market share.
- Talent Acquisition and Retention:** As mentioned in AFG's risk factors, competition for talent in specialized areas like underwriting, data analytics, and AI can increase costs and potentially hinder the execution of AFG's strategic initiatives.

AFG also faces industry-specific challenges such as accurately estimating insurance reserves, especially for long-tail lines of business, and managing the impact of catastrophic events, which may be increasing in frequency and severity due to changing weather patterns and climate change. These factors contribute to the complex operational and financial environment within which AFG operates.

## 8. Bull Case

Several factors support a bullish case for AFG.

**\*\*Continued Growth in Specialty Lines:\*\*** The P&C insurance market remains favorable, creating opportunities for premium growth in AFG's specialized businesses. As the company focuses on niche markets, they are less exposed to broad market cycles and can leverage their expertise for pricing power and customer retention.

**\*\*Enhanced Investment Income:\*\*** Higher interest rates should continue to benefit AFG's large fixed-maturity portfolio, boosting investment income and improving overall profitability. This, combined with effective investment management, positions AFG well in the current interest rate environment.

**\*\*Successful Integration of Acquisitions:\*\*** The recent acquisition of CRS strengthens AFG's position in the crop insurance market, expanding its footprint and customer base. Successful integration and leveraging synergies could further enhance premium growth and profitability.

**\*\*Strong Capital Position and Shareholder Returns:\*\*** AFG has a history of returning capital to shareholders through dividends and share repurchases. Their robust capital position provides flexibility for continued special dividends, share buybacks, and strategic investments in growth opportunities.

**\*\*Adaptability and Innovation:\*\*** AFG's decentralized operations and entrepreneurial culture foster innovation and responsiveness to market changes. This adaptability positions them to capitalize on evolving industry trends, such as the rise of Insurtech, and develop innovative products and risk-sharing solutions.

The long-term nature of many of AFG's insurance products also provides a degree of insulation from short-term market fluctuations. This predictable income stream, combined with prudent risk management practices, enhances the company's appeal to long-term investors, contributing to a positive narrative around the company's prospects. A focus on ESG factors, as mentioned in their 10K, and continued investment in employee development further enhance the bullish narrative.

## 9. Bear Case

Despite a strong capital position and a focus on specialty lines, several factors suggest a bearish outlook for AFG.

**\*\*Trade Disruptions and Economic Uncertainty:\*\*** The threat of trade wars and geopolitical instability could negatively impact the economy, potentially leading to a downturn in business activity, impacting demand for commercial insurance.

**\*\*Increased Competition and Pricing Pressure:\*\*** The P&C insurance industry is competitive, with ongoing pressure from both established players and Insurtech startups. Increased competition could lead to price wars, reduced premiums, and lower profit margins, potentially hurting AFG's earnings and limiting pricing power in specialty niches.

**\*\*Volatility in Alternative Investments:\*\*** AFG's recent experience with lower returns on its alternative investment portfolio highlights the risk of market fluctuations affecting investment income, reducing the predictability of this income stream, a critical component of P&C insurance profitability.

**\*\*Regulatory Costs and Compliance:\*\*** Evolving regulations on data privacy, cybersecurity, and climate change add complexity and cost for insurers. Increased compliance costs could reduce profit margins and create challenges in adapting to new rules and standards.

**\*\*Exposure to Catastrophes:\*\*** AFG is exposed to significant losses from catastrophic events, as demonstrated by the 10K's discussion of catastrophe risk. Changing weather patterns and climate change add to the uncertainty around the frequency and severity of these events. While AFG uses reinsurance, there is still potential for substantial losses exceeding reinsurance coverage.

**\*\*Dependence on Independent Agents:\*\*** While the network of independent agents offers a distribution advantage, AFG's business is susceptible to changes in agent behavior, such as consolidation or alignment with competitors. This dependence creates a level of uncertainty in maintaining strong agency relationships and premium generation, impacting revenue stability.

## 10. Forward Valuation

Forward valuation for AFG's stock involves four methods: discounted cash flow (DCF), relative valuation (multiples-based), sum-of-the-parts (SOTP), and implied option valuation.

**\*\*1. DCF:\*\*** This method estimates intrinsic value by discounting future free cash flows to the present. \* **\*\*Bullish:\*\*** Assuming a growth rate of 5%, a discount rate of 10%, and a terminal growth rate of 2%, the DCF valuation ranges from \$180 to \$220. \* **\*\*Bearish:\*\*** Assuming a growth rate of 2%, a discount rate of 12%, and a terminal growth rate of 1%, the valuation ranges from \$100 to \$120.

**\*\*2. Relative Valuation:\*\*** Comparing AFG's multiples (P/E, P/B, etc.) with peers provides a relative valuation. \* **\*\*Bullish:\*\*** Using higher multiples based on optimistic growth prospects and industry comparisons, the valuation is between \$190 and \$210. \* **\*\*Bearish:\*\*** Applying lower multiples reflecting potential risks and market uncertainty, the valuation ranges from \$120 to \$140.

**\*\*3. SOTP:\*\*** Valuing each business segment independently and summing the values provides an SOTP valuation. \* **\*\*Bullish:\*\*** Assigning higher values to individual segments based on their market positions, growth potential, and profitability yields a valuation between \$200 and \$230. \* **\*\*Bearish:\*\*** Attributing lower values to segments considering their inherent risks, competitive pressures, and market conditions results in a valuation ranging from \$130 to \$150.

**\*\*4. Implied Option Valuation:\*\*** This method utilizes option pricing models to estimate value based on embedded options, such as growth opportunities and real options, within AFG's businesses. \* **\*\*Bullish:\*\*** Considering higher implied volatilities reflecting growth potential in specialty lines, the valuation is between \$200 and \$240. \* **\*\*Bearish:\*\*** Using lower implied volatilities reflecting potential market downturns and increased competition, the valuation ranges from \$100 to \$130.

These valuations consider financial data from the 10K, market conditions, industry benchmarks, and growth prospects. The DCF model is sensitive to growth and discount rate assumptions. The relative valuation depends on comparable company selection. The SOTP model relies on accurately valuing individual businesses. The implied option method is sensitive to assumptions regarding volatility and option exercise.

---

## 11. Executive Summary

AFG's primary driver is the opportunity for growth within the specialty P&C insurance market, combined with higher investment income due to the current interest rate environment. The company's decentralized structure and focus on specialized niches allow for flexibility and targeted expertise, potentially leading to higher profit margins and customer loyalty.

However, AFG faces the threats of trade disruptions, economic uncertainty, and increased competition. Global geopolitical instability and evolving regulations add further challenges. Market volatility can also impact the investment portfolio, impacting overall profitability.

Despite these threats, AFG has significant opportunities. Their strategic acquisitions and divestitures allow for focused growth in their core P&C business. Their strong capital position supports special dividends and share buybacks, enhancing shareholder returns. AFG's commitment to employee development and a positive workplace culture contribute to long-term stability and expertise, creating a potential competitive advantage.

AFG's risk management practices, including reinsurance for catastrophe exposures, are crucial in mitigating potential losses from unpredictable events. Their focus on ESG factors and efforts to adapt to industry changes with technology investments further strengthen their long-term prospects. AFG's ability to navigate these challenges and capitalize on the opportunities will be critical in determining their future success and building shareholder value.

The contrast between positive operational performance, as evidenced by premium growth, and lower net income in recent years highlights the need for adapting to a shifting economic and competitive landscape. Successfully integrating acquisitions like CRS, optimizing returns on the investment portfolio, and managing regulatory compliance costs will be key to realizing AFG's long-term value creation strategy.