Quarterly Investor Call Transcript

Security National Financial Corporation
Quarter: Q1 2025
Date & Time: Thursday, May 15th 1PM MDT

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1. Welcome & Forward-Looking Statement

Presenter: HR Director Heather Street

“Good morning, everyone, and welcome to Security National Financial Corporation’s First Quarter 2025 Earnings Call. We thank you for joining us today to review our financial and operational results for the period ended March 31, 2025.
Before we begin, I’d like to remind everyone that our remarks today will include forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from those projected. Such risks include, but are not limited to, changes in economic conditions, interest rates, regulatory developments, competitive pressures, and other factors detailed in our filings with the Securities and Exchange Commission. We caution you not to place undue reliance on these forward-looking statements, which speak only as of today’s date. We undertake no obligation to publicly update or revise these statements to reflect future events or circumstances, except as required by law.

With that, I’d like to turn the call over to our Chairman, President, and Chief Executive Officer, Scott Quist.

Scott?”

2. Welcome & Remarks

Presenter: CEO Scott Quist

“A decrease in quarterly income is never our goal and falls below our self-set standards. Despite the decrease in net income, I believe that as a Company we performed operationally pretty well. Our Insurance Segment had its second best Q1 out of the last 5 years and our Death Care Segment had its 3rd best Q1 out of the last 5 years, which time period, it is important to note, includes the pandemic. Speaking now of our decrease in net income, of the approximate $4.05MM decrease in pretax quarterly income (see the table below), about 75%, or roughly $3MM, is attributable to decreases in both our realized and unrealized investment income. Our investment income can be, and is, “lumpy” between quarters and years, primarily due to its close relationship to real estate activities (home closings/lot sales) and secondarily to public equity markets.

Speaking to our $3MM decline in investment income and referring to that portion directly related to real estate activities, roughly 56%, or $1.7MM, is related to decreased construction profits and decreased gains on the sale of residential lots from our builder relationships. We simply participated in fewer home closings in Q1 2025 than in Q1 2024. I believe it is fair to say that in Q1 2025 the builders with whom we have profit-sharing relationships had more homes in the process of being built, but fewer closings. Margins appear to be consistent with 2024’s experience, but margins are always in issue until a home sale closes. Lastly, as a general real estate market comment, housing inventories and “days on market” appear to have increased, but not to a degree that causes alarm.

Roughly 42%, or $1.25MM of our $3MM investment income decline, is due to stock market declines in Q1. Generally speaking, we have chosen to not liquidate our positions, so the aforementioned loss is simply a recognized, but unrealized, stock market loss as of March 31, 2025.

Roughly $900K, or 22%, of the $4.05MM decrease in pretax income is related to an increase in our bad debt expense as prescribed by the adoption of CECL (Current Expected Credit Losses) in Q1 2024. Arguments can be credibly made that this accounting rule is simply another element of our investment income. In my view, CECL is a very formulaic and forward-looking calculation that places a heavier weight on outside factors at the time an asset is acquired and less weight on the company’s experience over the course of time. Time will tell if the Company’s allowances are appropriate, but in my view CECL did change, and does have the potential to further change in the future, the Company’s bad debt allowances based on factors that are outside of its control.

After accounting for the investment income and related decreases, the remaining elements causing the decrease in income are smaller in net impact and are much more numerous and nuanced. One element that probably merits comment is Personnel Costs. Personnel Costs rose 11.7%, or roughly $2.2MM, over 2024. Roughly speaking 5 percentage points of that increase relates to general annual compensation increases for both staff and management. We find it important to remain marketplace competitive in our compensation or our experienced staff are recruited away from us. The remaining increase relates to increased staffing, pretty much across all levels. We are constantly reviewing operational costs to ensure that we remain operationally efficient, but the majority of this increase represents very deliberate strategic hirings of high-quality, high-performing individuals to augment our sales and fulfillment staffs where we determined that we needed greater capability to reach our growth goals. Growth is expensive but is nevertheless our constant goal. We believe these increased Personnel Costs to be necessary investments which will yield returns in the years to come.

Despite the decrease in income, many accomplishments were made in the first quarter. In our Death Care Segment, we increased families served by 4%, in what we believe to be a flat to declining mortality climate. In our Insurance Segment we have improved our premium margin by several percentage points, reflecting the increased premium rates we have been implementing over the last several years. The full effect of those margin increases will not be apparent for several years hence. In our Mortgage Segment we increased volume by 11% in Q1 2025 over Q1 2024, with an improved mix of products. Importantly, our Mortgage Segment was both profitable and cash flow positive in March.

This concludes my prepared remarks, and I will now turn the time over to Mr. Garrett Sill, our Chief Financial Officer."

3. SNFC Financials

Presenter: CFO Garrett S. Sill

"Thank you, Scott. Good afternoon, my name is Garrett Sill, and I am the Chief Financial Officer of Security National Financial Corporation.

I want to start by pointing out that the investment related items that Scott highlighted in his comments are really found in three line items on the Company's Income Statement: In the "Revenues" section, (1) construction profits are a component of "Net investment income", (2) the gains on the sale of residential lots and the changes in unrealized gains (losses) on common stock are a component of "Gains on investments and other assets, and finally (3) our allowances that relate to our adoption of CECL are a component of the "Other" line item in the Benefits and expense section.

Reviewing our Balance Sheet, Total Investments increased 3% with the largest increase in our investment in mortgage loans, followed by an increase in bond holdings and then real estate as we continue to expand and develop single family real estate. In my view, our investments are of good credit quality and well balanced. Looking at our Liabilities, insurance reserves increased less than 1% simply due to the aging of our blocks of business. Bank loans increased about 15%, as we saw increase utilization of our outside warehouse lines due to increased mortgage originations.
Finally, our Statement of Comprehensive Income doesn't get a lot of time in the spotlight, but I thought it worthwhile to point out that we had a $5M improvement in our unrealized losses on our bond portfolio. The fair value of our bond portfolio compared to its amortized cost has not been this close since 2020.

Now I'd like to revisit our adoption of ASU 2023-07 or Improvements to Reportable Segment Disclosures. The purpose of this accounting change was to bring parity into the way that reportable business segments were disclosed by public companies. Prior to the change, the Company had always reported its segment's earnings before taxes. Beginning with the year ending December 31, 2024, the Company began to disclose its

reportable segment earnings after taxes as this was the SEC's preferred format. To aid our shareholders in multiyear and quarterly comparisons, the Company will continue to provide before tax segment earnings in its quarterly and annual press releases.
Now, let's look forward to another significant change to our financial reporting. In December of this year, we will adopt ASU 2018-12, better known as Targeted Improvements to the Accounting for Long-Duration Contracts, or "LDTI". Basically, the way that the Company will calculate and report on its life insurance reserves will change drastically. This has required a significant investment in time and other resources as we've worked on the implementation of these changes over the last two years. The Company is still evaluating the total impact of these accounting changes but should be able to report a range of its financial impact with our 3rd quarter earnings. The final impact and required disclosures will then be reported in our Form 10K, which will be filed in March 2026.

In closing, we are financially healthy as our balance sheet remains strong, with well-balanced investments and minimal debt. We will have some significant changes to the way life insurance reserves are calculated and reported in our financial statements for the year ended December 31, 2025, but are confident in our ability to meet the reporting timeline. All things considered; this was a good 1st quarter for the Company.

Thank you. I'll turn the time over to Andrew, our President of SecurityNational Mortgage."

4. SecurityNational Mortgage

Presenter: SNMC President Andrew Quist

"Thank you and good afternoon. I'm Andrew Quist, President of SecurityNational Mortgage Company. And I'll be covering the mortgage company's results in the first quarter of 2025. After my remarks, Adam Quist will be covering the life insurance company results and Steve Kehl will be covering the funeral home and cemetery results following that portion. I'd like to apologize in advance for my raspy voice, though some of you may prefer to my regular voice. Hopefully it will last for the balance of my comments.

In Q1 of 2025, SecurityNational Mortgage Company lost $1,994,000, compared to a loss of $1,964,000 in Q1 of 2024. This was an increase to our loss of $30,000 quarter over quarter or essentially flat. Seasonally, Q1 is a difficult quarter in the mortgage industry, but I do not believe our flat year over year results highlight the improvement in our mortgage operations in 2025 from 2024. The reason for that belief is Q1 2024 included a contra expense for deferred compensation of $700,000 and CECL credits of $360,000 more than Q1 2025. These items reduced 2024 2024's Q1 expenses by more than $1 million.

Q1 2025 did not have these accounting tailwinds. Making year-over-year comparisons difficult. SecurityNational Mortgage's origination volumes in Q1 2025 were strong. We originated 518 million in loan volume in Q1 2025 Compared to 467 million in Q1 2024, for a $50.5 million increase in production or up 11%. We believe this is a significant outperformance to the market. The most recent data available from the Mortgage Bankers Association indicates origination volumes nationwide we're up just 2%. From Q1 2024. Thus, our origination volumes would indicate a 5x outperformance over the nationwide originations. On a sequential quarter basis, securing national mortgages origination volume from Q4 2024 was down 10%.

Again, using the most recent data from the MBA, Nationwide, the decrease in origination volume from Q4 2024 to Q1 2025, is reported to be down 22%. We believe this strong origination performance is a direct result of our recruiting strategies in 2023 and 2024.

In summary of the quarter, our strong origination volumes compared to the overall market did not result in earnings improvement because of a large contra expense items booked in Q1 2024. But I believe that our cumulative recruiting has us well positioned for strong origination volumes and performance in the future.

Thank you."

5. Security National Life

Presenter: SNL President Adam Quist

"Good afternoon and thank you all for joining us today. My name is Adam Quist, and I am President of Security National Life Insurance Company and today I will report results for our core insurance operations for the first quarter ended March 31, 2025. On a GAAP basis, we earned $4.6 million, compared to $7.1 million in the same period last year— which was a decrease of $2.5 million, or about 35%.

While a year-over-year decline is never our aim, we view this past quarter as building the foundation for future growth, as we made strategic investments and fortified our underlying strength.

Let me begin with our premium collections, which remained relatively flat compared to Q1 2024. However, what's important to understand in this context is that we believe, on average, we've improved our premium margin by approximately 14% compared to the same period last year. Obviously, that means we're generating more margin on every new dollar of premium sold, which is a direct result of our efforts towards disciplined pricing and our ongoing product refinement, which has created some disruption to our sales force.

As Scott noted in his comments, margin improvements across the organization are intentional and reflect long-term efforts to improve profitability. For us in the life insurance segment, this margin expansion is a very deliberate and encouraging trend. But it should be noted that, as is the nature of a multi-pay insurance company, it will take some time for these improved margins to be fully reflected in our GAAP results.

Now let's walk through the major components behind our earnings change, focusing on the key drivers that put downward pressure on our earnings:

- First, our Personnel Costs increased by about $1 million, or 17%, year-over-year. This includes deliberate and strategic hiring of key talent that gives us new capabilities in areas such as lead generation, agent training, value creation to our funeral home partners, enhanced cross selling of our products, and more robust origination of commercial loans. We've also increased staffing in IT, HR, and other areas of operations—areas we've identified as vital for supporting future growth. Like Scott said, growth is expensive—but essential—and we view these costs as investments that will pay dividends over time.
- Second, our unrealized gains on common stocks were about $900,000 lower than in Q1 2024. As with the broader corporation, this largely reflects market-related fluctuations, as by and large, we have not liquidated our positions.
- Third, we also saw approximately a $900,000 decline in the deferral of commission expenses, following a Q3 2024 update to actuarial assumptions. These assumptions are reviewed quarterly.
- Lastly, bad debt expense increased by roughly $700,000, largely due to CECL reserve requirements. As Scott highlighted, CECL is a formulaic, forward-looking accounting rule that is heavily influenced by assumptions about perceived market conditions — these perceptions and associated assumptions required by CECL may not always be reflective of the long-term credit performance of our investments.

Despite these headwinds, which I would note the majority of which are either market-driven or accounting-based, and are not necessarily reflective of our operational health, we believe we saw positive operational trends in the quarter. We're identifying and addressing efficiency gaps, particularly in our new business and claims departments, and we're realigning staffing where needed. As Scott noted, our focus on margin expansion, capability development, and disciplined growth remains strong.

In summary, while our GAAP earnings were down, I believe our underlying fundamentals are strengthening. In my view, our improved premium margin and deliberate talent investments are critical steps to our sustainable, long-term success.

Thank you for your time and continued support. I look forward to sharing our progress with you in the quarters ahead. I will now turn the time over to Steve Kehl.

Thank you."

6. Security National Funeral Homes and Cemeteries

Presenter: FH&C COO Steve Kehl

"Thank you, Adam. Good afternoon, and I as well would like to thank each of you for joining us today. My name is Steve Kehl, and I am the Chief Operating Officer of Security National Funeral Homes and Cemeteries.

I want to begin by recognizing the dedication and professionalism of our funeral home and cemetery teams. Their unwavering commitment to service excellence and operational consistency continues to be a cornerstone of our stability and long-term growth, even as we navigate a more challenging macroeconomic environment.

In the first quarter of 2025, Security National Funeral Homes and Cemeteries reported net earnings before tax of $2.21 million, a 27% decline from $3.07 million in the first quarter of 2024. This decline was primarily driven by an $828,000 reduction in investment income gains, coupled with modestly softer performance in select mortuary and cemetery markets.

Despite these headwinds, we're seeing continued operational momentum and are investing strategically in areas we believe will drive sustainable, long-term value.

In the first quarter of 2025, our funeral home operations reported pre-tax net earnings of $613,000, reflecting a 6.9% decrease from $658,000 in the same period of 2024. Despite the decline in earnings, revenue grew by 3.4% year-over-year to $3.67 million. This increase was driven by a 3.0% rise in total services performed, along with a 0.4% increase in average revenue per contract.

Our revenue growth this quarter highlights the success of our enhanced service offerings, especially those tailored to cremation families, as well as the impact of our funeral director's customer-focused educational efforts. We continue to prioritize disciplined cost management across our funeral home operations to ensure we fully capture the benefits of this top-line momentum.

In the first quarter of 2025, our cemetery operations delivered pre-tax net earnings of $815,000, representing a 1.2% increase compared to $805,000 in the same period last year. Revenue held steady at $3.66 million, with a modest year-over-year decline of 0.2%. Interment volumes rose by 3% over the prior year, largely driven by continued growth in cremation-related services—highlighting both evolving consumer preferences and the strong reception to our broadened suite of offerings.

We remain focused on the ongoing development of our cemeteries, ensuring we offer a comprehensive range of burial and cremation options that reflect the diverse needs of the families we are honored to serve.

Our investment income totaled $778,000 in the first quarter of 2025, representing a 51% decrease compared to the same period last year. This decline was primarily due to the absence of $637,000 compared to prior-year investment returns associated with our home builder relationships, as well as a $360,000 reduction in unrealized gains on common stock positions. These were partially offset by contributions from our undeveloped real estate activities.

As Scott has mentioned, “Our investment income can be and is “lumpy” between quarters and years primarily due to its close relationship to real estate activities, and secondly to public equity markets.”

Looking ahead to the remainder of 2025, our strategic priorities remain centered on growth, operational discipline, and long-term value creation. Key areas of focus include:
1) Talent Development & Training: Strengthening the capabilities of our funeral and sales staff—especially in articulating value in the cremation space.
2) Technology Investment: Deploying digital tools to enhance service efficiency and elevate the customer experience.
3) Expense Management: Maintaining disciplined cost controls across all operating units to support margin expansion.
4) Sales Culture & Accountability: Recruiting top performers and reinforcing a results-oriented culture across our field operations.

We remain cautiously optimistic about the remainder of the year. While market volatility may continue to impact investment-related income, we are confident in the resilience of our operating model and the growth potential of our core operating business segments.

Our deliberate investments in people, technology, and service innovation, combined with strong cost discipline, will continue to enhance our competitive position and drive performance gains in the coming quarters.

Thank you for your time and continued support. We value your partnership and remain committed to delivering long-term returns for our shareholders.”

7. Q&A Instructions + Live Q&A

Presenter: HR Director Heather Street

“Before we conclude today's call, we would like to open the floor for questions. As a reminder to ask a question, please use the Zoom platform to raise your hand to unmute. Or you may submit questions through the Zoom Q&A panel. Include your name and organization will take as many as time permits.”

Question from Will Waller:

“I've got a question. When I look at your sort of your tangible equity, which I come up with by looking at your equity and then subtracting out the value of business acquired and Goodwill. I look at it and I kind of see about a $330 million average amount of equity that you had during the first quarter with about 4.3 million of net income, that annualizes to about 17 or just a little over 17 million of annualized net income, which would be about a 5.2% return on equity. When I look at that equity number, though, I say to myself, it's pretty undervalued given you've got so much real estate that's on the books at significantly below market values. And so, when I sort of adjust that tangible equity I come up with more like a $410 million number. So, my question for you is when I adjust that, then I come with around a 4.2% return on tangible equity. So, either way that I look at it, the return on tangible equity is quite low. I know your explanation is that you're investing in people for the future. So, my question is, once you get to the point where you've invested for the future. What do you think your future return on equity can be or what do you think is adequate for a publicly traded company where the risk-free rate in the markets today is really very similar to the type of return on equity that you're generating?”

Response from CEO Scott Quist:

“Allow me to respond. First of all, to your adjustments Will, I’m glad you are paying attention I will not comment as to how accurate your estimations on real estate etc. are, we look at the numbers as they are. Referring to the return on equity of… I disagree with the comment that we were low because we were investing in talented people. Instead, I would say, no, we were low because the investment returns on investments we've already made in real estate were not equal to what they were in 2024 and that same comment would hold true for the stock market. I mean, the reality is if you talk in rough numbers, when comparing to 2024, we were at seven point whatever million 7.7 million I think and when that went down to three… I'm looking at it now. Pre-tax, we were 9.6 million, excuse me last year this year, pre-tax, we were 5.5 million that $4 million delta, 3 million of that I can point to home closings, lot sales and a million of that I can point to season. So, one could argue that the increased personnel have already paid for themselves keeping the company on a level operating basis. We don't view it that way. We think there's going to be great returns ahead. Lastly, I would say, and when you compare rates of return, I would say beauty is in the eye of the beholder. If you believe you're better served by buying U.S. Treasuries, than I think you should. We believe our earnings will be growing. We believe… that operationally the company is performing well, and we've given the reasons why. But again, beauty is in the eye of the beholder.”

Presenter: HR Director Heather Street

"Thank you again for your questions and participation. We value the engagement and thoughtful input of our shareholders and analysts.

Before we officially close, I'd like to take this opportunity to remind everyone that our Annual Shareholder Meeting will be held on June 27, 2025, at 10:00 a.m. Mountain Daylight Time, at 433 Ascension Way, 1st Floor, Salt Lake City, Utah. For those unable to attend in person, the meeting will also be available via Zoom."

8. Closing Remarks

Presenter: HR Director Heather Street

"For more information about the meeting, our latest financial reports, or any other investor materials, we invite you to visit the Investor Relations section of our website at www.securitynational.com.

We appreciate your continued support of Security National Financial Corporation. This concludes our first quarter 2025 earnings call. We look forward to speaking with you again soon.

Thank you and have a great day."