



First American Financial Corp (FAF)

Updated February 16th, 2025 by Quinn Mohammed

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	15.0%	Market Cap:	\$6.6 B
Fair Value Price:	\$62	5 Year Growth Estimate:	13.0%	Ex-Dividend Date¹:	03/10/2025
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date¹:	03/17/2025
Dividend Yield:	3.4%	5 Year Price Target:	\$115	Years of Dividend Growth:	14
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

First American Financial Corporation traces its roots back to 1889 when two firms opened to handle title matters in the brand-new county of Orange County, California. In 1894, these two entities merged into the Orange County Title Company, the immediate predecessor to what is known today as First American Title Insurance Company, the largest subsidiary of First American Financial Corporation. In 1988, First American opened title insurance offices in Canada. Shortly after, it used a similar business model to develop international operations across the globe. First American was the first title insurance provider in Mexico, Korea, and Hong Kong and now possesses the leading market share in Australia and England.

First American trades on the NYSE under the ticker FAF and has a market capitalization of \$6.6 billion. FAF provides insurance through two segments: title insurance and related services and specialty insurance. Title insurance and related services include real estate insurance, property closing services, escrow, risk mitigation, real estate data products and related real estate transaction services. The title insurance sector provides insurance to residential and commercial customers. In 2024, First American Financial generated \$6.1 billion in revenue.

On September 10th, 2024, First American Financial raised its dividend 2% to \$0.54 quarterly per share. This marked its 14th consecutive annual dividend increase.

On February 12th, 2025, First American reported fourth quarter results. The company generated revenue of \$1.7 billion, which was an 18% increase compared to the prior year quarter. Adjusted net income nearly doubled to \$1.35 per share from \$0.69 in fourth quarter 2023.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.62	\$3.09	\$3.76	\$4.19	\$6.22	\$6.16	\$11.14	\$2.45	\$3.80	\$4.40	\$5.03	\$9.27
DPS	\$1.00	\$1.20	\$1.44	\$1.60	\$1.68	\$1.78	\$1.94	\$2.06	\$2.10	\$2.14	\$2.16	\$2.96
Shares²	109.1	110.0	110.9	111.5	112.5	113.0	111.4	104.9	104.4	104.2	104.0	100.0

Earnings per share trended substantially higher into 2019, and the COVID pandemic did not cause significant distress for the firm in 2020. In 2021, FAF generated very strong results but in 2022 the company suffered net investment losses which caused a downturn in its reported earnings. The company has performed well over the long term, but recent results have been challenged by a difficult title market. In the last nine and five years, the CAGR of First American's EPS has been 5.9% and -6.7%, respectively.

First American's markets previously experienced higher revenue and increased transaction activity as a result of low interest rates. However, while low interest rates fueled the demand for home purchasing, and residential refinancing in prior years, the runup in interest rates weighed heavily on sales in 2023 and 2024, but in 2025 we expect the beginning of a turnaround. Still, housing affordability at its lowest level in over three decades, limited inventory, and elevated

¹ Estimate

² In millions

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mortgage rates are all major headwinds to the company’s near-term growth. As a result, the company is putting more emphasis on expense management.

Over the next five years, we expect the title insurance market to recover, largely due to the decrease in interest rates by the Fed. From 2025, FAF can be expected to grow EPS by 13% annually. We also expect the dividend to grow at half the pace of earnings, or 6.5%.

First American’s growth strategy revolves around three pillars: profitably grow the core title and settlement business, strengthen the enterprise through data and process advantage, and manage and actively invest in complementary business where it has a strategic advantage. The company will also make value-creating investments in the core business and acquire or invest in businesses that fit within its strategy, such as ServiceMac in 2021 and Mother Lode in 2022. It also launched Sequoia, a pilot program for automating underwriting for purchase transactions, in mid-2024.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.1	12.4	12.1	12.7	8.9	8.4	7.8	7.8	25.8	13.7	12.7	12.4
Avg. Yld.	2.7%	3.1%	3.2%	3.0%	3.0%	3.5%	2.9%	3.4%	3.6%	3.5%	3.4%	2.6%

First American Financial Corp trades at 12.7 times this year’s earnings expectations of \$5.03 per share. This is in line with the ten-year average P/E ratio and the five-year average ratio. Our fair value estimate of 12.4 times earnings, which is the 10-year average valuation of the stock, implies the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

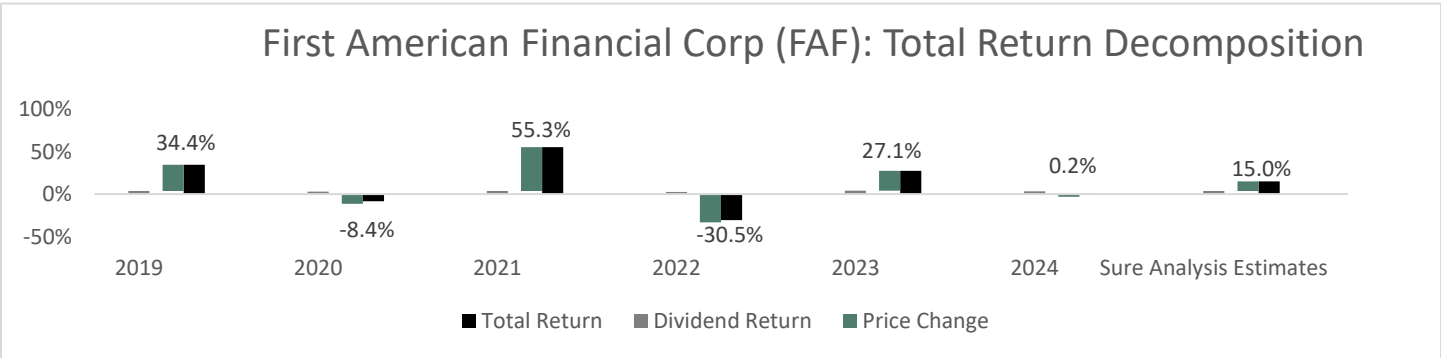
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	38%	39%	38%	38%	27%	29%	17%	84%	55%	49%	43%	32%

FAF has had a fairly stable payout ratio in the 30% to 40% range on average, however in 2022 it exceeded this meaningfully. FAF was not a public company during the great financial crisis, however it’s entrenchment into the housing market which had great difficulties in that recession would have likely caused problems in the company’s earnings, so we don’t consider FAF to be recession resistant. FAF has a data advantage amongst its peers, which they can leverage to achieve market-leading title automation. Additionally, FAF is geographically diversified and was even the first title insurer in some countries, and in others they possess the leading market share.

Final Thoughts & Recommendation

First American Financial Corporation has more than one hundred years in the title insurance business and is investing into technology to raise its top and bottom lines. We believe the company can achieve EPS growth of 13.0% along with the 3.4% starting yield, partly offset by -0.4% multiple compression. We forecast total annualized returns of 15.0% over the intermediate term and find that the company trades just above our estimate of fair value. FAF earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	5,175	5,576	5,769	5,745	6,199	7,081	9,214	7,594	6,004	6128
SG&A Exp.	1,595	1,655	1,724	1,749	1,806	1,941	2,350	2,340	1,989	2059
D&A Exp.	86	99	128	126	129	149	158	167		
Net Profit	288	343	423	474	707	696	1,241	263	217	131
Net Margin	5.6%	6.2%	7.3%	8.3%	11.4%	9.8%	13.5%	3.5%	3.6%	2.1%
Free Cash Flow	428	357	498	675	806	971	1,059	520		
Provision for Tax	144	134	23	134	195	223	393	61	59	33

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	8,237	8,832	9,573	10,631	11,519	12,796	16,451	14,955	16,800	14910
Cash & Equivalents	1,051	1,027	1,429	1,503	1,530	1,321	1,286	1,287	3,605	1718
Accts Receivable	288	330	334	349	337	399	455	388		
Goodwill & Intang.	1,012	1,096	1,213	1,254	1,243	1,573	1,806	1,992	1,961	1930
Total Liabilities	5,484	5,817	6,090	6,885	7,094	7,874	10,668	10,267	16,800	14910
Accounts Payable	56	59	68	47	59	56	87	51		
Long-Term Debt	581	737	733	808	1,007	1,527	2,186	2,012	0	
Total Equity	2,750	3,008	3,480	3,742	4,420	4,910	5,767	4,665	4,848	4908
LTD/E Ratio	0.21	0.24	0.21	0.22	0.23	0.31	0.38	0.43	0.00	

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.6%	4.0%	4.6%	4.7%	6.4%	5.7%	8.5%	1.7%	1.4%	0.8%
Return on Equity	10.8%	11.9%	13.0%	13.1%	17.3%	14.9%	23.2%	5.0%		
ROIC	8.9%	9.7%	10.6%	10.8%	14.2%	11.7%	17.2%	3.6%	3.8%	2.2%
Shares Out.	109.1	110.0	110.9	111.5	112.5	110.4	111.4	107.3	104.6	104.3
Revenue/Share	47.12	50.16	51.31	50.72	54.54	62.65	82.71	70.77	57.39	58.75
FCF/Share	3.89	3.21	4.43	5.96	7.09	8.59	9.51	4.85		

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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