

Edgar Filing: Employers Holdings, Inc. - Form 10-Q

Employers Holdings, Inc.
Form 10-Q
July 26, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Quarterly Period Ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from ____ to ____

Commission file number: 001-33245

EMPLOYERS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada 04-3850065

(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification Number)

10375 Professional Circle, Reno, Nevada 89521

(Address of principal executive offices and zip code)

(888) 682-6671

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
o No R

Class

July 19, 2018

Common Stock, \$0.01 par value per share 32,759,375 shares outstanding

TABLE OF CONTENTS

	Page No.
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1 Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017 (Unaudited)</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2 Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>30</u>
<u>Item 4 Controls and Procedures</u>	<u>30</u>
 <u>PART II – OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>31</u>
<u>Item 1A Risk Factors</u>	<u>31</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
<u>Item 3 Defaults Upon Senior Securities</u>	<u>31</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>31</u>
<u>Item 5 Other Information</u>	<u>31</u>
<u>Item 6 Exhibits</u>	<u>32</u>
 <u>Signatures</u>	 <u>33</u>

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in millions, except share data)

	As of June 30, 2018 (unaudited)	As of December 31, 2017
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost \$2,418.0 at June 30, 2018 and \$2,421.0 at December 31, 2017)	\$ 2,401.2	\$ 2,463.4
Equity securities at fair value (cost \$113.5 at June 30, 2018 and \$116.7 at December 31, 2017)	197.7	210.3
Equity securities at cost	6.4	—
Short-term investments at fair value (amortized cost \$4.0 at December 31, 2017)	—	4.0
Total investments	2,605.3	2,677.7
Cash and cash equivalents	146.3	73.3
Restricted cash and cash equivalents	1.0	1.0
Accrued investment income	18.6	19.6
Premiums receivable (less bad debt allowance of \$7.5 at June 30, 2018 and \$10.0 at December 31, 2017)	355.6	326.7
Reinsurance recoverable for:		
Paid losses	7.6	7.2
Unpaid losses	512.5	537.0
Deferred policy acquisition costs	51.7	45.8
Deferred income taxes, net	24.4	28.7
Property and equipment, net	20.3	13.9
Intangible assets, net	7.8	7.9
Goodwill	36.2	36.2
Contingent commission receivable—LPT Agreement	32.0	31.4
Other assets	49.2	33.7
Total assets	\$ 3,868.5	\$ 3,840.1
Liabilities and stockholders' equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	\$ 2,227.9	\$ 2,266.1
Unearned premiums	360.2	318.3
Total claims and policy liabilities	2,588.1	2,584.4
Commissions and premium taxes payable	58.9	55.3
Accounts payable and accrued expenses	23.4	23.7
Deferred reinsurance gain—LPT Agreement	154.7	163.6
Notes payable	20.0	20.0
Other liabilities	66.9	45.4
Total liabilities	\$ 2,912.0	\$ 2,892.4
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 56,866,727 and 56,695,174 shares issued and 32,759,575 and 32,597,819 shares outstanding at June 30,	\$ 0.6	\$ 0.6

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2018 and December 31, 2017, respectively

Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	382.4	381.2
Retained earnings	970.8	842.2
Accumulated other comprehensive (loss) income, net of tax	(13.3) 107.4
Treasury stock, at cost (24,107,152 shares at June 30, 2018 and 24,097,355 shares at December 31, 2017)	(384.0) (383.7)
Total stockholders' equity	956.5	947.7
Total liabilities and stockholders' equity	\$ 3,868.5	\$ 3,840.1

See accompanying unaudited notes to the consolidated financial statements.

3

Employers Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenues				
Net premiums earned	\$ 178.0	\$ 171.7	\$ 354.6	\$ 347.1
Net investment income	20.3	18.2	39.7	36.9
Net realized and unrealized gains (losses) on investments	5.7	1.1	(2.4)	3.3
Gain on redemption of notes payable	—	2.1	—	2.1
Other income	0.1	0.1	0.1	0.1
Total revenues	204.1	193.2	392.0	389.5
Expenses				
Losses and loss adjustment expenses	87.8	106.1	183.2	215.0
Commission expense	24.5	21.5	48.2	43.0
Underwriting and other operating expenses	40.1	32.6	79.2	68.6
Interest and financing expenses	0.4	0.4	0.7	0.8
Total expenses	152.8	160.6	311.3	327.4
Net income before income taxes	51.3	32.6	80.7	62.1
Income tax expense	8.8	7.8	12.6	14.1
Net income	\$ 42.5	\$ 24.8	\$ 68.1	\$ 48.0
Comprehensive income				
Unrealized AFS investment (losses) gains arising during the period (net of taxes of \$(3.0) and \$4.5 for the three months ended June 30, 2018 and 2017, respectively, and \$(12.6) and \$9.7	\$ (11.3)	\$ 8.4	\$ (47.1)	\$ 17.9

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for the six months ended June 30, 2018 and 2017, respectively)				
Reclassification adjustment for realized AFS investment losses (gains) in net income (net of taxes of \$(0.4) for the three months ended June 30, 2017, and \$0.1 and \$(1.2) for the six months ended June 30, 2018 and 2017, respectively)	—	(0.7)	0.4
				(2.1
)
Other comprehensive (loss) income, net of tax	(11.3)	7.7	(46.7
)
				15.8
Total comprehensive income	\$ 31.2	\$ 32.5	\$ 21.4	\$ 63.8
Net realized and unrealized gains (losses) on investments				
Net realized and unrealized gains (losses) on investments before impairments	\$ 5.7	\$ 1.1	\$ (0.4)
				\$ 3.5
Other than temporary impairment recognized in earnings	—	—	(2.0)
				(0.2
)
Net realized and unrealized gains (losses) on investments	\$ 5.7	\$ 1.1	\$ (2.4)
				\$ 3.3
Earnings per common share (Note 12):				
Basic	\$ 1.29	\$ 0.76	\$ 2.07	\$ 1.48
Diluted	\$ 1.28	\$ 0.75	\$ 2.05	\$ 1.46
	\$ 0.20	\$ 0.15	\$ 0.40	\$ 0.30

Cash dividends
declared per
common share and
eligible RSUs and
PSUs

See accompanying unaudited notes to the consolidated financial statements.

4

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Employers Holdings, Inc. and Subsidiaries
 Consolidated Statements of Stockholders' Equity
 For the Six Months Ended June 30, 2018 and 2017
 (Unaudited)

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Treasury Stock at Cost	Total Stockholders' Equity
	(in millions, except share data)						
Balance, January 1, 2018	56,695,174	\$ 0.6	\$ 381.2	\$ 842.2	\$ 107.4	\$(383.7)	\$ 947.7
Stock-based obligations	—	—	3.9	—	—	—	3.9
Stock options exercised	13,800	—	0.2	—	—	—	0.2
Vesting of RSUs and PSUs, net of shares withheld to satisfy tax withholdings	157,753	—	(2.9)	—	—	—	(2.9)
Acquisition of common stock	—	—	—	—	—	(0.3)	(0.3)
Dividends declared	—	—	—	(13.3)	—	—	(13.3)
Net income for the period	—	—	—	68.1	—	—	68.1
Reclassification adjustment for adoption of ASU No. 2016-01	—	—	—	—	—	—	—