

Employers Holdings, Inc.
Form 10-Q
October 27, 2016

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 September 30, 2016

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 R No o

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 R No o

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

Large accelerated filer R Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

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Class	October 20, 2016
Common Stock, \$0.01 par value per share	32,087,739 shares outstanding

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

	As of September 30, 2016 (unaudited)	As of December 31, 2015
Assets		
Available for sale:		
Fixed maturity securities at fair value (amortized cost \$2,273,100 at September 30, 2016 and \$2,221,100 at December 31, 2015)	\$ 2,383,900	\$ 2,288,500
Equity securities at fair value (cost \$114,400 at September 30, 2016 and \$137,500 at December 31, 2015)	184,500	198,700
Short-term investments at fair value (amortized cost \$14,000 at September 30, 2016)	14,000	—
Total investments	2,582,400	2,487,200
Cash and cash equivalents	84,100	56,600
Restricted cash and cash equivalents	2,700	2,500
Accrued investment income	20,300	20,600
Premiums receivable (less bad debt allowance of \$10,700 at September 30, 2016 and \$12,200 at December 31, 2015)	317,100	301,100
Reinsurance recoverable for:		
Paid losses	8,300	7,700
Unpaid losses	591,500	628,200
Deferred policy acquisition costs	46,800	44,300
Deferred income taxes, net	41,100	67,900
Property and equipment, net	22,600	24,900
Intangible assets, net	8,300	8,500
Goodwill	36,200	36,200
Contingent commission receivable—LPT Agreement	31,100	29,200
Other assets	31,800	40,900
Total assets	\$ 3,824,300	\$ 3,755,800
Liabilities and stockholders' equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	\$ 2,330,000	\$ 2,347,500
Unearned premiums	325,600	308,900
Total claims and policy liabilities	2,655,600	2,656,400
Commissions and premium taxes payable	50,500	52,500
Accounts payable and accrued expenses	17,500	24,100
Deferred reinsurance gain—LPT Agreement	177,800	189,500
Notes payable	32,000	32,000
Other liabilities	40,800	40,500
Total liabilities	\$ 2,974,200	\$ 2,995,000
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 56,124,974 and 55,589,454 shares issued and 32,109,976 and 32,216,480 shares outstanding at September 30, 2016 and December 31, 2015, respectively	\$ 600	\$ 600

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Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	368,600	357,200
Retained earnings	744,500	682,000
Accumulated other comprehensive income, net	117,600	83,600
Treasury stock, at cost (24,014,998 shares at September 30, 2016 and 23,372,974 shares at December 31, 2015)	(381,200) (362,600)
Total stockholders' equity	850,100	760,800
Total liabilities and stockholders' equity	\$ 3,824,300	\$ 3,755,800

See accompanying unaudited notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	(unaudited)		(unaudited)	
Net premiums earned	\$173,300	\$179,000	\$522,800	\$508,600
Net investment income	17,900	18,500	54,100	53,800
Net realized gains on investments	1,600	2,000	9,100	5,100
Other income	—	—	600	100
Total revenues	192,800	199,500	586,600	567,600
Expenses				
Losses and loss adjustment expenses	109,000	115,800	328,000	323,500
Commission expense	21,300	21,000	63,500	62,600
Underwriting and other operating expenses	31,700	31,600	101,600	97,600
Interest expense	400	700	1,200	2,100
Total expenses	162,400	169,100	494,300	485,800
Net income before income taxes	30,400	30,400	92,300	81,800
Income tax expense	7,800	5,900	21,100	14,100
Net income	\$22,600	\$24,500	\$71,200	\$67,700
Comprehensive income				
Unrealized (losses) gains during the period (net of tax (benefit) expense of \$(2,300) and \$(5,900) for the three months ended September 30, 2016 and 2015, respectively, and \$21,500 and \$(14,200) for the nine months ended September 30, 2016 and 2015, respectively)	\$ (4,200)	\$ (11,100)	\$ 39,900	\$ (26,500)
Reclassification adjustment for realized gains in net income (net of taxes of \$600 and \$700 for the three months ended September 30, 2016 and 2015, respectively, and \$3,200 and \$1,800 for the nine months ended September 30, 2016 and 2015, respectively)	(1,000)	(1,300)	(5,900)	(3,300)
Other comprehensive (loss) income, net of tax	(5,200)	(12,400)	34,000	(29,800)
Total comprehensive income	\$17,400	\$12,100	\$105,200	\$37,900
Net realized gains on investments				
Net realized gains on investments before credit related impairments	\$1,600	\$2,100	\$14,400	\$5,300
Other than temporary impairment recognized in earnings	—	(100)	(5,300)	(200)
Net realized gains on investments	\$1,600	\$2,000	\$9,100	\$5,100
Earnings per common share (Note 11):				
Basic	\$0.70	\$0.76	\$2.19	\$2.12
Diluted	\$0.69	\$0.75	\$2.16	\$2.08
Cash dividends declared per common share	\$0.09	\$0.06	\$0.27	\$0.18

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,	
	2016	2015
	(unaudited)	
Operating activities		
Net income	\$71,200	\$67,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,400	5,900
Stock-based compensation	4,300	3,200
Amortization of premium on investments, net	11,400	9,500
Allowance for doubtful accounts	(1,500)	3,700
Deferred income tax expense	8,500	4,500
Realized gains on investments, net	(9,100)	(5,100)
Excess tax benefits from stock-based compensation	—	(800)
Other	(200)	(100)
Change in operating assets and liabilities:		
Premiums receivable	(14,500)	(14,300)
Reinsurance recoverable for paid and unpaid losses	36,100	38,000
Federal income taxes	3,000	2,200
Unpaid losses and loss adjustment expenses	(17,500)	(11,800)
Unearned premiums	16,700	16,300
Accounts payable, accrued expenses and other liabilities	(6,200)	2,400
Deferred reinsurance gain—LPT Agreement	(11,700)	(14,600)
Contingent commission receivable—LPT Agreement	(1,900)	(2,800)
Other	2,000	(9,900)
Net cash provided by operating activities	97,000	94,000
Investing activities		
Purchase of fixed maturity securities	(325,200)	(365,600)
Purchase of equity securities	(38,800)	(77,700)
Purchase of short-term investments	(8,000)	(18,500)
Proceeds from sale of fixed maturity securities	111,700	87,000
Proceeds from sale of equity securities	70,200	21,400
Proceeds from maturities and redemptions of investments	145,100	214,000
Capital expenditures	(3,900)	(7,400)
Change in restricted cash and cash equivalents	(200)	7,700
Net cash used in investing activities	(49,100)	