

Employers Holdings, Inc.
Form 10-Q
October 25, 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 September 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

October 18, 2018

Common Stock, \$0.01 par value per share 32,799,666 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 September 30, 2018 (Unaudited) and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>9</u>
<u>Item 2 Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 4 Controls and Procedures</u>	<u>31</u>
 <u>PART II – OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>32</u>
<u>Item 1A Risk Factors</u>	<u>32</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
<u>Item 3 Defaults Upon Senior Securities</u>	<u>32</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>32</u>
<u>Item 5 Other Information</u>	<u>32</u>
<u>Item 6 Exhibits</u>	<u>33</u>
 <u>Signatures</u>	 <u>34</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 September 30, 2018 (unaudited)	As of December 31, 2017
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost \$2,423.0 at September 30, 2018 and \$2,421.0 at December 31, 2017)	\$ 2,394.6	\$ 2,463.4
Equity securities at fair value (cost \$94.2 at September 30, 2018 and \$116.7 at December 31, 2017)	189.6	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	2,590.6	2,677.7
Cash and cash equivalents	203.0	73.3
Restricted cash and cash equivalents	2.0	1.0
Accrued investment income	19.0	19.6
Premiums receivable (less bad debt allowance of \$7.9 at September 30, 2018 and \$10.0 at December 31, 2017)	352.7	326.7
Reinsurance recoverable for:		
Paid losses	7.9	7.2
Unpaid losses	511.8	537.0
Deferred policy acquisition costs	50.8	45.8
Deferred income taxes, net	20.6	28.7
Property and equipment, net	16.5	13.9
Intangible assets, net	7.7	7.9
Goodwill	36.2	36.2
Contingent commission receivable—LPT Agreement	32.0	31.4
Cloud computing arrangements	21.8	—
Other assets	25.9	33.7
Total assets	\$ 3,898.5	\$ 3,840.1
Liabilities and stockholders' equity		
Unpaid losses and loss adjustment expenses	\$ 2,233.7	\$ 2,266.1
Unearned premiums	356.0	318.3
Commissions and premium taxes payable	59.8	55.3
Accounts payable and accrued expenses	24.6	23.7
Deferred reinsurance gain—LPT Agreement	152.1	163.6
Notes payable	20.0	20.0
Non-cancellable obligations	18.2	2.7
Other liabilities	42.9	42.7
Total liabilities	\$ 2,907.3	\$ 2,892.4
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 56,904,018 and 56,695,174 shares issued and 32,796,666 and 32,597,819 shares outstanding at September 30, 2018 and December 31, 2017, respectively	\$ 0.6	\$ 0.6

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Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	385.2	381.2
Retained earnings	1,011.9	842.2
Accumulated other comprehensive (loss) income, net of tax	(22.5) 107.4
Treasury stock, at cost (24,107,352 shares at September 30, 2018 and 24,097,355 shares at December 31, 2017)	(384.0) (383.7)
Total stockholders' equity	991.2	947.7
Total liabilities and stockholders' equity	\$ 3,898.5	\$ 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 September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2017	2017	2017
	(unaudited)		(unaudited)	
Revenues				
Net premiums earned	\$192.9	\$187.9	\$547.5	\$535.0
Net investment income	20.2	18.5	59.9	55.4
Net realized and unrealized gains on investments	15.6	4.1	13.2	7.4
Gain on redemption of notes payable	—	—	—	2.1
Other income	0.2	0.4	0.4	0.5
Total revenues	228.9	210.9	621.0	600.4
Expenses				
Losses and loss adjustment expenses	106.6	116.9	289.7	332.0
Commission expense	24.8	23.7	73.1	66.7
Underwriting and other operating expenses	38.8	33.6	118.1	102.1
Interest and financing expenses	0.4	0.3	1.1	1.1
Other expenses	—	7.5	—	7.5
Total expenses	170.6	182.0	482.0	509.4
Net income before income taxes	58.3	28.9	139.0	91.0
Income tax expense	10.7	7.0	23.3	21.1
Net income	\$47.6	\$21.9	\$115.7	\$69.9
Comprehensive income				
Unrealized AFS investment (losses) gains arising during the period (net of taxes of \$(2.4) and \$1.6 for the three months ended September 30, 2018 and 2017, respectively, and \$(15.0) and \$11.3 for the nine months ended September 30, 2018 and 2017, respectively)	\$(9.2)	\$3.0	\$(56.3)	\$20.9
Reclassification adjustment for realized AFS investment losses (gains) in net income (net of taxes of \$(1.4) for the three months ended September 30, 2017, and \$0.1 and \$(2.6) for the nine months ended September 30, 2018 and 2017, respectively)	—	(2.7)	0.4	(4.8)
Other comprehensive (loss) income, net of tax	(9.2)	0.3	(55.9)	16.1
Total comprehensive income	\$38.4	\$22.2	\$59.8	\$86.0
Net realized and unrealized gains on investments				
Net realized and unrealized gains on investments before impairments	\$15.6	\$4.1	\$15.2	\$7.6
Other than temporary impairment recognized in earnings	—	—	(2.0)	(0.2)
Net realized and unrealized gains on investments	\$15.6	\$4.1	\$13.2	\$7.4
Earnings per common share (Note 12):				
Basic	\$1.45	\$0.67	\$3.52	\$2.15
Diluted	\$1.43	\$0.66	\$3.48	\$2.12
Cash dividends declared per common share and eligible RSUs and PSUs	\$0.20	\$0.15	\$0.60	\$0.45

See accompanying unaudited notes to the consolidated financial statements.

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

	Common Stock Shares Issued	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, July 1, 2018	56,866,727	\$ 0.6	\$ 382.4	\$970.8	\$ (13.3)	\$(384.0)	\$ 956.5
Stock-based obligations	—	—	2.0	—	—	—	2.0
Stock options exercised	37,291	—	0.8	—	—	—	0.8
Dividends declared	—	—	—	(6.6)	—	—	(6.6)
Net income for the period	—	—	—	47.6	—	—	47.6
Change in net unrealized losses on investments, net of taxes of \$2.4	—	—	—	—	(9.2)	—	(9.2)
Balance, September 30, 2018	56,904,018	\$ 0.6	\$ 385.2	\$1,011.9	\$ (22.5)	\$(384.0)	\$ 991.2
Balance, July 1, 2017	56,510,352	\$ 0.6	\$ 376.6	\$815.4	\$ 90.3	\$(383.7)	\$ 899.2
Stock-based obligations	—	—	0.8	—	—	—	0.8
Stock options exercised	1,998	—	—	—	—	—	—
Vesting of RSUs and PSUs, net of shares withheld to satisfy tax withholdings	8,934	—	(0.2)	—	—	—	(0.2)
Dividends declared	—	—	—	(4.9)	—	—	(4.9)
Net income for the period	—	—	—	21.9	—	—	21.9
Change in net unrealized gains on investments, net of taxes of \$0.2	—	—	—	—	0.3	—	0.3
Balance, September 30, 2017	56,521,284	\$ 0.6	\$ 377.2	\$832.4	\$ 90.6	\$(383.7)	\$ 917.1

See accompanying unaudited notes to the consolidated financial statements.

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

	Common Stock Shares Issued	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	—	—	5.9	—	—	—	5.9
Stock options exercised	51,091	—	1.0	—	—	—	1.0
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	—	—	—	(19.9)	—	—	(19.9)
Net income for the period	—	—	—	115.7	—	—	115.7
Reclassification adjustment for adoption of ASU No. 2016-01	—	—	—	74.0	(74.0)	—	—
Change in net unrealized losses on investments, net of taxes of \$14.9	—	—	—	—	(55.9)	—	(55.9)
Balance, September 30, 2018	56,904,018	\$ 0.6	\$ 385.2	\$1,011.9	\$ (22.5)	\$(384.0)	\$ 991.2
Balance, January 1, 2017	56,226,277	\$ 0.6	\$ 372.0	\$777.2	\$ 74.5	\$(383.7)	\$ 840.6
Stock-based obligations	—	—	4.0	—	—	—	4.0
Stock options exercised	169,024	—	3.3	—	—	—	3.3
Vesting of RSUs and PSUs, net of shares withheld to satisfy tax withholdings	125,983	—	(2.1)	—	—	—	(2.1)
Dividends declared	—	—	—	(14.7)	—	—	(14.7)