

UNITED FIRE GROUP INC
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2017

or

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

Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

Iowa 45-2302834
(State of Incorporation) (IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (319) 399-5700

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "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 Emerging growth
R o o company o company o

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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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of May 1, 2017, 25,205,806 shares of common stock were outstanding.

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FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include, but are not limited to, the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy; the occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;

- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserve for future policy benefits;

- Geographic concentration risk in both property and casualty insurance and life insurance segments;

- The potential disruption of our operations and reputation due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;

- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;

- Our ability to effectively underwrite and adequately price insured risks;

- Changes in industry trends, an increase in competition and significant industry developments;

- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;

- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;

- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions; changes in laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;

- Our relationship with and the financial strength of our reinsurers; and

- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$196 in 2017 and \$199 in 2016)	\$ 195	\$ 198
Available-for-sale, at fair value (amortized cost \$2,914,524 in 2017 and \$2,887,505 in 2016)	2,932,188	2,898,126
Trading securities, at fair value (amortized cost \$13,264 in 2017 and \$13,054 in 2016)	14,971	14,390
Equity securities		
Available-for-sale, at fair value (cost \$67,977 in 2017 and \$68,504 in 2016)	275,684	270,416
Trading securities, at fair value (cost \$5,861 in 2017 and \$5,434 in 2016)	6,183	5,644
Mortgage loans	3,640	3,706
Policy loans	5,396	5,366
Other long-term investments	67,024	67,639
Short-term investments	175	175
	3,305,456	3,265,660
Cash and cash equivalents		
	93,656	110,853
Accrued investment income		
	28,134	25,056
Premiums receivable (net of allowance for doubtful accounts of \$1,056 in 2017 and \$1,255 in 2016)	324,428	306,202
Deferred policy acquisition costs	165,073	164,112
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$50,222 in 2017 and \$50,925 in 2016)	56,231	55,524
Reinsurance receivables and recoverables	70,057	69,413
Prepaid reinsurance premiums	3,841	3,782
Income taxes receivable	10,430	15,061
Goodwill and intangible assets	24,547	24,740
Other assets	15,132	14,355
TOTAL ASSETS	\$4,096,985	\$ 4,054,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$1,140,719	\$ 1,123,896
Life insurance	1,342,966	1,350,503
Unearned premiums	467,105	443,873
Accrued expenses and other liabilities	145,190	159,014
Deferred income taxes	40,620	35,588
TOTAL LIABILITIES	\$3,136,600	\$ 3,112,874
Stockholders' Equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,341,552 and 25,429,769 shares issued and outstanding in 2017 and 2016, respectively	\$25	\$ 25

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Additional paid-in capital	213,021	216,482
Retained earnings	629,891	616,322
Accumulated other comprehensive income, net of tax	117,448	109,055
TOTAL STOCKHOLDERS' EQUITY	\$960,385	\$ 941,884
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$4,096,985	\$ 4,054,758

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended	
	March 31, 2017	2016
Revenues		
Net premiums earned	\$253,872	\$241,298
Investment income, net of investment expenses	25,035	22,224
Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of \$3,405 in 2017 and \$1,646 in 2016; previously included in accumulated other comprehensive income)	3,954	2,055
Other income	198	108
Total revenues	\$283,059	\$265,685
Benefits, Losses and Expenses		
Losses and loss settlement expenses	\$167,623	\$142,128
Increase in liability for future policy benefits	8,579	12,552
Amortization of deferred policy acquisition costs	52,134	50,231
Other underwriting expenses (includes reclassifications for employee benefit costs of \$1,352 in 2017 and \$1,371 in 2016; previously included in accumulated other comprehensive income)	24,890	26,753
Interest on policyholders' accounts	4,744	5,247
Total benefits, losses and expenses	\$257,970	\$236,911
Income before income taxes	\$25,089	\$28,774
Federal income tax expense (includes reclassifications of (\$718) in 2017 and (\$96) in 2016; previously included in accumulated other comprehensive income)	5,153	6,347
Net income	\$19,936	\$22,427
Other comprehensive income		
Change in net unrealized appreciation on investments	\$14,966	\$43,876
Change in liability for underfunded employee benefit plans	—	—
Other comprehensive income, before tax and reclassification adjustments	\$14,966	\$43,876
Income tax effect	(5,238)	(15,357)
Other comprehensive income, after tax, before reclassification adjustments	\$9,728	\$28,519
Reclassification adjustment for net realized investment gains included in income	\$(3,405)	\$(1,646)
Reclassification adjustment for employee benefit costs included in expense	1,352	1,371
Total reclassification adjustments, before tax	\$(2,053)	\$(275)
Income tax effect	718	96
Total reclassification adjustments, after tax	\$(1,335)	\$(179)
Comprehensive income	\$28,329	\$50,767
Weighted average common shares outstanding	25,443,101	25,209,888
Basic earnings per common share	\$0.78	\$0.89
Diluted earnings per common share	0.77	0.88

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended March 31, 2017
Common stock	
Balance, beginning of year	\$25
Shares repurchased (134,981 shares)	—
Shares issued for stock-based awards (46,764 shares)	—
Balance, end of period	\$25
Additional paid-in capital	
Balance, beginning of year	\$216,482
Compensation expense and related tax benefit for stock-based award grants	1,044
Shares repurchased	(5,749)
Shares issued for stock-based awards	1,244
Balance, end of period	\$213,021
Retained earnings	
Balance, beginning of year	\$616,322
Net income	19,936
Dividends on common stock (\$0.25 per share)	(6,367)
Balance, end of period	\$629,891
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	\$109,055
Change in net unrealized investment appreciation ⁽¹⁾	7,515
Change in liability for underfunded employee benefit plans ⁽²⁾	878
Balance, end of period	\$117,448
Summary of changes	
Balance, beginning of year	\$941,884
Net income	19,936
All other changes in stockholders' equity accounts	(1,435)
Balance, end of period	\$960,385

(1) The change in net unrealized appreciation is net of reclassification adjustments and income taxes.

(2) The change in liability for underfunded employee benefit plans is net of reclassification adjustments and income taxes.

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)	Three Months Ended March 31,	
	2017	2016
Cash Flows From Operating Activities		
Net income	\$ 19,936	\$ 22,427
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	3,901	3,447
Depreciation and amortization	1,165	1,626
Stock-based compensation expense	1,044	977
Net realized investment gains	(3,954)	(2,055)
Net cash flows from trading investments	(610)	(129)
Deferred income tax benefit	(134)	322
Changes in:		
Accrued investment income	(3,078)	(1,689)
Premiums receivable	(18,226)	(26,245)
Deferred policy acquisition costs	(2,238)	(3,579)
Reinsurance receivables	(644)	1,782
Prepaid reinsurance premiums	(59)	(322)
Income taxes receivable	4,631	—
Other assets	(777)	(1,240)
Future policy benefits and losses, claims and loss settlement expenses	26,590	23,965
Unearned premiums	23,232	21,001
Accrued expenses and other liabilities	(12,472)	(7,205)
Income taxes payable	—	728
Deferred income taxes	647	(548)
Other, net	253	2,063
Total adjustments	\$ 19,271	\$ 12,899
Net cash provided by operating activities	\$ 39,207	\$ 35,326
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$ 5,059	\$ 1,968
Proceeds from call and maturity of held-to-maturity investments	3	8
Proceeds from call and maturity of available-for-sale investments	71,613	142,629
Proceeds from short-term and other investments	1,702	789
Purchase of available-for-sale investments	(103,623)	(124,338)
Purchase of short-term and other investments	(1,590)	—
Net purchases and sales of property and equipment	(1,392)	(569)
Net cash (used in) provided by investing activities	\$(28,228)	\$ 20,487
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	\$ 20,630	\$ 25,145
Withdrawals from investment and universal life contracts	(37,934)	