

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017

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 No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under _____
the Laws of Ohio 03-0483872

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2201 4th Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices and zip code)

(205) 870-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) 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.

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

As of October 31, 2017, there were 10,926,700 shares of the registrant's common stock outstanding.

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Condensed Notes to Consolidated Financial Statements

PART I

FINANCIAL INFORMATION

ITEM 1

Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Revenues:						
Earned premium	\$344,964	\$342,171	0.8 %	\$1,025,480	\$1,019,070	0.6 %
Installment and other fee income	26,022	26,297	(1.0)%	79,432	77,200	2.9 %
Net investment income	9,771	8,125	20.3 %	27,467	25,115	9.4 %
Net realized (losses) gains on investments ⁽¹⁾	(431)	1,282	(133.6)%	1,964	1,257	56.2 %
Other income	376	249	50.7 %	1,041	727	43.2 %
Total revenues	380,701	378,124	0.7 %	1,135,385	1,123,370	1.1 %
Costs and Expenses:						
Losses and loss adjustment expenses	263,186	280,866	(6.3)%	807,482	809,664	(0.3)%
Commissions and other underwriting expenses	89,321	88,412	1.0 %	265,501	266,183	(0.3)%
Interest expense	3,510	3,507	0.1 %	10,533	10,524	0.1 %
Corporate general and administrative expenses	2,158	1,768	22.0 %	6,876	5,532	24.3 %
Other expenses	844	375	125.1 %	1,673	1,455	15.0 %
Total costs and expenses	359,019	374,929	(4.2)%	1,092,065	1,093,358	(0.1)%
Earnings before income taxes	21,683	3,196	578.5 %	43,320	30,012	44.3 %
Provision for income taxes	6,704	442	NM	12,649	8,536	48.2 %
Net Earnings	\$14,978	\$2,753	444.0 %	\$30,671	\$21,476	42.8 %
Net Earnings per Common Share:						
Basic	\$1.36	\$0.25	444.0 %	\$2.79	\$1.95	43.1 %
Diluted	1.35	0.25	440.0 %	2.76	1.93	43.0 %
Average Number of Common Shares:						
Basic	10,993	11,018	(0.2)%	11,004	11,022	(0.2)%
Diluted	11,062	11,084	(0.2)%	11,095	11,105	(0.1)%
Cash Dividends per Common Share	\$0.58	\$0.52	11.5 %	\$1.74	\$1.56	11.5 %
⁽¹⁾ Net realized (losses) gains on sales	\$(410)	\$1,282	(132.0)%	\$1,996	\$1,573	26.9 %
Total other-than-temporary impairment (OTTI) losses	(57)	0	NM	(102)	(316)	(67.6)%
Non-credit portion in other comprehensive income	35	0	NM	71	0	NM
Net impairment losses recognized in earnings	(22)	0	NM	(31)	(316)	(90.0)%
Total net realized (losses) gains on investments	\$(431)	\$1,282	(133.6)%	\$1,964	\$1,257	56.2 %

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net earnings	\$14,978	\$2,753	\$30,671	\$21,476
Other comprehensive income before tax:				
Net change in post-retirement benefit liability	(13)	(11)	(38)	(32)
Unrealized gains on investments:				
Unrealized holding gains arising during the period	6,310	4,702	26,030	30,989
Less: Reclassification adjustments for losses (gains) included in net earnings	431	(1,282)	(1,964)	(1,257)
Unrealized gains on investments, net	6,742	3,420	24,066	29,731
Other comprehensive income, before tax	6,729	3,409	24,028	29,699
Income tax expense related to components of other comprehensive income	(2,355)	(1,193)	(8,410)	(10,395)
Other comprehensive income, net of tax	4,374	2,216	15,618	19,304
Comprehensive income	\$19,352	\$4,969	\$46,289	\$40,780

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts in line descriptions)

	September 30, 2017	December 31, 2016
	(unaudited)	
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$1,439,204 and \$1,392,660)	\$ 1,448,709	\$ 1,390,167
Equity securities – at fair value (cost \$74,347 and \$77,013)	100,042	90,640
Short-term investments – at fair value (amortized cost \$2,574 and \$2,909)	2,572	2,907
Total investments	1,551,323	1,483,714
Cash and cash equivalents	102,356	92,800
Accrued investment income	12,411	12,485
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$13,884 and \$14,207	509,210	495,157
Property and equipment, net of accumulated depreciation of \$81,411 and \$70,559	84,485	96,166
Prepaid reinsurance premium	2,976	3,410
Recoverables from reinsurers (includes \$3,288 and \$121 on paid losses and LAE)	36,368	17,251
Deferred policy acquisition costs	91,418	91,136
Current and deferred income taxes	20,050	21,635
Receivable for securities sold	2,025	795
Other assets	19,968	12,777
Goodwill	75,275	75,275
Total assets	\$ 2,507,866	\$ 2,402,601
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 729,280	\$ 685,455
Unearned premium	637,506	614,347
Long-term debt (fair value \$292,782 and \$278,726)	273,753	273,591
Commissions payable	15,035	16,176
Payable for securities purchased	10,167	13,922
Other liabilities	123,513	99,924
Total liabilities	1,789,254	1,703,414
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,852,037 and 21,809,954 shares issued)	21,868	21,829
Additional paid-in capital	381,928	378,745
Retained earnings	789,175	777,695
Accumulated other comprehensive income, net of tax	23,526	7,907
Treasury stock, at cost (10,883,839 and 10,766,211 shares)	(497,885)	(486,990)
Total shareholders' equity	718,612	699,187
Total liabilities and shareholders' equity	\$ 2,507,866	\$ 2,402,601

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ in thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Total
Balance at December 31, 2015	\$ 21,794	\$ 376,025	\$ 757,604	\$ 7,811	\$(475,638)	\$ 687,595
Net earnings	—	—	21,476	—	—	21,476
Net change in post-retirement benefit liability	—	—	—	(21) —	(21)
Change in unrealized gain on investments	—	—	—	19,109	—	19,109
Change in non-credit component of impairment losses on fixed maturities	—	—	—	216	—	216
Comprehensive income						40,780
Dividends paid to common shareholders	—	—	(17,249) —	—	(17,249)
Shares issued and share-based compensation expense, including tax benefit	22	1,731	—	—	—	1,753
Acquisition of treasury stock	—	—	—	—	(10,079) (10,079)
Balance at September 30, 2016	\$ 21,816	\$ 377,757	\$ 761,831	\$ 27,115	\$(485,717)	\$ 702,801
Net earnings	—	—	21,609	—	—	21,609
Net change in post-retirement benefit liability	—	—	—	78	—	78
Change in unrealized gain on investments	—	—	—	(19,347) —	(19,347)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	61	—	61
Comprehensive income						2,401
Dividends paid to common shareholders	—	—	(5,744) —	—	(5,744)
Shares issued and share-based compensation expense, including tax benefit	13	989	—	—	—	1,002
Acquisition of treasury stock	—	—	—	—	(1,273) (1,273)
Balance at December 31, 2016	\$ 21,829	\$ 378,745	\$ 777,695	\$ 7,907	\$(486,990)	\$ 699,187
Net earnings	—	—	30,671	—	—	30,671
Net change in post-retirement benefit liability	—	—	—	(24) —	(24)
Change in unrealized gain on investments	—	—	—	15,539	—	15,539
Change in non-credit component of impairment losses on fixed maturities	—	—	—	103	—	103
Comprehensive income						46,289
Dividends paid to common shareholders	—	—	(19,191) —	—	(19,191)
Shares issued and share-based compensation expense	39	3,183	—	—	—	3,222
Acquisition of treasury stock	—	—	—	—	(10,895) (10,895)
Balance at September 30, 2017	\$ 21,868	\$ 381,928	\$ 789,175	\$ 23,526	\$(497,885)	\$ 718,612

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

Three months
ended
September 30,
2017 2016

Operating Activities: