

UNITED FIRE GROUP INC
Form 10-Q
May 09, 2018
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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, 2018

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 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. (Check one):

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

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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 7, 2018, 24,926,648 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," "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, 2017 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;
- Geographic concentration risk in the property and casualty insurance business;
- 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, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$150 in 2018 and \$150 in 2017)	\$150	\$150
Available-for-sale, at fair value (amortized cost \$1,577,448 in 2018 and \$1,516,610 in 2017)	1,563,996	1,535,070
Trading securities, at fair value (amortized cost \$13,229 in 2018 and \$14,582 in 2017)	15,379	16,842
Equity securities at fair value (cost \$65,481 in 2018 and \$63,275 in 2017)	280,362	287,344
Other long-term investments	44,998	49,352
Short-term investments	175	175
	1,905,060	1,888,933
Cash and cash equivalents	316,852	95,562
Accrued investment income	15,083	13,841
Premiums receivable (net of allowance for doubtful accounts of \$1,082 in 2018 and \$1,255 in 2017)	339,007	328,513
Deferred policy acquisition costs	89,836	88,102
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$52,693 in 2018 and \$51,603 in 2017)	71,929	68,992
Reinsurance receivables and recoverables	63,506	63,194
Prepaid reinsurance premiums	4,002	3,749
Income taxes receivable	—	6,031
Goodwill and intangible assets	23,783	23,971
Other assets	16,306	16,409
Assets held for sale	—	1,586,134
TOTAL ASSETS	\$2,845,364	\$4,183,431
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Losses and loss settlement expenses	\$1,219,981	\$1,224,183
Unearned premiums	476,912	465,391
Accrued expenses and other liabilities	158,811	167,396
Income taxes payable	17,581	—
Deferred income taxes	1,386	5,953
Liabilities held for sale	—	1,347,135
TOTAL LIABILITIES	\$1,874,671	\$3,210,058
Stockholders' Equity		
Common stock, \$0.001 par value; authorized 75,000,000 shares; 24,912,748 and 24,916,806 shares issued and outstanding in 2018 and 2017, respectively	\$25	\$25
Additional paid-in capital	194,504	196,334
Retained earnings	832,031	608,700

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Accumulated other comprehensive income (loss), net of tax	(55,867) 168,314
TOTAL STOCKHOLDERS' EQUITY	\$970,693	\$ 973,373
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,845,364	\$ 4,183,431

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)

	Three Months Ended March 31,	
(In Thousands, Except Share Data)	2018	2017
Revenues		
Net premiums earned	\$245,167	\$236,444
Investment income, net of investment expenses	13,492	12,585
Net realized investment gains (losses) (includes reclassifications for net unrealized investment gains on available-for-sale securities of \$37 in 2018 and \$3,405 in 2017; previously included in accumulated other comprehensive income)		