

AMERISAFE INC
Form 10-Q
April 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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

Commission file number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas
(State of Incorporation)

75-2069407
(I.R.S. Employer Identification Number)

2301 Highway 190 West, DeRidder, Louisiana 70634
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (337) 463-9052

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

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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 (Do not check if a 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 in Rule 12b-2 of the Exchange Act). Yes No

As of April 25, 2018, there were 19,260,915 shares of the Registrant’s common stock, par value \$.01 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the insurance industry in general. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “are,” or similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the cyclical nature of the workers’ compensation insurance industry;
- increased competition on the basis of types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- changes in relationships with independent agencies;
- developments in capital markets that adversely affect the performance of our investments;
- technology breaches or failures, including those resulting from a malicious cyber attack on the Company or its policyholders and medical providers;
- decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;
- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- adverse developments in economic, competitive, judicial or regulatory conditions within the workers’ compensation insurance industry;
- loss of the services of any of our senior management or other key employees;
- changes in regulations, laws, rates, rating factors, or taxes applicable to the Company, its policyholders or the agencies that sell its insurance;
- changes in accounting standards or new accounting standards;
- changes in legal theories of liability under our insurance policies;
- changes in rating agency policies, practices or ratings;
- changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;
- the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts; and
- other risks and uncertainties described from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, and under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2018	December 31, 2017
	(unaudited)	
Assets		
Investments:		
Fixed maturity securities—held-to-maturity, at amortized cost (fair value		
\$620,936 and \$639,309 in 2018 and 2017, respectively)	\$ 619,400	\$ 629,668
Fixed maturity securities—available-for-sale, at fair value (cost \$462,033 and		
\$461,236 in 2018 and 2017, respectively)	459,264	465,594
Equity securities—available-for-sale, at fair value (cost \$11,425 and \$8,503 in 2018		
and 2017, respectively)	11,425	9,282
Short-term investments	44,704	25,770
Total investments	1,134,793	1,130,314
Cash and cash equivalents	36,072	55,559
Amounts recoverable from reinsurers	94,173	90,133
Premiums receivable, net of allowance	186,798	174,234
Deferred income taxes	20,499	19,262
Accrued interest receivable	11,332	10,635
Property and equipment, net	6,774	6,128
Deferred policy acquisition costs	21,287	20,251
Federal income tax recoverable	—	1,761
Other assets	18,937	9,959
Total assets	\$ 1,530,665	\$ 1,518,236
Liabilities and shareholders' equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 777,298	\$ 771,845
Unearned premiums	164,972	157,270
Amounts held for others	37,343	36,908
Policyholder deposits	48,331	48,364
Insurance-related assessments	28,389	28,246
Federal income tax payable	1,387	—
Accounts payable and other liabilities	37,767	37,076
Payable for investments purchased	3,110	13,104
Total liabilities	1,098,597	1,092,813

Shareholders' equity:

Common stock: voting—\$0.01 par value authorized shares—50,000,000

in 2018 and 2017; 20,519,165 and 20,504,165 shares issued and 19,260,915

and 19,245,915 shares outstanding in 2018 and 2017, respectively	205	204
Additional paid-in capital	210,441	210,081
Treasury stock at cost (1,258,250 shares in 2018 and 2017)	(22,370)	(22,370)
Accumulated earnings	246,028	233,896
Accumulated other comprehensive income (loss), net	(2,236)	3,612
Total shareholders' equity	432,068	425,423
Total liabilities and shareholders' equity	\$1,530,665	\$ 1,518,236

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Gross premiums written	\$97,342	\$95,078
Ceded premiums written	(2,330)	(2,391)
Net premiums written	\$95,012	\$92,687
Net premiums earned	\$87,310	\$90,912
Net investment income	7,209	6,710
Net realized losses on investments	(31)	(181)
Net unrealized losses on equity securities	(390)	—
Fee and other income	77	101
Total revenues	94,175	97,542
Expenses		
Loss and loss adjustment expenses incurred	53,162	56,216
Underwriting and certain other operating costs	7,846	8,500
Commissions	6,494	6,410
Salaries and benefits	5,926	6,312
Policyholder dividends	1,333	1,371
Total expenses	74,761	78,809
Income before income taxes	19,414	18,733
Income tax expense	3,245	5,209
Net income	\$16,169	\$13,524
Earnings per share		
Basic	\$0.84	\$0.71
Diluted	\$0.84	\$0.70
Shares used in computing earnings per share		
Basic	19,187,136	19,150,400
Diluted	19,262,237	19,230,125
Cash dividends declared per common share	\$0.22	\$0.20

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 16,169	\$ 13,524
Other comprehensive income:		
Unrealized gain (loss) on securities, net of tax (1)	(5,848)	952
Comprehensive income	\$ 10,321	\$ 14,476

(1) Data presented for 2018 includes debt securities only compared to 2017 which includes both debt and equity securities.

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Stock Amounts	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amounts	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	20,504,165	\$ 204	\$ 210,081	(1,258,250)	\$(22,370)	\$ 233,896	\$ 3,612	\$ 425,423
Comprehensive income	—	—	—	—	—	16,169	(5,848)	10,321
Impact of adoption of								
ASU 2016-01	—	—	—	—	—	615	—	615
Impact of adoption of								
ASU 2018-02	—	—	—	—	—	(414)	—	(414)
Common stock issued upon								
exercise of options	15,000	1	67	—	—	—	—	68
Share-based compensation	—	—	293	—	—	—	—	293
Dividends to shareholders	—	—	—	—	—	(4,238)	—	(4,238)
Balance at March 31, 2018	20,519,165	\$ 205	\$ 210,441	(1,258,250)	\$(22,370)	\$ 246,028	\$ (2,236)	\$ 432,068

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating activities		
Net income	\$16,169	\$13,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	222	266
Net amortization of investments	3,151	3,769
Deferred income taxes	264	(13)
Net realized losses on investments	31	181
Net unrealized losses on equity securities	390	—
Net realized losses on disposal of assets	—	2
Share-based compensation	18	416
Changes in operating assets and liabilities:		
Premiums receivable, net	(12,564)	(8,271)
Accrued interest receivable	(697)	(547)
Deferred policy acquisition costs	(1,036	