



February 25, 2016

Erie Indemnity Reports Full Year and Fourth Quarter 2015 Results

Earnings Up 19.1 percent, Net Income per Diluted Share Up 19.3 percent for the Quarter

ERIE, Pa., Feb. 25, 2016 /PRNewswire/ -- Erie Indemnity Company (NASDAQ: ERIE) today announced financial results for the full year and the quarter ending December 31, 2015. Net income was \$174.7 million, or \$3.33 per diluted share, for the full year 2015, compared to \$167.5 million, or \$3.18 per diluted share, in 2014. Net income was \$30.1 million, or \$0.57 per diluted share, in the fourth quarter of 2015, compared to \$25.3 million, or \$0.48 per diluted share, in the fourth quarter of 2014. The growth in 2015 for the fourth quarter and full year was driven by increased net revenue from operations and increased investment income, primarily due to an increase in earnings from limited partnerships.



"The strong results we saw in 2015, our 90th year in business, reflect our continued commitment to and execution of our business strategy that will provide long-term value for our customers and shareholders," said Terry Cavanaugh, President and CEO.

4Q and Total Year 2015					
(dollars in thousands)	4Q'14		4Q'15		
			2014	2015	
Net revenue from operations	\$ 35,413	\$ 41,839	\$ 222,847	\$ 232,541	
Investment income	2,342	4,244	28,417	33,708	
Income before income taxes	37,755	46,083	251,264	266,249	
Income tax expense	12,459	15,950	83,759	91,571	
Net income	\$ 25,296	\$ 30,133	\$ 167,505	\$ 174,678	
Gross margin from operations	10.5 %	11.7 %	15.8 %	15.4 %	

2015 Total Year Highlights

Net revenue from operations before taxes increased \$9.7 million, or 4.3 percent, in 2015 compared to 2014.

- ┆ Management fee revenue increased \$99.3 million, or 7.2 percent, in 2015 compared to 2014.
- ┆ Commissions increased \$64.9 million in 2015 compared to 2014. The majority of the increase was driven by the 7.3 percent increase in direct and assumed premiums written by the Exchange, while approximately one-quarter of the increase was due to higher agent incentive costs primarily related to profitable growth.
- ┆ Non-commission expense increased \$23.8 million in 2015 compared to 2014. Underwriting and policy processing costs increased \$8.0 million due to increased personnel and postage costs. Information technology costs increased \$2.3 million primarily due to hardware and software costs. Sales and advertising costs increased \$4.1 million primarily due to personnel costs. Customer service costs increased \$2.8 million due to an increase in personnel costs and credit card processing fees. Administrative and other costs increased \$6.6 million due to personnel costs and professional fees. Personnel costs in all expense categories were impacted by increased pension and medical costs, and increased estimates for incentive plan compensation costs related to underwriting performance.
- ┆ The gross margin for 2015 was 15.4 percent, compared to 15.8 percent for 2014. The 0.4 point decrease in gross

margin was driven primarily by the increased agent incentive costs discussed above.

Income from investments before taxes totaled \$33.7 million in 2015, compared to \$28.4 million in 2014. Earnings from limited partnerships were \$17.0 million in 2015 compared to earnings of \$10.9 million in 2014.

4Q 2015 Highlights

Net revenue from operations before taxes increased \$6.4 million, or 18.1 percent, in the fourth quarter of 2015 compared to the fourth quarter of 2014.

- ┆ Management fee revenue increased \$19.5 million, or 5.9 percent, in the fourth quarter of 2015 compared to the fourth quarter of 2014.
- ┆ Commissions increased \$11.2 million in the fourth quarter of 2015, compared to the fourth quarter of 2014. The majority of the increase was driven by the 6.2 percent increase in direct and assumed premiums written by the Exchange.
- ┆ Non-commission expense increased \$1.5 million in the fourth quarter of 2015 compared to the fourth quarter of 2014. Underwriting and policy processing costs increased \$1.7 million due to increased personnel costs. Sales and advertising costs increased \$1.7 million due to increased personnel and advertising costs. Administrative and other expenses decreased \$2.0 million due to professional fees. All other operating costs increased \$0.1 million.
- ┆ The gross margin in the fourth quarter of 2015 was 11.7 percent, compared to 10.5 percent in the fourth quarter of 2014.

Income from investments before taxes totaled \$4.2 million in the fourth quarter of 2015, compared to \$2.3 million in the fourth quarter of 2014. Earnings from limited partnerships were \$0.1 million in the fourth quarter of 2015 compared to losses of \$1.7 million in the fourth quarter of 2014.

Webcast Information

Indemnity has scheduled a conference call and live audio broadcast on the Web for 10:00 AM ET on February 26, 2016. Investors may access the live audio broadcast by logging on to www.erieinsurance.com. Indemnity recommends visiting the website at least 15 minutes prior to the Webcast to download and install any necessary software. A Webcast audio replay will be available on the Investor Relations page of the Erie Insurance website by 12:30 PM ET.

Erie Insurance Group

According to A.M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 10th largest homeowners insurer and 12th largest automobile insurer in the United States based on direct premiums written and the 15th largest property/casualty insurer in the United States based on total lines net premium written. The Group, rated A+ (Superior) by A.M. Best Company, has more than 5 million policies in force and operates in 12 states and the District of Columbia. Erie Insurance Group is a FORTUNE 500 company, a Barron's 500 company and has been recognized by Forbes as one of America's 50 Most Trustworthy Financial Companies.

News releases and more information about Erie Insurance Group are available at www.erieinsurance.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions, and adequacy of resources. Examples of forward-looking statements are discussions relating to premium and investment income, expenses, operating results, and compliance with contractual and regulatory requirements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and uncertainties, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

- ┆ dependence upon our relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;

- | costs of providing services to the Exchange under the subscriber's agreement;
- | credit risk from the Exchange;
- | dependence upon our relationship with the Exchange and the growth of the Exchange, including:
 - | general business and economic conditions;
 - | factors affecting insurance industry competition;
 - | dependence upon the independent agency system; and
 - | ability to maintain our reputation for customer service;
- | dependence upon our relationship with the Exchange and the financial condition of the Exchange, including:
 - | the Exchange's ability to maintain acceptable financial strength ratings;
 - | factors affecting the quality and liquidity of the Exchange's investment portfolio;
 - | changes in government regulation of the insurance industry;
 - | emerging claims and coverage issues in the industry; and
 - | severe weather conditions or other catastrophic losses, including terrorism;
- | ability to attract and retain talented management and employees;
- | ability to maintain uninterrupted business operations;
- | factors affecting the quality and liquidity of our investment portfolio;
- | our ability to meet liquidity needs and access capital; and
- | outcome of pending and potential litigation.

A forward-looking statement speaks only as of the date on which it is made and reflects our analysis only as of that date. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

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Erie Indemnity Company
Statements of Operations

(dollars in thousands, except per share data)

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
	(Unaudited)			
Operating revenue				
Management fee revenue, net	\$ 348,885	\$ 329,382	\$ 1,475,511	\$ 1,376,190
Service agreement revenue	7,495	7,874	29,997	30,929
Total operating revenue	356,380	337,256	1,505,508	1,407,119
Operating expenses				
Commissions	206,691	195,499	847,880	783,017
Salaries and employee benefits	55,998	53,417	226,713	206,690
All other operating expenses	51,852	52,927	198,374	194,565
Total operating expenses	314,541	301,843	1,272,967	1,184,272
Net revenue from operations	41,839	35,413	232,541	222,847
Investment income				
Net investment income	4,469	4,312	17,791	16,536
Net realized gains (losses) on investments	617	(237)	492	1,057
Net impairment losses recognized in earnings	(923)	0	(1,558)	(105)
Equity in earnings (losses) of limited partnerships	81	(1,733)	16,983	10,929
Total investment income	4,244	2,342	33,708	28,417
Income before income taxes	46,083	37,755	266,249	251,264
Income tax expense	15,950	12,459	91,571	83,759
Net income	\$ 30,133	\$ 25,296	\$ 174,678	\$ 167,505
Earnings Per Share				
Net income per share				
Class A common stock - basic	\$ 0.65	\$ 0.54	\$ 3.75	\$ 3.59

Class A common stock - diluted	\$ 0.57	\$ 0.48	\$ 3.33	\$ 3.18
Class B common stock - basic	\$ 97	\$ 81	\$ 563	\$ 539
Class B common stock - diluted	\$ 97	\$ 81	\$ 562	\$ 538
Weighted average shares outstanding - Basic				
Class A common stock	46,179,559	46,189,068	46,186,671	46,247,876
Class B common stock	2,542	2,542	2,542	2,542
Weighted average shares outstanding - Diluted				
Class A common stock	52,506,600	52,601,010	52,498,811	52,616,234
Class B common stock	2,542	2,542	2,542	2,542
Dividends declared per share				
Class A common stock	\$ 0.730	\$ 0.681	\$ 2.773	\$ 2.586
Class B common stock	\$ 109.50	\$ 102.15	\$ 415.95	\$ 387.90

Erie Indemnity Company

Reconciliation of Operating Income to Net Income

Reconciliation of operating income to net income

We disclose operating income, a non-GAAP financial measure, to enhance our investors' understanding of our performance. Our method of calculating this measure may differ from those used by other companies, and therefore comparability may be limited.

We define operating income as net income excluding realized capital gains and losses, impairment losses, and related federal income taxes.

We use operating income to evaluate the results of our operations. It reveals trends that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses, including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions which are not related to our ongoing operations. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and does not reflect our overall profitability.

The following table reconciles operating income and net income for the years ended December 31:

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
<i>(in thousands, except per share data)</i>				
	(Unaudited)			
Operating income	\$ 30,332	\$ 25,449	\$ 175,371	\$ 166,886
Net realized (losses) gains and impairments on investments	(306)	(237)	(1,066)	952
Income tax benefit (expense)	107	84	373	(333)
Realized (losses) gains and impairments, net of income taxes	(199)	(153)	(693)	619
Net income	\$ 30,133	\$ 25,296	\$ 174,678	\$ 167,505
Per Class A common share-diluted:				
Operating income	\$ 0.58	\$ 0.48	\$ 3.34	\$ 3.17
Net realized (losses) gains and impairments on investments	(0.01)	0.00	(0.02)	0.02
Income tax benefit (expense)	0.00	0.00	0.01	(0.01)
Realized (losses) gains and impairments, net of income taxes	(0.01)	0.00	(0.01)	0.01
Net income	\$ 0.57	\$ 0.48	\$ 3.33	\$ 3.18

Erie Indemnity Company
Statements of Financial Position
(in thousands)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 182,889	\$ 91,747
Short-term investments	62,067	63,278
Receivables from Erie Insurance Exchange and affiliates	348,055	335,220
Prepaid expenses and other current assets	24,697	26,020
Federal income taxes recoverable	11,947	11,448
Accrued investment income	5,491	5,538
Total current assets	635,146	533,251
Available-for-sale securities	537,874	526,492
Limited partnership investments	88,535	112,617
Fixed assets, net	59,087	62,991
Deferred income taxes, net	40,686	37,321
Note receivable from Erie Family Life Insurance Company	25,000	25,000
Other assets	20,968	21,526
Total assets	\$ 1,407,296	\$ 1,319,198
Liabilities and shareholders' equity		
Current liabilities:		
Commissions payable	\$ 195,542	\$ 189,918
Agent bonuses	106,752	88,228
Accrued expenses and other current liabilities	42,006	39,560
Accounts payable	46,526	35,844
Dividends payable	33,996	31,714
Deferred executive compensation	20,877	14,891
Total current liabilities	445,699	400,155
Defined benefit pension plan	172,700	188,820
Employee benefit obligations	1,234	1,889
Deferred executive compensation	16,580	24,087
Other long-term liabilities	1,580	1,113
Total liabilities	637,793	616,064
Shareholders' equity	769,503	703,134
Total liabilities and shareholders' equity	\$ 1,407,296	\$ 1,319,198

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To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/erie-indemnity-reports-full-year-and-fourth-quarter-2015-results-300225494.html>

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