



July 28, 2016

## Erie Indemnity Reports Second Quarter 2016 Results

### Earnings Up 9.2 percent, Net Income per Diluted Share Up 9.5 percent for the Quarter

ERIE, Pa., July 28, 2016 /PRNewswire/ -- Erie Indemnity Company (NASDAQ: ERIE) today announced financial results for the quarter ending June 30, 2016. Net income was \$61.3 million, or \$1.17 per diluted share, in the second quarter of 2016, compared to \$56.2 million, or \$1.07 per diluted share, in the second quarter of 2015. Net income was \$107.2 million, or \$2.04 per diluted share, in the first six months of 2016, compared to \$95.0 million, or \$1.81 per diluted share, in the first six months of 2015. Revenue growth in both the second quarter and first six months of 2016 outpaced the growth in expenses.



"Prudent expense management helped Indemnity's revenue outpace expense growth once again this quarter, resulting in an uptick in operating margin and increased earnings per share," said Terry Cavanaugh, President and CEO.

2Q and First Half 2016					
(dollars in thousands)	2Q'15	2Q'16	1H'15	1H'16	
Net revenue from operations	\$ 69,983	\$ 85,759	\$ 122,413	\$ 153,424	
Investment income	15,705	7,404	22,244	9,963	
Income before income taxes	85,688	93,163	144,657	163,387	
Income tax expense	29,538	31,854	49,674	56,183	
Net income	\$ 56,150	\$ 61,309	\$ 94,983	\$ 107,204	
Gross margin from operations	17.4 %	20.2 %	16.3 %	19.2 %	

#### 2Q 2016 Highlights

Net revenue from operations before taxes increased \$15.8 million, or 22.5 percent, in the second quarter of 2016 compared to the second quarter of 2015.

- ▮ Management fee revenue increased \$22.4 million, or 5.7 percent, in the second quarter of 2016 compared to the second quarter of 2015.
- ▮ Commissions increased \$12.1 million in the second quarter of 2016 compared to the second quarter of 2015, primarily as a result of the 5.8 percent increase in direct and assumed premiums written by the Exchange.
- ▮ Non-commission expense decreased \$5.6 million in the second quarter of 2016 compared to the second quarter of 2015. Information technology costs decreased \$4.9 million driven by decreased professional fees and personnel costs. Customer service costs decreased \$1.0 million primarily due to decreased credit card processing fees. Personnel costs in all expense categories were impacted by decreased pension costs primarily due to an increase in the pension discount rate.
- ▮ The gross margin in the second quarter of 2016 was 20.2 percent compared to 17.4 percent in the second quarter of 2015.

Income from investments before taxes totaled \$7.4 million in the second quarter of 2016 compared to \$15.7 million in the

second quarter of 2015. Earnings from limited partnerships were \$2.1 million in the second quarter of 2016 compared to \$10.7 million in the second quarter of 2015.

#### **First Half 2016 Highlights**

Net revenue from operations before taxes increased \$31.0 million, or 25.3 percent, in the first six months of 2016 compared to the first six months 2015.

- | Management fee revenue increased \$46.7 million, or 6.3 percent, in the first six months of 2016 compared to the first six months 2015.
- | Commissions increased \$27.1 million in the first six months of 2016 compared to the first six months 2015, primarily as a result of the 6.4 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 decreased \$12.0 million in the first six months of 2016 compared to the first six months 2015. Information technology costs decreased \$9.6 million driven by decreased professional fees and personnel costs. Customer service costs decreased \$1.0 million primarily due to decreased credit card processing fees. Administrative and other expenses decreased \$2.3 million primarily due to decreased personnel costs. Personnel costs in all expense categories were impacted by decreased pension costs primarily due to an increase in the pension discount rate.
- | The gross margin in the first six months of 2016 was 19.2 percent compared to 16.3 percent in the first six months 2015.

Income from investments before taxes totaled \$10.0 million in the first six months of 2016 compared to \$22.2 million in the first six months 2015. Earnings from limited partnerships were \$1.4 million in the first six months of 2016 compared to \$13.1 million in the first six months 2015.

#### **Webcast Information**

Indemnity has scheduled a conference call and live audio broadcast on the Web for 10:00 AM ET on July 29, 2016. Investors may access the live audio broadcast by logging on to [www.erieinsurance.com](http://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 16th 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](http://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 Erie Insurance Exchange ("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.

(ERIE-F)

**Erie Indemnity Company**  
**Statements of Operations**

(dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
<b>Operating revenue</b>				
Management fee revenue, net	\$ 416,665	\$ 394,224	\$ 784,123	\$ 737,458
Service agreement revenue	7,219	7,436	14,489	15,033
Total operating revenue	423,884	401,660	798,612	752,491
<b>Operating expenses</b>				
Commissions	235,794	223,731	444,508	417,448
Salaries and employee benefits	55,025	57,354	108,314	112,373
All other operating expenses	47,306	50,592	92,366	100,257
Total operating expenses	338,125	331,677	645,188	630,078
<b>Net revenue from operations</b>	85,759	69,983	153,424	122,413
<b>Investment income</b>				
Net investment income	4,891	4,435	9,553	8,976
Net realized investment gains (losses)	399	598	(689)	358
Net impairment losses recognized in earnings	0	(35)	(345)	(155)
Equity in earnings of limited partnerships	2,114	10,707	1,444	13,065
<b>Total investment income</b>	7,404	15,705	9,963	22,244
Income before income taxes	93,163	85,688	163,387	144,657
Income tax expense	31,854	29,538	56,183	49,674
<b>Net income</b>	<b>\$ 61,309</b>	<b>\$ 56,150</b>	<b>\$ 107,204</b>	<b>\$ 94,983</b>

**Earnings Per Share**

**Net income per share**

Class A common stock - basic	\$ 1.32	\$ 1.21	\$ 2.30	\$ 2.04
<b>Class A common stock - diluted</b>	<b>\$ 1.17</b>	<b>\$ 1.07</b>	<b>\$ 2.04</b>	<b>\$ 1.81</b>
Class B common stock - basic	\$ 197	\$ 181	\$ 345	\$ 306
Class B common stock - diluted	\$ 197	\$ 180	\$ 345	\$ 305

**Weighted average shares outstanding - Basic**

Class A common stock	46,188,867	46,189,068	46,188,967	46,189,068
Class B common stock	2,542	2,542	2,542	2,542

**Weighted average shares outstanding - Diluted**

Class A common stock	52,392,862	52,562,514	52,458,394	52,598,633
Class B common stock	2,542	2,542	2,542	2,542

**Dividends declared per share**

Class A common stock	\$ 0.730	\$ 0.681	\$ 1.460	\$ 1.362
Class B common stock	\$ 109.500	\$ 102.150	\$ 219.000	\$ 204.300

**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:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<i>(in thousands, except per share data)</i>				
	(Unaudited)		(Unaudited)	
<b>Operating income</b>	<b>\$ 61,049</b>	<b>\$ 55,784</b>	<b>\$ 107,876</b>	<b>\$ 94,851</b>
Net realized gains (losses) and impairments on investments	399	563	(1,034)	203
Income tax (expense) benefit	(139)	(197)	362	(71)
Realized gains (losses) and impairments, net of income taxes	260	366	(672)	132
<b>Net income</b>	<b>\$ 61,309</b>	<b>\$ 56,150</b>	<b>\$ 107,204</b>	<b>\$ 94,983</b>
Per Class A common share-diluted:				
<b>Operating income</b>	<b>\$ 1.17</b>	<b>\$ 1.07</b>	<b>\$ 2.05</b>	<b>\$ 1.81</b>
Net realized gains (losses) and impairments on investments	0.00	0.00	(0.02)	0.00
Income tax (expense) benefit	0.00	0.00	0.01	0.00
Realized gains (losses) and impairments, net of income taxes	0.00	0.00	(0.01)	0.00
<b>Net income</b>	<b>\$ 1.17</b>	<b>\$ 1.07</b>	<b>\$ 2.04</b>	<b>\$ 1.81</b>

**Erie Indemnity Company**  
**Statements of Financial Position**  
*(in thousands)*

	June 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 124,111	\$ 182,889
Available-for-sale securities	46,087	62,067
Trading securities	496	—
Receivables from Erie Insurance Exchange and affiliates	387,273	348,055
Prepaid expenses and other current assets	33,885	24,697
Federal income taxes recoverable	0	11,947
Accrued investment income	5,816	5,491
<b>Total current assets</b>	<b>597,668</b>	<b>635,146</b>
Available-for-sale securities	607,548	537,874
Limited partnership investments	70,952	88,535
Fixed assets, net	58,986	59,087
Deferred income taxes, net	35,780	40,686
Note receivable from Erie Family Life Insurance Company	25,000	25,000
Other assets	18,892	20,968
<b>Total assets</b>	<b>\$ 1,414,826</b>	<b>\$ 1,407,296</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Commissions payable	\$ 217,203	\$ 195,542
Agent bonuses	58,235	106,752
Accounts payable and accrued liabilities	90,856	88,532
Dividends payable	33,996	33,996
Deferred executive compensation	13,252	20,877
Federal income taxes payable	1,960	0
<b>Total current liabilities</b>	<b>415,502</b>	<b>445,699</b>
Defined benefit pension plans	170,619	172,700
Employee benefit obligations	910	1,234
Deferred executive compensation	12,461	16,580
Other long-term liabilities	140	1,580
<b>Total liabilities</b>	<b>599,632</b>	<b>637,793</b>
<b>Shareholders' equity</b>	<b>815,194</b>	<b>769,503</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,414,826</b>	<b>\$ 1,407,296</b>

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