



February 23, 2017

Erie Indemnity Reports Full Year and Fourth Quarter 2016 Results

Net Income per Diluted Share Up 20.6 percent for the Full Year

ERIE, Pa., Feb. 23, 2017 /PRNewswire/ -- Erie Indemnity Company (NASDAQ: ERIE) today announced financial results for the full year and quarter ending December 31, 2016. Net income was \$210.4 million, or \$4.01 per diluted share, for the full year 2016, compared to \$174.7 million, or \$3.33 per diluted share, in 2015. Net income was \$45.8 million, or \$0.87 per diluted share, in the fourth quarter of 2016, compared to \$30.1 million, or \$0.57 per diluted share, in the fourth quarter of 2015. The growth in 2016 for the fourth quarter and full year was driven by increased net revenue from operations as revenue growth outpaced the growth in expenses.



"We continue to grow profitably," said Tim NeCastro, President and CEO. "The dedicated work of our Agents and Employees has once again enabled us to beat the industry forecast for 2016 and as we embark upon 2017, we are well positioned for continued long-term growth and value creation."

4Q and Total Year 2016				
(dollars in thousands)	4Q'15	4Q'16	2015	2016
Net revenue from operations	\$ 41,839	\$ 56,685	\$ 232,541	\$ 292,364
Investment income, net of interest expense	4,244	13,438	33,708	27,727
Income before income taxes	46,083	70,123	266,249	320,091
Income tax expense	15,950	24,337	91,571	109,725
Net income	\$ 30,133	\$ 45,786	\$ 174,678	\$ 210,366
Gross margin from operations	11.7 %	14.9 %	15.4 %	18.3 %

2016 Total Year Highlights

Net revenue from operations before taxes increased \$59.8 million, or 25.7 percent, in 2016 compared to 2015.

- Management fee revenue increased \$91.9 million, or 6.2 percent, in 2016 compared to 2015.
- Commissions increased \$45.9 million in 2016 compared to 2015 as a result of the 6.2 percent increase in direct and assumed premiums written by the Exchange.
- Non-commission expense decreased \$14.6 million in 2016 compared to 2015. Information technology costs decreased \$2.1 million primarily due to decreased personnel costs somewhat offset by an increase in professional fees. Customer service costs decreased \$4.7 million primarily due to decreased credit card processing fees and personnel costs. Administrative and other costs decreased \$7.8 million due to decreased personnel costs, including incentive compensation forfeited by senior executives who separated from service during 2016, somewhat offset by an increase in professional fees. Personnel costs in all expense categories were impacted by decreased pension costs primarily due to an increase in the pension discount rate as well as decreased medical costs.

- ┆ The gross margin for 2016 was 18.3 percent, compared to 15.4 percent for 2015.

Income from investments before taxes totaled \$27.8 million in 2016, compared to \$33.7 million in 2015. Earnings from limited partnerships were \$7.0 million in 2016 compared to earnings of \$17.0 million in 2015.

4Q 2016 Highlights

Net revenue from operations before taxes increased \$14.8 million, or 35.5 percent, in the fourth quarter of 2016 compared to the fourth quarter of 2015.

- ┆ Management fee revenue increased \$23.3 million, or 6.7 percent, in the fourth quarter of 2016 compared to the fourth quarter of 2015.
- ┆ Commissions increased \$10.1 million in the fourth quarter of 2016 compared to the fourth quarter of 2015 as a result of the 6.4 percent increase in direct and assumed premiums written by the Exchange.
- ┆ Non-commission expense decreased \$1.8 million in the fourth quarter of 2016 compared to the fourth quarter of 2015. Information technology costs increased \$4.3 million primarily due to an increase in professional fees. Customer service costs decreased \$1.8 million primarily due to decreased credit card processing fees and personnel costs. Administrative and other costs decreased \$4.0 million due to decreased personnel costs, including incentive compensation forfeited by senior executives who separated from service during 2016, somewhat offset by an increase in professional 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 fourth quarter of 2016 was 14.9 percent, compared to 11.7 percent in the fourth quarter of 2015.

Income from investments before taxes totaled \$13.5 million in the fourth quarter of 2016, compared to \$4.2 million in the fourth quarter of 2015. Earnings from limited partnerships were \$7.3 million in the fourth quarter of 2016 compared to earnings of \$0.1 million in the fourth quarter of 2015.

Webcast Information

Indemnity has scheduled a conference call and live audio broadcast on the Web for 10:00 AM ET on February 24, 2017. 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.

About Erie Insurance

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.

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 and investments in new technology and systems;
- ┆ 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 and difficulties with technology or data security breaches, including cyber attacks;
- ┆ 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 December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
	(Unaudited)			
Operating revenue				
Management fee revenue, net	\$ 372,169	\$ 348,885	\$ 1,567,431	\$ 1,475,511
Service agreement revenue	7,444	7,495	29,200	29,997
Total operating revenue	379,613	356,380	1,596,631	1,505,508
Operating expenses				
Commissions	216,837	206,691	893,800	847,880
Salaries and employee benefits	51,777	55,998	213,356	226,713
All other operating expenses	54,314	51,852	197,111	198,374
Total operating expenses	322,928	314,541	1,304,267	1,272,967
Net revenue from operations	56,685	41,839	292,364	232,541
Investment income				
Net investment income	5,663	4,469	20,547	17,791
Net realized gains on investments	643	617	672	492
Net impairment losses recognized in earnings	(71)	(923)	(416)	(1,558)
Equity in earnings of limited partnerships	7,304	81	7,025	16,983
Total investment income	13,539	4,244	27,828	33,708
Interest expense, net	101	—	101	—
Income before income taxes	70,123	46,083	320,091	266,249
Income tax expense	24,337	15,950	109,725	91,571
Net income	\$ 45,786	\$ 30,133	\$ 210,366	\$ 174,678

Earnings Per Share

Net income per share

Class A common stock - basic	\$ 0.98	\$ 0.65	\$ 4.52	\$ 3.75
Class A common stock - diluted	\$ 0.87	\$ 0.57	\$ 4.01	\$ 3.33
Class B common stock - basic	\$ 147	\$ 97	\$ 678	\$ 563

Class B common stock - diluted	\$ 147	\$ 97	\$ 677	\$ 562
Weighted average shares outstanding - Basic				
Class A common stock	46,188,895	46,179,559	46,188,952	46,186,671
Class B common stock	2,542	2,542	2,542	2,542
Weighted average shares outstanding - Diluted				
Class A common stock	52,413,119	52,506,600	52,435,303	52,498,811
Class B common stock	2,542	2,542	2,542	2,542
Dividends declared per share				
Class A common stock	\$ 0.7825	\$ 0.7300	\$ 2.9725	\$ 2.7730
Class B common stock	\$ 117.375	\$ 109.500	\$ 445.875	\$ 415.950

Erie Indemnity Company

Reconciliation of Net Income to Operating Income

Reconciliation of net income to operating 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 net income and operating income:

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
<i>(in thousands, except per share data)</i>	(Unaudited)			
Net income	\$ 45,786	\$ 30,133	\$ 210,366	\$ 174,678
Net realized (gains) losses and impairments on investments	(572)	306	(256)	1,066
Income tax expense (benefit)	199	(107)	89	(373)
Realized (gains) losses and impairments, net of income taxes	(373)	199	(167)	693
Operating income	\$ 45,413	\$ 30,332	\$ 210,199	\$ 175,371
Per Class A common share-diluted:				
Net income	\$ 0.87	\$ 0.57	\$ 4.01	\$ 3.33
Net realized (gains) losses and impairments on investments	0.00	0.01	0.00	0.02
Income tax expense (benefit)	0.00	0.00	0.00	(0.01)
Realized (gains) losses and impairments, net of income taxes	0.00	0.01	0.00	0.01
Operating income	\$ 0.87	\$ 0.58	\$ 4.01	\$ 3.34

Erie Indemnity Company
Statements of Financial Position
(in thousands)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 189,072	\$ 182,889
Available-for-sale securities	56,138	62,067
Receivables from Erie Insurance Exchange and affiliates	378,540	348,055
Prepaid expenses and other current assets	30,169	24,697
Federal income taxes recoverable	5,260	11,947
Accrued investment income	6,337	5,491
Total current assets	665,516	635,146
Available-for-sale securities	657,153	537,874
Limited partnership investments	58,159	88,535
Fixed assets, net	69,142	59,087
Deferred income taxes, net	53,889	40,686
Note receivable from Erie Family Life Insurance Company	25,000	25,000
Other assets	20,096	20,968
Total assets	\$ 1,548,955	\$ 1,407,296
Liabilities and shareholders' equity		
Current liabilities:		
Commissions payable	\$ 210,559	\$ 195,542
Agent bonuses	114,772	106,752
Accounts payable and accrued liabilities	88,153	88,532
Dividends payable	36,441	33,996
Deferred executive compensation	19,675	20,877
Total current liabilities	469,600	445,699
Defined benefit pension plan	221,827	172,700
Employee benefit obligations	756	1,234
Deferred executive compensation	13,233	16,580
Long-term borrowings	24,766	—
Other long-term liabilities	1,863	1,580
Total liabilities	732,045	637,793
Shareholders' equity	816,910	769,503
Total liabilities and shareholders' equity	\$ 1,548,955	\$ 1,407,296

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/erie-indemnity-reports-full-year-and-fourth-quarter-2016-results-300411714.html>

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