



July 27, 2017

Erie Indemnity Reports Second Quarter 2017 Results

Net Income per Diluted Share was \$1.12 for the Quarter and \$2.03 Year to Date

ERIE, Pa., July 27, 2017 /PRNewswire/ -- Erie Indemnity Company (NASDAQ: ERIE) today announced financial results for the quarter ending June 30, 2017. Net income was \$58.5 million, or \$1.12 per diluted share, in the second quarter of 2017, compared to \$61.3 million, or \$1.17 per diluted share, in the second quarter of 2016. Net income was \$106.4 million, or \$2.03 per diluted share, in the first six months of 2017, compared to \$107.2 million, or \$2.04 per diluted share, in the first six months of 2016.



2Q and First Half 2017				
(dollars in thousands)	2Q'17	2Q'16	1H'17	1H'16
Operating income	\$ 83,044	\$ 85,759	\$ 149,578	\$ 153,424
Investment income, net of interest expense	6,191	7,404	12,611	9,963
Income before income taxes	89,235	93,163	162,189	163,387
Income tax expense	30,708	31,854	55,786	56,183
Net income	\$ 58,527	\$ 61,309	\$ 106,403	\$ 107,204
Gross margin from operations	18.5 %	20.2 %	17.6 %	19.2 %

2Q 2017 Highlights

Operating income decreased \$2.7 million, or 3.2 percent, in the second quarter of 2017 compared to the second quarter of 2016.

- Management fee revenue increased \$24.7 million, or 5.9 percent, in the second quarter of 2017 compared to the second quarter of 2016.
- Commissions increased \$15.6 million in the second quarter of 2017 compared to the second quarter of 2016, as a result of the 5.7 percent increase in direct and assumed premiums written by the Exchange. The remaining portion of the increase in the second quarter of 2017 was due to higher agent incentive costs related to profitable growth, compared to the second quarter of 2016.
- Non-commission expense increased \$11.8 million in the second quarter of 2017 compared to the second quarter of 2016. Information technology costs increased \$7.1 million primarily due to increased professional fees and personnel costs. Underwriting and policy processing costs increased \$1.9 million primarily due to increased personnel costs and underwriting report costs. Administrative and other expenses increased \$2.6 million driven by increased professional fees and personnel costs.
- The gross margin in the second quarter of 2017 was 18.5 percent compared to 20.2 percent in the second quarter of 2016.

Income from investments before taxes totaled \$6.4 million in the second quarter of 2017 compared to \$7.4 million in the second quarter of 2016. Earnings from limited partnerships were \$0.1 million in the second quarter of 2017 compared to \$2.1 million in the second quarter of 2016, while net investment income was \$6.2 million in the second quarter of 2017 compared to \$4.9 million in the second quarter of 2016.

First Half 2017 Highlights

Operating income decreased \$3.8 million, or 2.5 percent, in the first six months of 2017 compared to the first six months of 2016.

- ┆ Management fee revenue increased \$49.3 million, or 6.3 percent, in the first six months of 2017 compared to the first six months of 2016.
- ┆ Commissions increased \$27.4 million in the first six months of 2017 compared to the first six months of 2016, as a result of the 6.2 percent increase in direct and assumed premiums written by the Exchange.
- ┆ Non-commission expense increased \$25.8 million in the first six months of 2017 compared to the first six months of 2016. Information technology costs increased \$13.6 million primarily due to increased professional fees. Underwriting and policy processing costs increased \$3.9 million primarily due to increased personnel costs and underwriting report costs. Administrative and other expenses increased \$9.4 million primarily driven by increased personnel costs, including higher incentive plan costs and pension expenses. The incentive plan cost increase was driven by the long-term incentive plan due to the increase in the company stock price during the first six months of 2017. Additionally, the employee incentive plan program was expanded to additional employee groups beginning in 2017.
- ┆ The gross margin in the first six months of 2017 was 17.6 percent compared to 19.2 percent in the first six months of 2016.

Income from investments before taxes totaled \$13.0 million in the first six months of 2017 compared to \$10.0 million in the first six months of 2016. Net investment income was \$12.2 million in the first six months of 2017 compared to \$9.6 million in the first six months of 2016, while net realized gains on investments were \$0.6 million in the first six months of 2017 compared to net realized losses of \$0.7 million in the first six months of 2016.

Webcast Information

Indemnity has scheduled a conference call and live audio broadcast on the Web for 10:00 AM ET on July 28, 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.

Erie Insurance Group

According to A.M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 10th largest homeowners insurer and 11th 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 Indemnity Company
Statements of Operations

(dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Operating revenue				
Management fee revenue, net	\$ 441,319	\$ 416,665	\$ 833,377	\$ 784,123
Service agreement revenue	7,245	7,219	14,503	14,489
Total operating revenue	448,564	423,884	847,880	798,612
Operating expenses				
Commissions	251,383	235,794	471,861	444,508
Salaries and employee benefits	60,774	55,025	120,514	108,314
All other operating expenses	53,363	47,306	105,927	92,366
Total operating expenses	365,520	338,125	698,302	645,188
Operating income	83,044	85,759	149,578	153,424
Investment income				
Net investment income	6,236	4,891	12,214	9,553
Net realized investment gains (losses)	124	399	640	(689)
Net impairment losses recognized in earnings	(61)	0	(182)	(345)
Equity in earnings of limited partnerships	149	2,114	362	1,444
Total investment income	6,448	7,404	13,034	9,963
Interest expense, net	257	—	423	—
Income before income taxes	89,235	93,163	162,189	163,387
Income tax expense	30,708	31,854	55,786	56,183
Net income	\$ 58,527	\$ 61,309	\$ 106,403	\$ 107,204

Earnings Per Share

Net income per share

Class A common stock - basic	\$ 1.26	\$ 1.32	\$ 2.28	\$ 2.30
Class A common stock - diluted	\$ 1.12	\$ 1.17	\$ 2.03	\$ 2.04
Class B common stock - basic and diluted	\$ 189	\$ 197	\$ 343	\$ 345
Class B common stock - diluted	\$ 188	\$ 197	\$ 343	\$ 345

Weighted average shares outstanding - Basic

Class A common stock	46,180,852	46,188,867	46,184,666	46,188,967
Class B common stock	2,542	2,542	2,542	2,542

Weighted average shares outstanding - Diluted

Class A common stock	52,299,395	52,392,862	52,355,214	52,458,394
Class B common stock	2,542	2,542	2,542	2,542

Dividends declared per share

Class A common stock	\$ 0.7825	\$ 0.7300	\$ 1.565	\$ 1.460
Class B common stock	\$ 117.3750	\$ 109.5000	\$ 234.750	\$ 219.000

Erie Indemnity Company
Statements of Financial Position
(in thousands)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,709	\$ 189,072
Available-for-sale securities	72,057	56,138
Receivables from Erie Insurance Exchange and affiliates	411,422	378,540
Prepaid expenses and other current assets	36,023	30,169
Federal income taxes recoverable	0	5,260
Accrued investment income	6,874	6,337
Total current assets	671,085	665,516
Available-for-sale securities	672,625	657,153
Limited partnership investments	53,230	58,159
Fixed assets, net	71,119	69,142
Deferred income taxes, net	51,811	53,889
Note receivable from Erie Family Life Insurance Company	25,000	25,000
Other assets	22,355	20,096
Total assets	\$ 1,567,225	\$ 1,548,955
Liabilities and shareholders' equity		
Current liabilities:		
Commissions payable	\$ 232,905	\$ 210,559
Agent bonuses	62,845	114,772
Accounts payable and accrued liabilities	86,844	88,153
Dividends payable	36,441	36,441
Deferred executive compensation	9,898	19,675
Federal income taxes payable	2,088	0
Total current liabilities	431,021	469,600
Defined benefit pension plans	219,972	221,827
Employee benefit obligations	462	756
Deferred executive compensation	11,810	13,233
Long-term borrowings	49,742	24,766
Other long-term liabilities	1,004	1,863
Total liabilities	714,011	732,045
Shareholders' equity	853,214	816,910
Total liabilities and shareholders' equity	\$ 1,567,225	\$ 1,548,955

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