

HANOVER INSURANCE GROUP, INC.

Form 10-Q

November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-13754

THE HANOVER INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware 04-3263626
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

440 Lincoln Street, Worcester, Massachusetts 01653

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(Address of principal executive offices) (Zip Code)

(508) 855-1000

(Registrant's telephone number, including area code)

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 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer	Accelerated filer
Non-accelerated filer	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

The number of shares outstanding of the registrant's common stock was 42,332,507 as of October 30, 2018.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
Revenues				
Premiums	\$1,071.7	\$1,004.4	\$3,172.4	\$2,957.0
Net investment income	66.4	62.6	198.0	181.3
Net realized and unrealized investment gains (losses):				
Net realized gains (losses) from sales and other	(0.2)	14.6	(0.1)	25.0
Net change in fair value of equity securities	23.6	—	6.7	—
Net other—than—temporary impairment losses on investments				
recognized in earnings	(0.4)	(1.3)	(2.8)	(4.5)
Total net realized and unrealized investment gains	23.0	13.3	3.8	20.5
Fees and other income	5.5	5.6	17.3	16.6
Total revenues	1,166.6	1,085.9	3,391.5	3,175.4
Losses and expenses				
Losses and loss adjustment expenses	676.4	656.5	2,018.5	1,938.2
Amortization of deferred acquisition costs	224.4	211.4	664.7	625.6
Interest expense	11.2	11.3	33.9	33.9
Other operating expenses	131.9	124.0	393.0	380.1
Total losses and expenses	1,043.9	1,003.2	3,110.1	2,977.8
Income from continuing operations before income taxes	122.7	82.7	281.4	197.6
Income tax expense:				
Current	16.2	16.8	27.1	8.6
Deferred	2.5	6.4	17.4	44.8
Total income tax expense	18.7	23.2	44.5	53.4
Income from continuing operations	\$104.0	\$59.5	\$236.9	\$144.2
Income (loss) from discontinued Chaucer business (net of	(3.6)	(47.2)	30.5	(8.3)

income tax benefit (expense) of \$1.1 and \$26.6 for the three months ended September 30, 2018 and 2017, respectively, and (\$6.6) and \$10.4 for the nine months

ended September 30, 2018 and 2017, respectively)

Net loss from discontinued life business (net of tax benefit

of \$0.8 for the three and nine months ended

September 30, 2017)	—	(1.2)	—	(1.2)
Net income	\$100.4	\$11.1	\$267.4	\$134.7
Earnings per common share:				
Basic:				
Income from continuing operations	\$2.45	\$1.40	\$5.57	\$3.39
Income (loss) from discontinued Chaucer business	(0.09)	(1.11)	0.72	(0.19)
Net loss from discontinued life business	—	(0.03)	—	(0.03)
Net income per share	\$2.36	\$0.26	\$6.29	\$3.17
Weighted average shares outstanding	42.5	42.4	42.5	42.5
Diluted:				
Income from continuing operations	\$2.41	\$1.38	\$5.50	\$3.36
Income (loss) from discontinued Chaucer business	(0.08)	(1.10)	0.71	(0.19)
Net loss from discontinued life business	—	(0.02)	—	(0.03)
Net income per share	\$2.33	\$0.26	\$6.21	\$3.14
Weighted average shares outstanding	43.1	42.9	43.1	42.9

The accompanying notes are an integral part of these interim consolidated financial statements.

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income	\$100.4	\$11.1	\$267.4	\$134.7
Other comprehensive (loss) income, net of tax:				
Available-for-sale securities:				
Net (depreciation) appreciation during the period	(25.0)	1.7	(197.9)	40.0
Change in other-than-temporary impairment losses				
recognized in other comprehensive (loss) income	(0.2)	2.0	0.1	2.5
Total available-for-sale securities	(25.2)	3.7	(197.8)	42.5
Pension and postretirement benefits:				
Net change in net actuarial loss and prior service cost	1.9	2.3	0.5	7.0
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency				
translation during the period	1.6	1.1	0.6	1.7
Total other comprehensive (loss) income, net of tax	(21.7)	7.1	(196.7)	51.2
Comprehensive income	\$78.7	\$18.2	\$70.7	\$185.9

The accompanying notes are an integral part of these interim consolidated financial statements.

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except share data)	September 30, 2018	December 31, 2017
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$6,204.3 and \$5,657.1)	\$6,092.6	\$5,749.3
Equity securities, at fair value	574.8	576.2
Other investments	633.2	562.7
Total investments	7,300.6	6,888.2
Cash and cash equivalents	117.9	297.9
Accrued investment income	53.0	48.2
Premiums and accounts receivable, net	1,217.8	1,095.7
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,586.0	1,625.5
Deferred acquisition costs	456.9	430.0
Deferred income taxes	33.5	17.0
Goodwill	178.8	178.8
Other assets	330.0	333.7
Assets held-for-sale	4,247.2	4,466.6
Assets of discontinued life business	102.6	88.0
Total assets	\$15,624.3	\$15,469.6
Liabilities		
Loss and loss adjustment expense reserves	\$5,188.9	\$5,058.5
Unearned premiums	2,314.4	2,131.7
Expenses and taxes payable	538.6	620.7
Reinsurance premiums payable	46.4	51.5
Debt	777.6	786.9
Liabilities held-for-sale	3,660.4	3,707.2
Liabilities of discontinued life business	115.6	115.4
Total liabilities	\$12,641.9	12,471.9
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, par value \$0.01 per share; 20.0 million shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 300.0 million shares authorized; 60.5 million shares issued	0.6	0.6
Additional paid-in capital	1,868.9	1,857.0
Accumulated other comprehensive income (loss)	(190.8)	107.6
Retained earnings	2,277.6	1,975.0
Treasury stock at cost (18.2 million and 18.0 million shares)	(973.9)	(942.5)
Total shareholders' equity	2,982.4	2,997.7
Total liabilities and shareholders' equity	\$15,624.3	\$15,469.6

The accompanying notes are an integral part of these interim consolidated financial statements.

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(In millions)	Nine Months Ended	
	September 30, 2018	2017
Preferred Stock		
Balance at beginning and end of period	\$—	\$—
Common Stock		
Balance at beginning and end of period	0.6	0.6
Additional Paid-in Capital		
Balance at beginning of period	1,857.0	1,846.7
Employee and director stock-based awards and other	11.9	9.7
Balance at end of period	1,868.9	1,856.4
Accumulated Other Comprehensive Income (Loss), net of tax		
Net Unrealized Appreciation (Depreciation) on Investments:		
Balance at beginning of period	205.4	186.0
Net appreciation (depreciation) on available-for-sale securities	(197.8)	42.5
Adoption of Accounting Standards Update 2016-01 and 2018-02	(81.6)	—
Balance at end of period	(74.0)	228.5
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(79.5)	(102.5)
Net change in net actuarial loss and prior service cost	0.5	7.0
Adoption of Accounting Standards Update 2018-02	(16.2)	—
Balance at end of period	(95.2)	(95.5)
Cumulative Foreign Currency Translation Adjustment:		
Balance at beginning of period	(18.3)	(20.7)
Amount recognized as cumulative foreign currency translation during the period		