HANOVER INSURANCE GROUP, INC. Form 10-Q August 03, 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 June 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

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 Non-accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company 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 42,535,767 as of July 31, 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)

	Three Mo Ended June 30,	nths	Six Month June 30,	is Ended
(In millions, except per share data)	2018	2017	2018	2017
Revenues				
Premiums	\$1,272.9	\$1,181.2	\$2,536.5	\$2,362.5
Net investment income	78.7	72.3	161.6	143.4
Net realized and unrealized investment gains (losses):				
Net realized gains (losses) from sales and other	(0.4)	7.7	(0.1)	11.0
Net change in fair value of equity securities	6.0	_	(17.0)	
Net other-than-temporary impairment losses on investments				
recognized in earnings	(1.9)	(1.8)	(2.6)	(3.2)
Total net realized and unrealized investment gains (losses)	3.7	5.9	(19.7)	· /
Fees and other income	7.5	6.7	15.3	13.3
Total revenues	1,362.8	1,266.1	2,693.7	2,527.0
Losses and expenses	,	,	,	,
Losses and loss adjustment expenses	783.6	725.0	1,569.4	1,491.5
Amortization of deferred acquisition costs	288.9	264.6	576.9	531.0
Interest expense	11.6	12.2	24.0	24.2
Other operating expenses	158.8	153.3	322.9	310.3
Total losses and expenses	1,242.9	1,155.1	2,493.2	2,357.0
Income before income taxes	119.9	111.0	200.5	170.0
Income tax expense (benefit):				
Current	17.3	4.9	37.5	38.8
Deferred	3.4	27.7	(4.0)	7.6
Total income tax expense	20.7	32.6	33.5	46.4
Income from continuing operations	99.2	78.4	167.0	123.6
Net gain from discontinued operations (net of tax benefit of				
\$0.1 for the six months ended June 30, 2018)	0.1			
Net income	\$99.3	\$78.4	\$167.0	\$123.6
Earnings per common share: Basic:				
Income from continuing operations	\$2.33	\$1.85	\$3.93	\$2.91

Net gain from discontinued operations	0.01			
Net income per share	\$2.34	\$1.85	\$3.93	\$2.91
Weighted average shares outstanding	42.5	42.5	42.5	42.5
Diluted:				
Income from continuing operations	\$2.30	\$1.83	\$3.88	\$2.88
Net gain from discontinued operations	0.01		_	
Net income per share	\$2.31	\$1.83	\$3.88	\$2.88
Weighted average shares outstanding	43.1	42.8	43.1	42.9

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three M Ended June 30		Six Mont Ended June 30,	ths
(In millions)	2018	2017	2018	2017
Net income	\$99.3	\$78.4	\$167.0	\$123.6
Other comprehensive income (loss), net of tax:				
Available-for-sale securities:				
Net (depreciation) appreciation during the period	(49.0)	19.4	(172.9)	38.3
Change in other-than-temporary impairment losses				
recognized in other comprehensive income (loss)	(0.1)	0.4	0.3	0.5
Total available-for-sale securities	(49.1)	19.8	(172.6)	38.8
Pension and postretirement benefits:				
Net change in net actuarial loss and prior service cost	0.9	2.4	(1.4)	4.7
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency				
translation during the period	(0.5)	(4.5)	(1.0)	0.6
Total other comprehensive (loss) income, net of tax	(48.7)	17.7	(175.0)	44.1
Comprehensive income (loss)	\$50.6	\$96.1	\$(8.0)	\$167.7

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)

	June 30,	December 31,
(In millions, except share data)	2018	2017
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$7,847.8 and \$7,688.8)	\$7,729.9	\$7,779.7
Equity securities, at fair value	554.0	576.5
Other investments	736.8	685.5
Total investments	9,020.7	9,041.7
Cash and cash equivalents	244.9	376.4
Accrued investment income	62.7	62.7
Premiums and accounts receivable, net	1,773.4	1,567.6
Reinsurance recoverable on paid and unpaid losses and unearned premiums	2,832.3	3,057.0
Deferred acquisition costs	564.5	550.2
Deferred income taxes	71.2	29.2
Goodwill	192.1	192.6
Other assets	539.2	504.2
Assets of discontinued operations	102.6	88.0
Total assets	\$15,403.6	\$15,469.6
Liabilities		
Loss and loss adjustment expense reserves	\$7,506.4	\$7,745.0
Unearned premiums	2,958.5	2,763.6
Expenses and taxes payable	643.3	716.2
Reinsurance premiums payable	452.9	344.8
Debt	787.1	786.9
Liabilities of discontinued operations	115.6	115.4
Total liabilities	\$12,463.8	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	1,864.2	1,857.0
Accumulated other comprehensive income (loss)	(169.1)	107.6
Retained earnings	2,200.4	1,975.0
Treasury stock at cost (18.0 million shares)	(956.3)	(942.5)
Total shareholders' equity	2,939.8	2,997.7

\$15,403.6 \$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)20182017Preferred StockBalance at beginning and end of period\$—\$—Common StockBalance at beginning of period0.60.6Additional Paid-in CapitalBalance at beginning of period1,857.01,846.7Employee and director stock-based awards and other7.25.3Balance at end of period1,864.21,852.0Accumulated Other Comprehensive Income (Loss), net of taxNet Unrealized Appreciation (Depreciation) on Investments:Balance at beginning of period205.4186.0Net appreciation (depreciation) on available-for-sale securities(172.6)38.8Adoption of Accounting Standards Update 2016-01 and 2018-02(81.6)—Balance at beginning of period(48.8)224.8224.8Defined Benefit Pension and Postretirement Plans:Balance at beginning of period(10.2)Balance at beginning of period(10.2)Cumulative Foreign Currency Translation Adjustment: </th <th></th> <th>Six Month June 30,</th> <th>s Ended</th>		Six Month June 30,	s Ended
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Balance at end of period (956.3) (943.6)			. ,
	Total shareholders' equity	\$2,939.8	\$2,972.5

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 CASH FLOWS (UNAUDITED)

(I.e'11'	June 3	onths Ended 0,		2017		
(In millions)	2018			2017		
Cash Flows From						
Operating Activities Net income	\$	167.0		\$	123.6	
Adjustments to	φ	107.0		φ	125.0	
reconcile net income						
to net cash provided						
by operating						
activities:						
Net realized and						
unrealized investment						
losses (gains)		19.4			(7.8)
Net amortization and		17.1			(1.0	,
depreciation		14.1			15.4	
Stock-based						
compensation						
expense		7.6			7.3	
Amortization of						
defined benefit plan						
costs		4.8			7.0	
Deferred income tax						
(benefit) expense		(4.0)		7.6	
Change in deferred						
acquisition costs		(14.3)		(29.6)
Change in premiums						
receivable, net of						
reinsurance premiums						
payable		(100.6)		(73.8)
Change in loss, loss						
adjustment expense						
and unearned						
premium reserves		249.3			384.7	
Change in reinsurance		(50.0			(====	
recoverable		(53.3)		(72.7)
Change in expenses		(62.)			(7 1 1)	
and taxes payable		(62.4)		(74.1)
Other, net		(48.1)		(37.8)
Net cash provided by operating activities		179.5			249.8	
operating activities		177.J			247.0	

Cash Flows From Investing Activities				
Proceeds from				
disposals and				
maturities of fixed				
maturities	637.8		578.8	
Proceeds from				
disposals of equity				
securities and other				
investments	51.2		65.8	
Purchase of fixed				
maturities	(822.6)	(668.4)
Purchase of equity				
securities and other				
investments	(92.8)	(113.5)
Capital expenditures	(7.8)	(8.6)
Net cash used in				
investing activities	(234.2)	(145.9)
Cash Flows From				
Financing Activities				
Proceeds from				
exercise of employee	11.1		10.0	
stock options	11.1		10.3	
Change in cash				
collateral related to				
securities lending	(12.7))	(2 A))
program Dividanda paid ta	(12.7)	(3.4)
Dividends paid to shareholders				
shareholders				