

AMERCO /NV/  
Form 10-Q  
February 07, 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 December 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission Registrant, State of Incorporation, I.R.S. Employer

File Number Address and Telephone Number Identification No.

1-11255	AMERCO (A Nevada Corporation) 5555 Kietzke Lane, Ste. 100 Reno, Nevada 89511 Telephone (775) 688-6300	88-0106815
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N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 Website, 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

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filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
 No

19,607,788 shares of AMERCO Common Stock, \$0.25 par value, were outstanding at February 1, 2018.

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## Part i Financial information

## ITEM 1. Financial Statements

## AMERCO AND CONSOLIDATED ENTITIES

## CONDENSED CONSOLIDATED balance sheets

	December 31, 2017 (Unaudited) (In thousands, except share data)	March 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,022,887	\$ 697,806
Reinsurance recoverables and trade receivables, net	205,873	178,081
Inventories, net	95,672	82,439
Prepaid expenses	147,375	124,728
Investments, fixed maturities and marketable equities	1,868,314	1,663,768
Investments, other	407,822	367,830
Deferred policy acquisition costs, net	124,820	130,213
Other assets	93,608	97,525
Related party assets	42,909	86,168
	4,009,280	3,428,558
Property, plant and equipment, at cost:		
Land	738,525	648,757
Buildings and improvements	3,000,208	2,618,265
Furniture and equipment	600,216	510,415
Rental trailers and other rental equipment	538,334	492,280
Rental trucks	4,243,305	4,091,598
	9,120,588	8,361,315
Less: Accumulated depreciation	(2,632,909)	(2,384,033)
Total property, plant and equipment	6,487,679	5,977,282
Total assets	\$ 10,496,959	\$ 9,405,840
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 469,955	\$ 450,541
Notes, loans and leases payable	3,493,908	3,262,880
Policy benefits and losses, claims and loss expenses payable	1,090,206	1,086,322
Liabilities from investment contracts	1,319,945	1,112,498
Other policyholders' funds and liabilities	10,739	10,150
Deferred income	27,491	28,696
Deferred income taxes	671,548	835,009
Total liabilities	7,083,792	6,786,096

Commitments and contingencies (notes 4, 9 and 10)

## Stockholders' equity:

Series preferred stock, with or without par value, 50,000,000 shares authorized:

Series A preferred stock, with no par value, 6,100,000 shares authorized;

6,100,000 shares issued and none outstanding as of December 31 and March 31, 2017 — —

Series B preferred stock, with no par value, 100,000 shares authorized; none

issued and outstanding as of December 31 and March 31, 2017 — —

Serial common stock, with or without par value, 250,000,000 shares authorized:

Serial common stock of \$0.25 par value, 10,000,000 shares authorized;

none issued and outstanding as of December 31 and March 31, 2017 — —

Common stock, with \$0.25 par value, 250,000,000 shares authorized:

Common stock of \$0.25 par value, 250,000,000 shares authorized; 41,985,700

issued and 19,607,788 outstanding as of December 31 and March 31, 2017 10,497 10,497

Additional paid-in capital 452,619 452,172

Accumulated other comprehensive loss (9,911) (51,236)

Retained earnings 3,643,253 2,892,893

Cost of common shares in treasury, net (22,377,912 shares as of December 31 and March 31, 2017) (525,653) (525,653)

Cost of preferred shares in treasury, net (6,100,000 shares as of December 31 and March 31, 2017) (151,997) (151,997)

Unearned employee stock ownership plan shares (5,641) (6,932)

Total stockholders' equity 3,413,167 2,619,744

Total liabilities and stockholders' equity \$ 10,496,959 \$ 9,405,840

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

## AMERCO AND CONSOLIDATED ENTITIES

## CONDENSED CONSOLIDATED Statements of operations

	Quarter Ended December 31, 2017      2016 (Unaudited) (In thousands, except share and per share amounts)	
Revenues:		
Self-moving equipment rentals	\$574,801	\$541,473
Self-storage revenues	82,127	72,309
Self-moving and self-storage products and service sales	53,130	51,562
Property management fees	9,881	9,734
Life insurance premiums	38,957	41,279
Property and casualty insurance premiums	16,093	14,938
Net investment and interest income	28,821	22,833
Other revenue	39,072	36,327
Total revenues	842,882	790,455
Costs and expenses:		
Operating expenses	438,071	389,352
Commission expenses	63,487	61,052
Cost of sales	33,995	32,537
Benefits and losses	45,168	45,403
Amortization of deferred policy acquisition costs	5,952	5,200
Lease expense	8,415	8,807
Depreciation, net of (gains) losses on disposal of ((\$4,235) and (\$2,099), respectively)	137,061	118,541
Net (gains) losses on disposal of real estate	(192,404)	(2,418)
Total costs and expenses	539,745	658,474
Earnings from operations	303,137	131,981
Interest expense	(31,558)	(28,782)
Amortization on early extinguishment of debt	—	(499)
Pretax earnings	271,579	102,700
Income tax (expense) benefit	257,315	(37,472)
Earnings available to common stockholders	\$528,894	\$65,228
Basic and diluted earnings per common share	\$27.00	\$3.33
Weighted average common shares outstanding: Basic and diluted	19,589,218	19,586,694

Related party revenues for the third quarter of fiscal 2018 and 2017, net of eliminations, were \$10.8 million and \$11.0 million, respectively.

Related party costs and expenses for the third quarter of fiscal 2018 and 2017, net of eliminations, were \$14.1 million and \$13.7 million, respectively.

Please see Note 11, Related Party Transactions, of the Notes to Condensed Consolidated Financial Statements for more information on the related party revenues and costs and expenses.

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



## AMERCO AND CONSOLIDATED ENTITIES

## CONDENSED CONSOLIDATED Statements of operations

	Nine Months Ended December 31,	
	2017	2016
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Revenues:		
Self-moving equipment rentals	\$1,985,217	\$1,899,519
Self-storage revenues	239,317	212,194
Self-moving and self-storage products and service sales	205,309	199,195
Property management fees	23,474	23,050
Life insurance premiums	116,910	123,064
Property and casualty insurance premiums	42,934	40,202
Net investment and interest income	82,507	75,754
Other revenue	147,825	139,353
Total revenues	2,843,493	2,712,331
Costs and expenses:		
Operating expenses	1,347,477	1,172,647
Commission expenses	222,203	215,330
Cost of sales	124,456	116,851
Benefits and losses	139,997	139,242
Amortization of deferred policy acquisition costs	18,217	19,131
Lease expense	25,277	29,204
Depreciation, net of (gains) losses on disposal of ((\$14,260) and (\$30,398), respectively)	396,540	323,785
Net (gains) losses on disposal of real estate	(192,223)	(2,377)
Total costs and expenses	2,081,944	2,013,813
Earnings from operations	761,549	698,518
Interest expense	(93,926)	(83,197)
Amortization on early extinguishment of debt	-	(499)
Pretax earnings	667,623	614,822
Income tax (expense) benefit	112,117	(225,946)
Earnings available to common stockholders	\$779,740	\$388,876
Basic and diluted earnings per common share	\$39.81	\$19.85
Weighted average common shares outstanding: Basic and diluted	19,588,558	19,586,389

Related party revenues for the first nine months of fiscal 2018 and 2017, net of eliminations, were \$26.8 million and \$26.7 million, respectively.

Related party costs and expenses for the first nine months of fiscal 2018 and 2017, net of eliminations, were \$48.9 million and \$47.9 million, respectively.

Please see Note 11, Related Party Transactions, of the Notes to Condensed Consolidated Financial Statements for more information on the related party revenues and costs and expenses.

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

## AMERCO AND CONSOLIDATED ENTITIES

## Condensed consolidated statements of COMPREHENSIVE INCOME (loss)

Quarter Ended December 31, 2017	Pre-tax (Unaudited) (In thousands)	Tax	Net
Comprehensive income:			
Net earnings	\$271,579	\$257,315	\$528,894
Other comprehensive income (loss):			
Foreign currency translation	(1,794)	–	(1,794)
Unrealized net gain on investments	4,388	(1,536)	2,852
Change in fair value of cash flow hedges	911	(346)	565
Total comprehensive income	\$275,084	\$255,433	\$530,517

Quarter Ended December 31, 2016	Pre-tax (Unaudited) (In thousands)	Tax	Net
Comprehensive income:			
Net earnings	\$102,700	\$(37,472)	\$65,228
Other comprehensive income (loss):			
Foreign currency translation	(5,821)	–	(5,821)
Unrealized net gain on investments	4,238	(1,483)	2,755
Change in fair value of cash flow hedges	2,853	(931)	1,922
Total comprehensive income	\$103,970	\$(39,886)	\$64,084

Nine Months Ended December 31, 2017	Pre-tax (Unaudited) (In thousands)	Tax	Net
Comprehensive income:			
Net earnings	\$667,623	\$112,117	\$779,740
Other comprehensive income (loss):			
Foreign currency translation	19,240	–	19,240
Unrealized net gain on investments	30,492	(10,672)	19,820
Change in fair value of cash flow hedges	3,655	(1,390)	2,265
Total comprehensive income	\$721,010	\$100,055	\$821,065

Nine Months Ended December 31, 2016	Pre-tax (Unaudited) (In thousands)	Tax	Net
Comprehensive income:			
Net earnings	\$614,822	\$(225,946)	\$388,876
Other comprehensive income (loss):			
Foreign currency translation	(7,803)	–	(7,803)
Unrealized net gain on investments	64,856	(22,700)	42,156

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Change in fair value of cash flow hedges	8,039	(2,901)	5,138
Total comprehensive income	\$679,914	\$(251,547)	\$428,367

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

## AMERCO AND CONSOLIDATED ENTITIES

## Condensed consolidated statements of cash flows

	Nine Months Ended December 31, 2017      2016 (Unaudited) (In thousands)	
Cash flow from operating activities:		
Net earnings	\$ 779,740	\$ 388,876
Adjustments to reconcile net earnings to cash provided by operations:		
Depreciation	410,800	354,183
Amortization of deferred policy acquisition costs	18,217	19,131
Amortization of debt issuance costs	2,910	3,125
Interest credited to policyholders	23,250	18,190
Change in allowance for losses on trade receivables	(25)	(28)
Change in allowance for inventory reserves	4,334	1,897
Net (gains) losses on disposal of personal property	(14,260)	(30,398)
Net (gains) losses on disposal of real estate	(192,223)	(2,377)
Net (gains) losses on sales of investments	(4,250)	(3,948)
Deferred income taxes	(179,047)	112,448
Net change in other operating assets and liabilities:		
Reinsurance recoverables and trade receivables	(27,659)	(23,919)
Inventories	(17,410)	(1,901)
Prepaid expenses	(22,220)	79,578
Capitalization of deferred policy acquisition costs	(21,501)	(21,040)
Other assets	6,279	(663)
Related party assets	47,804	(5,469)
Accounts payable and accrued expenses	26,764	30,773
Policy benefits and losses, claims and loss expenses payable	2,767	12,843
Other policyholders' funds and liabilities	590	(382)
Deferred income	(1,297)	1,105
Related party liabilities	(4,542)	(711)
Net cash provided by operating activities	839,021	931,313
Cash flows from investing activities:		
Escrow deposits	19,707	(768)
Purchases of:		
Property, plant and equipment	(970,472)	(981,316)
Short term investments	(48,743)	(566,371)
Fixed maturities investments	(274,283)	(261,851)
Equity securities	(662)	(489)
Preferred stock	(1,000)	—
Real estate	(1,783)	(15,863)
Mortgage loans	(80,707)	(159,309)
Proceeds from sales and paydowns of:		
Property, plant and equipment	591,040	412,892
Short term investments	54,319	566,955
Fixed maturities investments	102,404	147,233

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Preferred stock	3,188	3,351
Real estate	5,348	1,681
Mortgage loans	23,726	109,260
Net cash used by investing activities	(577,918)	(744,595)
Cash flows from financing activities:		
Borrowings from credit facilities	426,262	534,008
Principal repayments on credit facilities	(303,212)	(244,545)
Debt issuance costs	(4,581)	(4,529)
Capital lease payments	(219,623)	(141,750)
Employee Stock Ownership Plan	(6,764)	(7,541)
Securitization deposits	(2,181)	371
Common stock dividends paid	(19,587)	(39,171)
Investment contract deposits	347,695	180,554
Investment contract withdrawals	(163,499)	(64,459)
Net cash provided by financing activities	54,510	212,938
Effects of exchange rate on cash	9,468	(16,117)
Increase in cash and cash equivalents	325,081	383,539
Cash and cash equivalents at the beginning of period	697,806	600,646
Cash and cash equivalents at the end of period	\$ 1,022,887	\$ 984,185

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

AMERCO and consolidated entities

notes to condensed consolidated financial statements

#### 1. Basis of Presentation

AMERCO, a Nevada corporation (“AMERCO”), has a third fiscal quarter that ends on the 31st of December for each year that is referenced. Our insurance company subsidiaries have a third quarter that ends on the 30th of September for each year that is referenced. They have been consolidated on that basis. Our insurance companies’ financial reporting processes conform to calendar year reporting as required by state insurance departments. Management believes that consolidating their calendar year into our fiscal year financial statements does not materially affect the presentation of financial position or results of operations. We disclose any material events, if any, occurring during the intervening period. Consequently, all references to our insurance subsidiaries’ years 2017 and 2016 correspond to fiscal 2018 and 2017 for AMERCO.

Accounts denominated in non-U.S. currencies have been translated into U.S. dollars. Certain amounts reported in previous years have been reclassified to conform to the current presentation.

The condensed consolidated balance sheet as of December 31, 2017 and the related condensed consolidated statements of operations, comprehensive income (loss) for the third quarter and first nine months and cash flows for the first nine months of fiscal 2018 and 2017 are unaudited.

In our opinion, all adjustments necessary for the fair presentation of such condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The information in this Quarterly Report on Form 10-Q (“Quarterly Report”) should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Intercompany accounts and transactions have been eliminated.

#### Description of Legal Entities

AMERCO is the holding company for:

U-Haul International, Inc. (“U-Haul”),

Amerco Real Estate Company (“Real Estate”),

Repwest Insurance Company (“Repwest”), and

Oxford Life Insurance Company (“Oxford”).

Unless the context otherwise requires, the terms “Company,” “we,” “us” or “our” refer to AMERCO and all of its legal subsidiaries.

#### Description of Operating Segments

AMERCO has three reportable segments. They are Moving and Storage, Property and Casualty Insurance and Life Insurance.

The Moving and Storage operating segment (“Moving and Storage”) includes AMERCO, U-Haul, and Real Estate and the wholly-owned subsidiaries of U-Haul and Real Estate. Operations consist of the rental of trucks and trailers, sales of moving supplies, sales of towing accessories, sales of propane and the rental of fixed and portable moving and storage units to the “do-it-yourself” mover and management of self-storage properties owned by others. Operations are conducted under the registered trade name U-Haul® throughout the United States and Canada.



## AMERCO and consolidated entities

## notes to condensed consolidated financial statements (Continued)

The Property and Casualty Insurance operating segment (“Property and Casualty Insurance”) includes Repwest and its wholly-owned subsidiaries and ARCOA Risk Retention Group (“ARCOA”). Property and Casualty Insurance provides loss adjusting and claims handling for U-Haul® through regional offices in the United States and Canada. Property and Casualty Insurance also underwrites components of the Safemove®, Safetow®, Safemove Plus®, Safestor® and Safestor Mobile® protection packages to U-Haul customers. The business plan for Property and Casualty Insurance includes offering property and casualty insurance products in other U-Haul related programs. ARCOA is a group captive insurer owned by us and our wholly-owned subsidiaries whose purpose is to provide insurance products related to our moving and storage business.

The Life Insurance operating segment (“Life Insurance”) includes Oxford and its wholly-owned subsidiaries. Life Insurance provides life and health insurance products primarily to the senior market through the direct writing and reinsuring of life insurance, Medicare supplement and annuity policies.

## 2. Earnings per Share

Our earnings per share is calculated by dividing our earnings available to common stockholders by the weighted average common shares outstanding, basic and diluted.

The weighted average common shares outstanding exclude post-1992 shares of the employee stock ownership plan that have not been committed to be released. The unreleased shares, net of shares committed to be released, were 18,279 and 20,958 as of December 31, 2017 and 2016, respectively.

## 3. Investments

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

We deposit bonds with insurance regulatory authorities to meet statutory requirements. The adjusted cost of bonds on deposit with insurance regulatory authorities was \$30.2 million and \$16.8 million at December 31, 2017 and March 31, 2017, respectively.

## Available-for-Sale Investments

Available-for-sale investments at December 31, 2017 were as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses More than 12 Months	Gross Unrealized Losses Less than 12 Months	Estimated Market Value
	(Unaudited) (In thousands)				
U.S. treasury securities and government obligations	\$ 123,695	\$ 3,529	\$(770)	\$(390)	\$ 126,064
	26,598	1,373	(1)	(5)	27,965

U.S. government agency mortgage-backed securities Obligations of states and political subdivisions	173,039	10,055	(148)	(81)	182,865
Corporate securities	1,351,074	51,228	(2,957)	(2,556)	1,396,789
Mortgage-backed securities	94,208	2,072	–	(100)	96,180
Redeemable preferred stocks	11,589	428	–	(31)	11,986
Common stocks	15,732	10,743	(10)	–	26,465
	\$1,795,935	\$79,428	\$(3,886)	\$(3,163)	\$ 1,868,314

## AMERCO AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Available-for-sale investments at March 31, 2017 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses More than 12 Months	Gross Unrealized Losses Less than 12 Months	Estimated Market Value
(In thousands)					
U.S. treasury securities and government obligations	\$123,474	\$2,892	\$-	\$(1,675)	\$ 124,691
U.S. government agency mortgage-backed securities	27,908	1,070	(6)	(377)	28,595
Obligations of states and political subdivisions	159,417	9,466	(23)	(424)	168,436
Corporate securities	1,263,703	32,901	(5,731)	(13,837)	1,277,036
Mortgage-backed securities	26,577	515	-	(5)	27,087
Redeemable preferred stocks	13,789	168	-	(468)	13,489
Common stocks	15,732	8,728	(10)	(16)	24,434
	\$1,630,600	\$55,740	\$(5,770)	\$(16,802)	\$ 1,663,768

The available-for-sale tables include gross unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

We sold available-for-sale securities with a fair value of \$101.2 million during the first nine months of fiscal 2018. The gross realized gains on these sales totaled \$3.8 million. The gross realized losses on these sales totaled \$0.1 million.

The unrealized losses of more than twelve months in the available-for-sale tables are considered temporary declines. We track each investment with an unrealized loss and evaluate it on an individual basis for other-than-temporary impairments including obtaining corroborating opinions from third party sources, performing trend analysis and reviewing management's future plans. Certain of these investments may have declines determined by management to be other-than-temporary and we recognize these write-downs, if any, through earnings. There were no write downs for the first nine months of fiscal 2018 or 2017.

The investment portfolio primarily consists of corporate securities and obligations of states and political subdivisions. We believe we monitor our investments as appropriate. Our methodology of assessing other-than-temporary impairments is based on security-specific analysis as of the balance sheet date and considers various factors including the length of time to maturity, the extent to which the fair value has been less than the cost, the financial condition and the near-term prospects of the issuer, and whether the debtor is current on its contractually obligated interest and principal payments. Nothing has come to management's attention that would lead to the belief that each issuer would not have the ability to meet the remaining contractual obligations of the security, including payment at maturity. We have the ability and intent not to sell our fixed maturity and common stock investments for a period of time sufficient to allow us to recover our costs.

The portion of other-than-temporary impairment related to a credit loss is recognized in earnings. The significant inputs utilized in the evaluation of mortgage-backed securities credit losses include ratings, delinquency rates, and prepayment activity. The significant inputs utilized in the evaluation of asset backed securities credit losses include the time frame for principal recovery and the subordination and value of the underlying collateral.

There were no credit losses recognized in earnings for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income (loss) for first nine months of fiscal 2018 and fiscal 2017, respectively.

AMERCO AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The adjusted cost and estimated market value of available-for-sale investments by contractual maturity, were as follows:

	December 31, 2017	March 31, 2017
	Estimated	Estimated
	Amortized	Amortized
	Market	Market
	Cost	Cost
	Value	Value
	(Unaudited)	
	(In thousands)	
Due in one year or less	\$41,025	\$