MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms NCCI Holdings, Inc., FL's A2; outlook stable

Global Credit Research - 10 Dec 2014

No rated debt for membership corporation

NCCI HOLDINGS, INC. FL
Not-for-Profit Organizations--Foundations, Museums, Other (excludes Health Care & Higher Education)
FL

Opinion

NEW YORK, December 10, 2014 --Moody's Investors Service has affirmed the A2 issuer rating assigned to NCCI Holdings, Inc. ("NCCI"). The rating outlook is stable. The organization has $40 million of unrated debt.

SUMMARY RATING RATIONALE

The A2 issuer level rating and stable outlook reflect NCCI's dominant market position as a provider of workers compensation and employee injury data and good track record of generating operating surpluses. Credit challenges for NCCI include relatively thin expendable financial resources and debt-structure related risks.

STRENGTHS

*NCCI has a dominant market position as a provider of workers compensation and employee injury data and statistics for a variety of private and governmental constituents, including insurance companies and state governments. NCCI's key market strength is its comprehensive database of historical claims that would be difficult to replicate, resulting in limited competition.

*Revenue growth and diversification and expense containment, including an increasingly lean organization, have contributed to multi-year operating surpluses. By Moody's calculation, NCCI achieved a 4.7% operating margin and 13.3% operating cash flow margin in FY 2013.

*In conjunction with a debt refinancing last year, NCCI paid down $15 million of debt, and there are no plans for additional debt as NCCI funds its capital needs from operating cash flow. Operating leverage is manageable with debt to revenues of 0.24 times.

*The real estate market value of its headquarters building located in Boca Raton, FL was appraised at $75.3 million (as of September 4, 2014). This value is not reflected in Moody's financial resource calculations that exclude plant equity. While NCCI has no plans to sell the building, it could potentially tap this real estate asset if necessary.

CHALLENGES

*NCCI has thin net assets for the rating category ($24.8 million of expendable financial resources) which declined moderately in FY 2013 as a result of the decision to pay down $15 million of debt. Net assets are depressed by pension and post-retirement liabilities, and total cash and investments are stronger at $58.3 million in FY 2013.

*NCCI's debt structure has interest rate, refinancing and liquidity risks as the debt portfolio contains variable rate bank debt, non-amortizing debt, financial covenants and certain events of default which could accelerate all debt. In addition, the $20 million variable-rate bank loan matures in 2018.

*Operating in a niche market increases NCCI's exposure to changes or volatility in the workers compensation insurance sector.

*Data integrity and security present key risks as NCCI's main product is its large database of workers compensation insurance information.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The A2 rating is an issuer rating reflecting the general obligation credit characteristics of

NCCI and is not assigned to any debt instrument.

DEBT STRUCTURE: All of NCCI's debt is non-amortizing with bullet maturities and contains financial covenants and cross default provisions. Half of NCCI's total direct debt of $40 million has a variable interest rate. The two financial covenants include a consolidated adjusted net worth covenant, tested quarterly, which must be no less than $30 million at all times, including 50% of the difference between the appraised and book values on the headquarters facility, and a debt covenant, which binds NCCI from increasing priority debt, which is any debt of the organization secured by a lien created or incurred except minor encumbrances, above 10% of consolidated total assets. At September 30, 2014, consolidated adjusted net worth was well above the threshold at $68 million, and NCCI has no priority debt at this time, so the second covenant does not apply at this time.

The organization also has a $20 million unsecured revolving line of credit with Bank of America, N.A., which can be increased to $30 million upon bank approval. The line of credit has never been used and the bank must provide 15 months notice to terminate the bank line.

DEBT-RELATED DERIVATIVES: None.

RECENT DEVELOPMENTS/RESULTS

Based on unaudited 9-month financials for FY 2014, we expect slightly weaker although still positive FY 2014 operating performance for NCCI, compared to FY 2013. Through September 30, 2014, NCCI's gross revenue grew modestly, although net revenue was down slightly due to unplanned customer credits ($3.2 million) issued during the third quarter of FY 2014. An additional $8.5 million of customer credits were distributed during the fourth quarter of FY 2014, depressing operating results. NCCI does not budget for customer credits and has not issued them since 2007.

FY 2014 expenses are flat with last year, and management has done a good job of containing expenses and improving operating efficiency. Annual operating expense growth has been very low, averaging less than 1% per year during the past four years. For FY 2015, NCCI is budgeting for an operating surplus, which could be depressed by the distribution of customer credits.

Despite a decline in the pension discount rate during 2014, the pension remains well funded. The combined unfunded liability for all of the retirement plans (including two nonqualified retirement plans) was $9.2 million at FYE 2013. Amendments to the postretirement medical plan will also result in a reduction in that liability over time.

Management is finalizing documents to enter into a private placement shelf facility, which would allow NCCI to issue senior unsecured promissory notes for up to $25 million at a fixed interest rate. If drawn, the loan could mature in 8 to 12 years. Note proceeds could be used for any corporate purposes, but management would likely only use the loan to refinance the $20 million outstanding variable-rate debt. Financial covenants for this shelf facility would be consistent with those contained within existing debt documents.

OUTLOOK

The stable outlook reflects the expectation that NCCI will continue to generate positive operating margins and has no additional debt plans that would increase leverage.

WHAT COULD MAKE THE RATING GO UP

The rating could be upgraded as a result of a significant and sustained growth in liquidity and operating cash flow.

WHAT COULD MAKE THE RATING GO DOWN

The rating could be downgraded as a result of a decrease in cash and investments leading to increased leverage, sustained decline in operating performance, or a significant change in competitive landscape.

KEY INDICATORS (FY 2013 audited financial data)

Operating Revenue: $163 million

Total Cash and Investments: $58 million

Total Direct Debt: $40 million

Expendable Financial Resources to Direct Debt: 0.6 times

Expendable Financial Resources to Operations: 0.2 times

Total Cash and Investments to Debt: 1.5 times

Monthly Days Cash on Hand: 145 days

Operating Cash Flow Margin: 13.3%

RATING METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Organizations (other than Healthcare and Education) published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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