

Globe Life (GL)

\$66.96 (As of 04/02/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/15/19)

Prior Recommendation: NA

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Globe Life's niche market focus, strength at distribution channels and strong operating fundamentals should drive long-term growth. Improved life premiums at American Income are driving growth in agent retention and sales activities. Solid premiums at Liberty National along with consistent operations at Globe Life are also driving the company's revenues. The company remains focused on expanding margins instead of increasing sales as a percentage of premiums. Shares of Globe Life have underperformed the industry in a year. Nevertheless, a robust capital position enables the company to deploy capital effectively via share repurchases and dividend payments. However, higher administrative expenses which include higher pension costs have increased over the years. Also, we are concerned about the company's high debt levels.

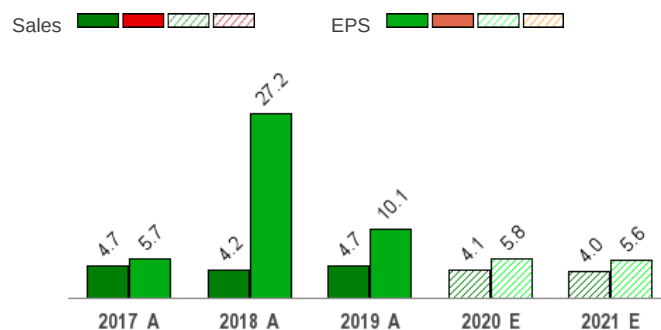
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$111.43 - \$56.74
20 Day Average Volume (sh)	955,387
Market Cap	\$7.2 B
YTD Price Change	-36.4%
Beta	1.14
Dividend / Div Yld	\$0.75 / 1.1%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.2%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	04/15/2020
Earnings ESP	0.4%
P/E TTM	9.9
P/E F1	9.4
PEG F1	1.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,218 E	1,214 E	1,214 E	1,222 E	4,883 E
2020	1,168 E	1,170 E	1,173 E	1,180 E	4,693 E
2019	1,118 A	1,125 A	1,129 A	1,134 A	4,507 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.83 E	\$1.90 E	\$1.93 E	\$1.97 E	\$7.54 E
2020	\$1.73 E	\$1.77 E	\$1.79 E	\$1.81 E	\$7.14 E
2019	\$1.64 A	\$1.67 A	\$1.73 A	\$1.70 A	\$6.75 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/02/2020. The reports text is as of 04/03/2020.

Overview

Incorporated in 1979 and based in McKinney, TX, Globe Life Inc. (formerly known as Torchmark Corporation), through its subsidiaries, provides various life and supplemental health insurance products and annuities to lower middle to middle income households in the United States.

The company also offers term life, whole life, children's life, senior life, and family life insurance products; accidental benefits insurance; mortgage protection insurance; and Medicare supplement plans.

Torchmark's name was changed to Globe Life Inc. effective Aug 8, 2019. It is now listed on the New York Stock Exchange as GL. The name change reflects its commitment to an enterprise-wide brand alignment to enhance sales and recruitment to improve name recognition.

Globe Life's operation is organized in four segments: Life Insurance, Supplemental Health Insurance, Annuities, and Investments. The company also has other administrative expenses reported in Corporate & Other.

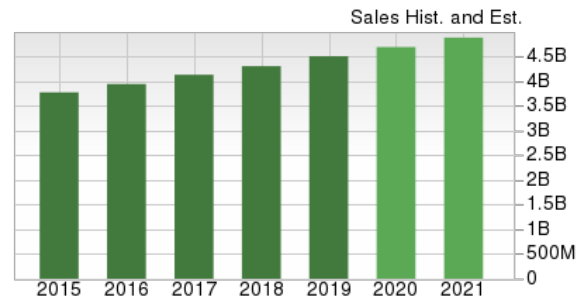
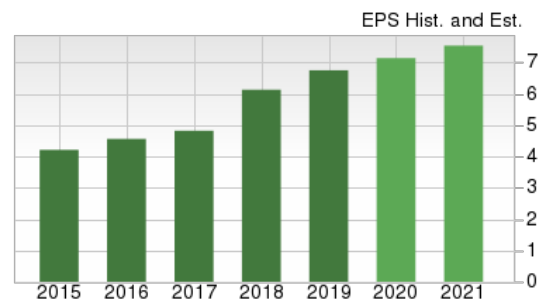
Life Insurance (70% of 2019 Premium Revenues) products include traditional and interest sensitive whole life insurance and term life insurance.

Supplemental Health Insurance (30%) products are generally guaranteed-renewable and include Medicare supplement, critical illness, accident and limited-benefit supplemental hospital and surgical coverage.

Annuities include fixed benefit contracts.

Investment segment manages the investment portfolio, debt and cash flow for insurance segments and corporate function.

Globe Life markets its insurance products through distribution channels – **American Income Exclusive, Direct Response, Liberty National Exclusive, United American Independent, Family Heritage Exclusive and Other.**



Reasons To Buy:

- ▲ **Share Price Movement** – Shares of Globe Life have underperformed its industry in a year. Nevertheless, we believe that strong performance across its distribution channels and improved outlook are likely to drive its shares, going forward.
- ▲ **Continued Superior Performance at American Income** – Globe Life's most important distribution channel – American Income Exclusive Agency – has been the largest contributor to life premium and net sales. Life premiums for this agency have been witnessing consistent improvement over a considerable period of time with the momentum continuing through 2019. In the fourth quarter of 2019, life underwriting margin, life premiums, health premiums and life net sales increased 9%, 8%, 9% and 9% year over year at American Income Exclusive Agency.

Globe Life's niche market focus, superior performance at Global Life and American Income, growing investment income, agent count increase and strong capital management bode well for growth.

Continued improvement in product sales is largely dependent on agent count increase, which has been showing improvement. For the fourth quarter of 2019, the average producing agent count was 7,631, up 10% from the year-ago quarter. Management's primary objective is to grow middle management in the agency to ensure sustainable growth. To this end, the company is focusing largely on agent training programs and financial incentives that appropriately reward agents at all levels, for helping in development and training personnel. We believe these initiatives will continue to drive increases in agent retention and sales activity, consequently driving premium increase.

- ▲ **Consistent Operations at Global Life** – Global Life is largely benefited by low competition as it operates in a relatively non-competitive market – selling basic life insurance products to middle and lower middle-income households. Global Life also enjoys competitive advantages like an experienced group of people, cost control etc., which give it an edge over competitors. The direct response operations at Global Life have also consistently grown with Life premiums improving over the last several years. The company is focusing on expanding margins rather than increasing sales or sales levels or margins as a percentage of premiums. In the fourth quarter of 2019, life net sales increased 7% from the year-ago quarter. While direct response operations continue to benefit traditional direct mail and insert media distribution, management is also trying to develop new distribution platforms like the Internet and social networking sites.
 - ▲ **Growth at Liberty National** – The company continues to witness a substantial improvement in life premiums, which raises optimism for life premium growth in the future. Management will continue with its growth initiatives going forward. In 2019, life net sales increased from the year-ago figure by 9%. Health net sales increased 11% from the prior year at Liberty National Exclusive Agency. As of Dec 31, 2019, the average producing agent count was 2,534, up 17% from the year-ago quarter.
 - ▲ **Intelligent Capital Management** – Globe Life can be considered a shareholder-friendly company as it has been actively increasing shareholders' wealth through an ongoing buyback program that began in 1986. The company has also been generating free cash flow consistently. Riding on the strength of solid cash flow, the company engages in share buybacks. We expect this continued buyback activity to be well supported by the availability of cash in abundance. Apart from this, Globe Life has continuously been increasing its dividend over the past five years (2014-2019), witnessing a CAGR of 6.4%. By virtue of its intelligent capital management strategy, the company has generated more than 80% returns for its investors over the past 10 years.
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Reasons To Sell:

- ▼ **Lowered Guidance** – Globe Life now estimates net operating income per share of \$7.03-\$7.23 for 2020 compared with \$7.00-\$7.30 mentioned earlier. The mid-point of the current guidance is modestly lower than the previous mid-point of \$7.15 per share primarily due to high employee pension and health care costs anticipated for 2020.
- ▼ **Higher Administrative Expenses** – Globe Life has been incurring high administrative expenses over the years. While administrative expenses increased 7.6% year over year in 2019, as a percentage of premiums, it rose 6.7%, up from 6.5% in 2018. For 2020, the company estimates administrative expenses to be up 6% and hover around 6.7% of premiums. The primary reasons for the increase in administrative expenses are higher pension costs due to the required implementation of a new mortality table and further investments in IT systems. Higher administrative expenses might affect the bottom line.
- ▼ **Profitability** – Globe Life's return on equity is 11%, lower than the industry average of 22.1%, which reflects the company's inefficiency in utilizing its shareholders' funds.

Higher administrative expenses attributable to escalated pension costs, increased debt level inducing higher interest expenses, low times interest earned are some of the headwinds facing the company.

Last Earnings Report

Globe Life Q4 Earnings Miss Estimates, Improve Y/Y

Globe Life's fourth-quarter 2019 net operating income of \$1.70 per share missed the Zacks Consensus Estimate by 1.16%. However, the bottom line improved nearly 9% year over year on the back of higher premiums from Life and Health segments and Insurance underwriting income.

Behind the Headlines

Globe Life reported total premium revenues of \$906.7 million, up 6% year over year. This upside was primarily driven by higher premiums from Life, Health and Annuity Insurance businesses.

Net investment income increased 1.4% year over year to \$227.5 million.

The company's operating revenues of \$1.1 billion grew 6.7% from the year-ago quarter. This top-line improvement was driven by growth in Life and Health Insurance premiums along with higher net investment income. Additionally, the top line beat the Zacks Consensus Estimate by 0.41%.

Excess investment income, a measure of profitability, climbed 1% year over year to \$62.6 million.

Total insurance underwriting income grew 5% year over year to \$179.6 million. Improvement in Life Insurance underwriting margins resulted in this uptrend. However, higher administrative expenses partially offset this upside.

Administrative expenses were up 7% year over year to \$61.1 million.

Total benefits and expenses rose 5.6% year over year to \$909.5 million.

Segmental Update

Premium revenues at Life Insurance operations increased 5% year over year to \$631.5 million, driven by higher premiums written by distribution channels like American Income Agency, Global Life Direct Response and Liberty National Exclusive (LNL) Agency. While American Income Agency grew 8%, Direct to Consumer was up 4% and LNL Agency inched up 3%.

Life Insurance underwriting income improved 6% year over year to \$177.1 million. Net sales of \$106.7 million were 7% higher on a year-over-year basis.

Health insurance premium revenues rose 7% year over year to \$275.2 million. Underwriting income of \$61 million increased 5% year over year. Net health sales grew 13% year over year to \$63.8 million.

Annuity underwriting margins declined 12.6% year over year to \$2.3 million.

Financial Update

Adjusted shareholders' equity as of Dec 31, 2019 increased 6.9% year over year to \$5.3 billion.

Globe Life reported book value per share (excluding net unrealized gains on fixed maturities) of \$48.26, up 8.9% year over year.

As of Dec 31, 2019, operating return on equity (excluding net unrealized gains on fixed maturities) was 14.5%, down 10 basis points year over year.

Share Repurchase Update

In the fourth quarter, Globe Life repurchased shares for a total cost of \$93 million.

Guidance Update

Globe Life projects net operating income per share of \$7.03-\$7.23 for the year ending on Dec 31, 2020, compared with \$7.00-\$7.30 mentioned earlier.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.41%
EPS Surprise	-1.16%
Quarterly EPS	1.70
Annual EPS (TTM)	6.74

Recent News

Globe Life Hikes Quarterly Dividend – Mar 5, 2020

The board of directors of Globe Life raised its quarterly dividend by 8.7% to 18.75 cents per share to shareholders of record as of Apr 3. The dividend will be paid out on May 1, 2020.

Torchmark Changes Name to Globe Life – Aug 9, 2019

Torchmark announced that its name changed to Globe Life Inc. effective Aug 8, 2019. It is now listed on the New York Stock Exchange as GL and started trading under the ticker symbol effective Aug 9, 2019.

Valuation

Global Life's shares are down 36.4% and 20.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.8% and 32.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.5% and 35.7%, respectively.

The S&P 500 index is down 23.2% in the year-to-date period and down 14.2% in the past year.

The stock is currently trading at 1x trailing 12-month book value, which compares to 1.2x for the Zacks sub-industry, 1.9x for the Zacks sector and 3.4x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.1x and as low as 0.9x, with a 5-year median of 1.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 1x trailing 12-month book value.

The table below shows summary valuation data for GL

Valuation Multiples - GL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.99	1.15	1.89	3.4
	5-Year High	2.05	2.77	2.89	4.55
	5-Year Low	0.86	1.02	1.69	2.85
	5-Year Median	1.67	2	2.52	3.63
P/S F12M	Current	1.52	1.23	5.99	2.7
	5-Year High	2.55	1.91	6.64	3.43
	5-Year Low	1.41	1.05	5.38	2.54
	5-Year Median	2.12	1.39	6.04	3
P/E F12M	Current	9.21	7.93	10.81	15.37
	5-Year High	18.89	14.15	16.21	19.34
	5-Year Low	8.55	7.93	10.81	15.18
	5-Year Median	13.53	11.46	13.97	17.44

As of 04/02/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

PRA Group, Inc. (PRAA)	Outperform
Primerica, Inc. (PRI)	Outperform
Athene Holding Ltd. (ATH)	Neutral
Brighthouse Financial, Inc. (BHF)	Neutral
FGL Holdings (FG)	Neutral
Reinsurance Group of America, Incorporated (RGA)	Neutral
Voya Financial, Inc. (VOYA)	Neutral
Manulife Financial Corp (MFC)	Underperform

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	GL Neutral	X Industry	S&P 500	BHF Neutral	PRI Outperform	RGA Neutral
VGM Score	D	-	-	B	B	C
Market Cap	7.19 B	166.51 M	17.16 B	2.14 B	3.40 B	5.02 B
# of Analysts	4	3	13	4	2	2
Dividend Yield	1.12%	0.00%	2.5%	0.00%	1.93%	3.44%
Value Score	C	-	-	A	B	B
Cash/Price	0.01	0.37	0.06	1.82	0.08	0.31
EV/EBITDA	5.38	5.38	10.80	-1.25	4.06	5.00
PEG Ratio	1.21	1.19	1.74	NA	NA	NA
Price/Book (P/B)	0.99	0.71	2.33	0.14	2.07	0.44
Price/Cash Flow (P/CF)	5.56	5.90	9.11	2.69	5.43	6.02
P/E (F1)	9.22	8.39	14.73	2.23	9.22	5.99
Price/Sales (P/S)	1.59	1.00	1.81	0.33	1.66	0.35
Earnings Yield	10.66%	11.35%	6.71%	44.87%	10.85%	16.69%
Debt/Equity	0.18	0.51	0.70	0.27	0.03	0.26
Cash Flow (\$/share)	12.04	0.57	7.01	7.58	15.25	13.53
Growth Score	D	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	12.36%	11.67%	10.92%	NA	23.41%	10.47%
Proj. EPS Growth (F1/F0)	5.74%	7.04%	1.02%	235.43%	6.47%	1.91%
Curr. Cash Flow Growth	6.55%	4.38%	5.93%	30.25%	9.74%	9.01%
Hist. Cash Flow Growth (3-5 yrs)	6.53%	10.01%	8.55%	NA	13.51%	8.98%
Current Ratio	0.05	1.22	1.24	0.51	0.54	0.10
Debt/Capital	15.61%	39.69%	42.33%	21.19%	3.14%	20.44%
Net Margin	16.80%	14.30%	11.67%	-11.29%	17.85%	6.08%
Return on Equity	10.97%	8.97%	16.70%	6.57%	22.52%	7.85%
Sales/Assets	0.18	0.21	0.54	0.03	0.15	0.20
Proj. Sales Growth (F1/F0)	4.13%	0.00%	1.54%	19.82%	4.71%	4.42%
Momentum Score	C	-	-	A	C	D
Daily Price Chg	1.42%	0.00%	1.45%	-3.82%	-1.66%	0.56%
1 Week Price Chg	15.99%	5.03%	12.29%	56.53%	44.28%	29.99%
4 Week Price Chg	-25.31%	-29.57%	-21.33%	-36.22%	-26.23%	-32.98%
12 Week Price Chg	-36.02%	-39.78%	-28.56%	-48.24%	-36.76%	-48.39%
52 Week Price Chg	-20.82%	-40.54%	-22.55%	-45.60%	-34.36%	-43.80%
20 Day Average Volume	955,387	88,846	4,257,668	2,232,646	463,109	1,143,477
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.35%	-0.11%	-4.30%	-9.06%	-5.28%	-3.37%
(F1) EPS Est 12 week change	-0.52%	-2.46%	-5.47%	-7.78%	-3.49%	-3.54%
(Q1) EPS Est Mthly Chg	-0.37%	0.00%	-5.91%	-11.77%	-6.43%	-2.81%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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