May 06, 2020

Globe Life (GL)

$77.54 (As of 05/05/20)

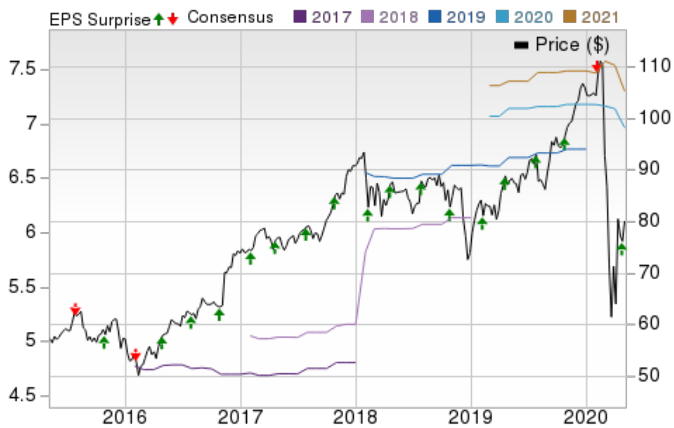
Price Target (6-12 Months): **$81.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/15/19) Prior Recommendation: NA	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: D | Momentum: C	**3-Hold** VGM:C

Summary

Shares of Globe Life have outperformed the industry in a year. Its 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 and 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. Robust capital position enables capital deployment. However, expenses have increased over the years. Also, high debt level concerns. It's earnings of $1.73 per share matched the Zacks Consensus Estimate and increased 5.5% year over year on the back of higher premiums from Life and Health segments and Insurance underwriting income.

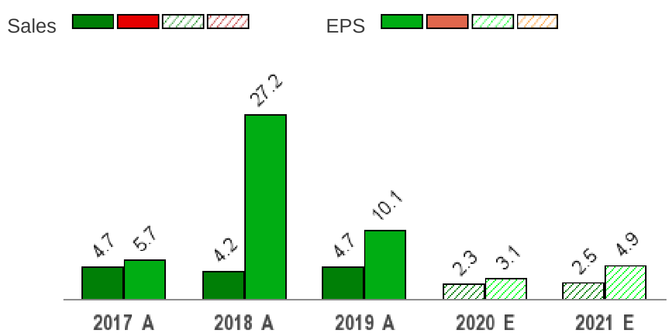
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$111.43 - $56.74**
20 Day Average Volume (sh)	**604,274**
Market Cap	**$8.3 B**
YTD Price Change	**-26.3%**
Beta	**1.14**
Dividend / Div Yld	**$0.75 / 1.0%**
Industry	**Financial - Miscellaneous Services**
Zacks Industry Rank	**Bottom 31% (175 out of 253)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**-3.8%**
EPS F1 Est- 4 week change	**-2.5%**
Expected Report Date	**07/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**11.4**
P/E F1	**11.1**
PEG F1	**1.5**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,178 E	1,175 E	1,167 E	1,170 E	4,725 E
2020	1,127 A	1,160 E	1,159 E	1,162 E	4,611 E
2019	1,118 A	1,125 A	1,129 A	1,134 A	4,507 A

EPS Estimates

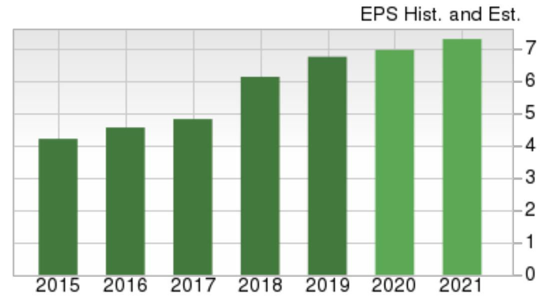
	Q1	Q2	Q3	Q4	Annual*
2021	$1.72 E	$1.79 E	$1.81 E	$1.83 E	$7.30 E
2020	$1.73 A	$1.73 E	$1.77 E	$1.78 E	$6.96 E
2019	$1.64 A	$1.67 A	$1.73 A	$1.70 A	$6.75 A

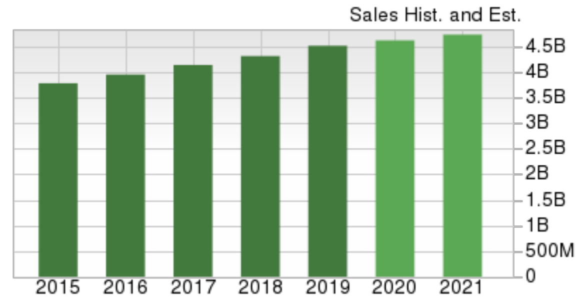
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

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:

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.

- **Share Price Movement** –Shares of Globe Life have lost 10.4% in a year, lower than the industry's decline of 28.3%. 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 first quarter of 2020, life underwriting margin, life premiums, health premiums and increased 7% each while life net sales were up 9% year over year at American Income Exclusive Agency.

  Continued improvement in product sales is largely dependent on agent count increase, which has been showing improvement. For the first quarter of 2020, the average producing agent count was 7,630, up 11% 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 first quarter of 2020, life underwriting margin increased 3% 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 the first quarter of 2020, life underwriting margin increased from the year-ago figure by 5%. Health net sales increased 7% from the prior year at Liberty National Exclusive Agency. As of Mar 31, 2020, the average producing agent count was 2,648, up 22% 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%. In March 2020, it hiked its dividend by 8.7% to 18.75 cents per share. By virtue of its intelligent capital management strategy, the company has generated more than 80% returns for its investors over the past 10 years.

Reasons To Sell:

- **Lowered Guidance** – Globe Life now estimates net operating income per share of $6.65 to $7.15 for 2020 compared with $7.03 to $7.23 earlier. The current guidance's mid-point of $6.9 is modestly lower than the previous mid-point of $7.13 per share, primarily due to the impact of COVID-19 on the company's operations.

- **Higher Administrative Expenses** – Globe Life has been incurring high administrative expenses over the years. In the first quarter of 2020, administrative expenses increased 7.5% to $64 million from the year-ago quarter. The ratio of administrative expenses to premium was 6.8%, compared with 6.6% in the year-ago quarter. For 2020, the company estimates administrative expenses to be up around 5%. Higher administrative expenses might affect the bottom line.

  In the first quarter of 2020, total benefits and expenses were up 4.4% year over year to $930.1 million, primarily due to increased policyholder benefits, higher amortization of deferred acquisition costs, commissions, premium taxes, and non-deferred acquisition costs and other operating expense.

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.

- **Profitability** – Globe Life's return on equity is 10.6%, lower than the industry average of 22.2%, which reflects the company's inefficiency in utilizing its shareholders' funds.

- **Debt Position** - Globe Life 's debt levels have decreased in the past few years. As of Mar 31, 2020, the company's long-term debt was $1347 million, which decreased 0.1% from the 2019-end level. However, as of Mar 31, 2020 the company's total debt/total capital ratio of 21.7 is higher than its figure of 18.4 at 2019-end. Also, the company's times interest earned, a measure to identify the company ability to service debt stood at 11.8 as on Mar 31, 2020 is poor when compared with the 2019-end figure of 12, implying that its earnings are not sufficient to cover interest obligations.

Last Earnings Report

Globe Life Q1 Earnings Meet Estimates, Improve Y/Y

Quarter Ending	03/2020
Report Date	Apr 22, 2020
Sales Surprise	-3.79%
EPS Surprise	0.00%
Quarterly EPS	1.73
Annual EPS (TTM)	6.83

Globe Life Inc.'s first-quarter 2020 net operating income of $1.73 per share matched the Zacks Consensus Estimate. The bottom line improved 5.5% 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 $929.8 million, up 4% year over year. This upside was primarily driven by higher premiums from Life and Health Insurance businesses.

Net investment income increased 1% year over year to $228.9 million.

The company's operating revenues of $1.1 billion grew 0.8% 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. However, the top line missed the Zacks Consensus Estimate by 3.8%.

Excess investment income, a measure of profitability, decreased 4% year over year to $62.7 million.

Total insurance underwriting income grew 4% year over year to $181.2 million. Improvement in Life Insurance underwriting margins and Health Insurance underwriting margins resulted in this upside. However, higher administrative expenses partially offset this upside.

Administrative expenses were up 7.5% year over year to $64 million.

Total benefits and expenses rose 4.4% year over year to $930.1 million, primarily due to increased policyholder benefits, higher amortization of deferred acquisition costs, commissions, premium taxes, and non-deferred acquisition costs and other operating expense.

Segmental Update

Premium revenues at Life Insurance operations increased 4% year over year to $649.6 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 7%, Global Life Direct Response was up 1% and LNL Agency inched up 3%.

Life Insurance underwriting income improved 5% year over year to $178.8 million. Net sales of $110.6 million were 5% higher on a year-over-year basis.
Health insurance premium revenues rose 5% year over year to $280.2 million. Underwriting income of $63.5 million increased 3% year over year. Net health sales grew 9% year over year to $42 million.

Annuity underwriting margins declined 6% year over year to $2.3 million.

Financial Update

Adjusted shareholders' equity as of Mar 31, 2020 increased 4.6% year over year to $5.3 billion.

Globe Life reported book value per share (excluding net unrealized gains on fixed maturities) of $49.66, up 9.3% year over year.

As of Mar 31, 2020, operating return on equity (excluding net unrealized gains on fixed maturities) was 14.1%, reflecting a contraction of 60 basis points year over year.

Share Repurchase and Dividend Update

In the first quarter, Globe Life repurchased 1.6 million shares for a total cost of $139 million for an average share price of $85.47.

2020 Guidance

Globe Life projects net operating income per share to be in the range of $6.65 to $7.15 for the year ending Dec 31, 2020.

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 was paid on May 1, 2020.

Valuation

Global Life's shares are down 26.3% and 10.4% 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 26.3% and 26.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.3% and 21.3%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and down 0.8% in the past year.

The stock is currently trading at 1.14x trailing 12-month book value, which compares to 1.37x for the Zacks sub-industry, 2.07x for the Zacks sector and 3.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.05x and as low as 0.86x, with a 5-year median of 1.67x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $81 price target reflects 1.19x 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	1.14	1.37	2.07	3.8
	5-Year High	2.05	2.77	2.90	4.55
	5-Year Low	0.86	1.07	1.71	2.84
	5-Year Median	1.67	1.99	2.53	3.64
P/S F12M	Current	1.79	1.14	4.98	3.23
	5-Year High	2.55	1.91	6.7	3.44
	5-Year Low	1.32	1.05	4.98	2.54
	5-Year Median	2.12	1.39	6.06	3.01
P/E F12M	Current	10.96	11.78	14.86	20.63
	5-Year High	18.89	14.15	16.18	20.63
	5-Year Low	8.05	8.7	11.24	15.19
	5-Year Median	13.52	11.47	13.94	17.44

As of 05/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (175 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Athene Holding Ltd. **(ATH)**	Neutral	3
Brighthouse Financial, Inc. **(BHF)**	Neutral	3
FGL Holdings **(FG)**	Neutral	3
PRA Group, Inc. **(PRAA)**	Neutral	3
Primerica, Inc. **(PRI)**	Neutral	3
Reinsurance Group of America, Incorporated **(RGA)**	Neutral	4
Voya Financial, Inc. **(VOYA)**	Neutral	3
Manulife Financial Corp **(MFC)**	Underperform	4

Industry Comparison Industry: Financial - Miscellaneous Services

	GL	X Industry	S&P 500	BHF	PRI	RGA
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	C	B	B
Market Cap	8.33 B	169.02 M	19.65 B	2.50 B	4.10 B	6.16 B
# of Analysts	4	3	14	4	2	2
Dividend Yield	0.97%	0.00%	2.18%	0.00%	1.57%	2.80%
Value Score	B	-	-	A	B	B
Cash/Price	0.01	0.51	0.06	1.99	0.08	0.25
EV/EBITDA	6.10	4.13	11.77	-1.52	4.93	5.87
PEG Ratio	1.42	2.27	2.49	NA	NA	NA
Price/Book (P/B)	1.15	0.80	2.64	0.17	2.74	0.54
Price/Cash Flow (P/CF)	6.44	6.42	10.48	3.35	6.70	7.39
P/E (F1)	10.78	12.42	19.10	2.93	11.47	7.66
Price/Sales (P/S)	1.83	1.12	2.00	0.38	1.97	0.44
Earnings Yield	8.98%	7.38%	4.99%	34.17%	8.72%	13.06%
Debt/Equity	0.18	0.49	0.74	0.27	0.04	0.26
Cash Flow ($/share)	12.04	0.60	7.01	7.58	15.25	13.53
Growth Score	D	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	12.88%	12.06%	10.87%	NA	23.51%	10.47%
Proj. EPS Growth (F1/F0)	3.15%	-16.81%	-9.07%	228.22%	5.58%	-2.17%
Curr. Cash Flow Growth	6.55%	5.45%	5.88%	30.25%	9.74%	9.01%
Hist. Cash Flow Growth (3-5 yrs)	6.53%	13.16%	8.55%	NA	13.51%	8.98%
Current Ratio	0.05	1.22	1.24	0.51	0.53	0.10
Debt/Capital	15.61%	34.15%	44.07%	21.19%	3.49%	20.44%
Net Margin	16.32%	10.86%	11.00%	-11.29%	17.27%	4.35%
Return on Equity	10.63%	8.53%	16.39%	6.57%	23.10%	6.87%
Sales/Assets	0.18	0.21	0.55	0.03	0.16	0.19
Proj. Sales Growth (F1/F0)	2.32%	0.00%	-2.17%	17.30%	3.61%	2.50%
Momentum Score	C	-	-	C	F	A
Daily Price Chg	-1.30%	0.00%	0.74%	0.59%	0.45%	-0.96%
1 Week Price Chg	5.15%	4.40%	0.53%	10.41%	4.13%	-1.23%
4 Week Price Chg	8.75%	4.47%	6.47%	10.79%	15.92%	1.28%
12 Week Price Chg	-29.15%	-25.00%	-20.68%	-45.56%	-18.98%	-35.31%
52 Week Price Chg	-10.42%	-32.80%	-10.95%	-36.83%	-19.39%	-32.70%
20 Day Average Volume	604,274	78,250	2,492,530	1,296,311	235,011	602,550
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.39%	0.00%
(F1) EPS Est 4 week change	-2.45%	-11.61%	-7.39%	-3.35%	-0.84%	-4.01%
(F1) EPS Est 12 week change	-2.79%	-24.23%	-14.21%	-13.52%	-4.30%	-7.24%
(Q1) EPS Est Mthly Chg	-2.73%	-10.64%	-13.52%	-2.61%	-7.73%	-9.38%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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