

## Globe Life (GL)

**\$84.79** (As of 08/10/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

## Summary

Globe Life's second-quarter bottom line beat estimates. 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 driving the top line. It remains focused on expanding margins and expects Life and Health premiums to grow 5% and 6% respectively in 2020. Consistent free cash flow generating bodes well. Robust capital position enables effective capital deployment. Shares of Globe Life have outperformed the industry in a year. However, administrative expenses have increased over the years and the company expects 5% increase in 2020. Also, high debt level along with low times interest earned concerns.

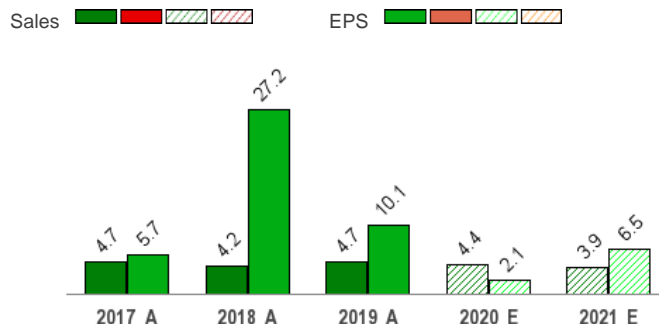
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$111.43 - \$56.74
20 Day Average Volume (sh)	519,133
Market Cap	\$9.0 B
YTD Price Change	-19.4%
Beta	1.11
Dividend / Div Yld	\$0.75 / 0.9%
Industry	<a href="#">Financial - Miscellaneous Services</a>
Zacks Industry Rank	Bottom 17% (209 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	12.3
PEG F1	1.6
P/S TTM	2.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,219 E	1,217 E	1,212 E	1,218 E	4,891 E
2020	1,127 A	1,186 A	1,187 E	1,191 E	4,707 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	\$1.78 E	\$1.84 E	\$1.85 E	\$1.87 E	\$7.34 E
2020	\$1.73 A	\$1.65 A	\$1.76 E	\$1.81 E	\$6.89 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 08/10/2020. The reports text is as of 08/11/2020.

## 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.

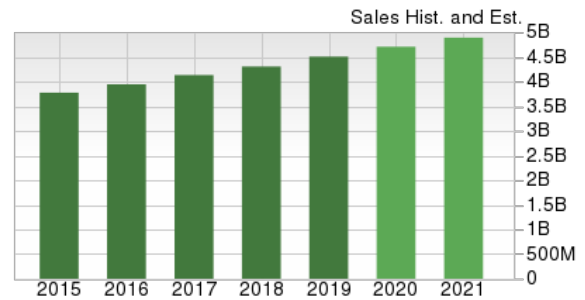
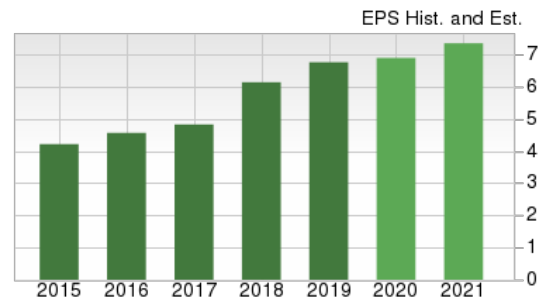
**Life Insurance (70% of 2019 Premium Revenues)** products include traditional and interest sensitive whole life insurance and term life insurance.

**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.**



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## Reasons To Buy:

- ▲ **Share Price Movement** – Shares of Globe Life have lost 2.8% in a year, compared with the industry's decline of 10%. We believe that strong performance across its distribution channels is likely to drive its shares in the days ahead.
- ▲ **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. In second-quarter 2020, life premium and health premium increased 7% and 5%, respectively, on a year-over-year basis while life net sales were down 16% year over year at American Income Exclusive Agency. For 2020, the company estimates net life sales for American Income Life to be flat to an increase of 8%.

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 second-quarter 2020, the average producing agent count was 8,393, up 14% from the year-ago quarter. The company anticipates producing agent count of 8,550 to 8,850 for American Income at the end of 2020. Management's primary objective is to grow middle management in the agency to ensure sustainable growth.

- ▲ **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 second-quarter 2020, life underwriting margin and health underwriting margin increased from the year-ago figure by 4% and 6%, respectively. Life premium increased 3% from the prior year at Liberty National Exclusive Agency. As of Jun 30, 2020, the average producing agent count was 2,395, up 5% from the year-ago quarter. It anticipates producing agent count of 2,400 to 3,100 for Liberty National at the end of 2020. The company also expects life net sales at Liberty National to be in the range of -8% to 4% for the full year. Net health sales are also anticipated between -14% to -2%.
- ▲ **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. The company anticipates excess cash flow in the range of \$95 million to \$105 million for the rest of 2020. 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. In March, the board of directors of Globe Life raised its quarterly 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.
- ▲ **Tightened Guidance** – Globe Life now estimates net operating income per share of \$6.80 to \$7.04 for 2020 compared with \$6.65 to \$7.23 earlier. The current guidance's mid-point of \$6.92 is modestly higher (2 cents) than the previous mid-point of \$6.90 per share, primarily due to lower borrowing costs linked with the company's short-term debt.

Globe life estimates Life and Health premiums to grow 5% and 6% respectively in 2020. Thus premium income is expected to be about 5% higher than 2019 levels.

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## Reasons To Sell:

▼ **Higher Administrative Expenses** – Globe Life has been incurring high administrative expenses over the years. In second-quarter 2020, administrative expenses increased 4% to \$61.6 million from the year-ago quarter. The ratio of administrative expenses to premium was 6.5%, 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.

▼ **Profitability** – Globe Life's return on equity is 10.3%, lower than the industry average of 21.5%, 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 Jun 30, 2020, the company's long-term debt was \$1272.1 million, which decreased 5.7% from the 2019-end level. However, as of Jun 30, 2020 total debt/total capital ratio of 21.1 was 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 11.4 as on Jun 30, 2020 is poor when compared with the 2019-end figure of 12, implying that its earnings are not sufficient to cover interest obligations.

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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 Beats on Q2 Earnings, Revises Guidance

Globe Life's second-quarter 2020 net operating income of \$1.65 per share beat the Zacks Consensus Estimate by 4.4%. However, the bottom line declined 1.2% year over year attributable to the impact of the pandemic.

### Behind the Headlines

Globe Life reported total premium revenues of \$953.7 million, up 6% year over year. This upside was primarily driven by higher premiums from Life, Health and Annuity insurance. Net investment income increased 2% year over year to \$231.6 million.

The company's operating revenues of \$1.2 billion grew 5.3% from the year-ago quarter. The top-line improvement was driven by growth in Life, Health and Annuity insurance premiums as well as higher net investment income. Moreover, the top line beat the Zacks Consensus Estimate by 2.3%.

Excess investment income, a measure of profitability, decreased 5% year over year to \$61.1 million. Total insurance underwriting income dropped 6% year over year to \$167 million. The decline is attributable to lower Life and Annuity underwriting income as well as higher administrative expenses.

Administrative expenses were up 3.6% year over year to \$62 million.

Total benefits and expenses rose 7.4% year over year to \$968.6 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 as well as interest expense.

### Segmental Update

Premium revenues at **Life** increased 6% year over year to \$670.8 million, driven by higher premiums written by distribution channels like American Income Agency, Global Life Direct Response and Liberty National Exclusive (LNL) Agency. American Income Agency grew 7%, Global Life Direct Response was up 8% and LNL Agency increased 3%. Life underwriting income dropped 8% year over year to \$161.7 million. Net sales of \$114.1 million were 2% higher on a year-over-year basis.

**Health** insurance premium revenues rose 6% year over year to \$282.9 million, largely driven by higher premiums from United American and Family Heritage. Underwriting income of \$64.2 million increased 7% year over year. Net health sales dropped 23% year over year to \$33.9 million.

### Financial Update

Adjusted shareholders' equity as of Jun 30, 2020 increased 6.2% year over year to \$5.5 billion.

Globe Life reported book value per share (excluding net unrealized gains on fixed maturities) of \$51.21 as on Jun 30, 2020, up 10.3% year over year. Operating return on equity (excluding net unrealized gains on fixed maturities) was 13.6% in the first half of 2020, reflecting a contraction of 100 basis points year over year.

### Share Repurchase Update

Globe Life did not repurchase shares in the second quarter in the wake of the pandemic. However, it expects to resume the same in the second half of the year.

### 2020 Guidance Tightened

Globe Life projects net operating income per share to be in the range of \$6.80 to \$7.04, tightened from \$6.65 to \$7.15 expected earlier.

Quarter Ending **06/2020**

Report Date	Jul 22, 2020
Sales Surprise	2.34%
EPS Surprise	4.43%
Quarterly EPS	1.65
Annual EPS (TTM)	6.81

## Recent News

### Globe Life, Units Receive Rating Action – Jul 17, 2020

AM Best has downgraded the Long-Term Issuer Credit Ratings (Long-Term ICR) to "bbb+" from "a-" of Globe Life. Concurrently, the rating giant has downgraded the Financial Strength Rating (FSR) to A (Excellent) from A+ (Superior) and the Long-Term ICR to "a+" from "aa-" of the key life/health subsidiaries of Globe Life. The outlook of these ratings has been revised to stable from negative.

## Valuation

Global Life's shares are down 19.4% and 2.8% 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 11% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10% and 6.1%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 1.15x trailing 12-month book value, which compares to 1.91x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.68x 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 1.66x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 1.21x 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	1.15	1.91	2.47	4.68
	5-Year High	2.05	2.77	2.91	4.68
	5-Year Low	0.86	1.12	1.72	2.83
	5-Year Median	1.66	1.96	2.53	3.74
P/S F12M	Current	1.87	1.44	6.22	3.67
	5-Year High	2.55	1.76	6.66	3.67
	5-Year Low	1.32	1.01	4.96	2.53
	5-Year Median	2.12	1.34	6.06	3.05
P/E F12M	Current	11.84	13.3	16.77	22.81
	5-Year High	18.89	14.14	16.77	22.81
	5-Year Low	8.05	8.69	11.59	15.25
	5-Year Median	13.5	11.58	14.26	17.58

As of 08/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Manulife Financial Corp (MFC)	Outperform	2
Athene Holding Ltd. (ATH)	Neutral	3
Brighthouse Financial, Inc. (BHF)	Neutral	3
PRA Group, Inc. (PRAA)	Neutral	2
Primerica, Inc. (PRI)	Neutral	2
Reinsurance Group of America, Incorporated (RGA)	Neutral	3
Sun Life Financial Inc. (SLF)	Neutral	2
Voya Financial, Inc. (VOYA)	Neutral	3

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	GL	X Industry	S&P 500	BHF	PRI	RGA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	C	C	B
Market Cap	9.03 B	202.91 M	23.56 B	3.12 B	5.27 B	6.43 B
# of Analysts	4	3	14	3	2	2
Dividend Yield	0.88%	0.00%	1.71%	0.00%	1.20%	2.96%
Value Score	A	-	-	A	B	A
Cash/Price	0.07	0.34	0.07	3.92	0.07	0.70
EV/EBITDA	6.16	3.49	13.39	3.57	6.35	4.31
PEG Ratio	1.65	3.23	2.92	NA	NA	NA
Price/Book (P/B)	1.15	0.99	3.18	0.15	3.26	0.46
Price/Cash Flow (P/CF)	7.04	8.53	12.69	4.19	8.74	6.99
P/E (F1)	12.54	17.29	22.16	4.28	14.73	12.35
Price/Sales (P/S)	1.97	1.58	2.55	0.21	2.50	0.45
Earnings Yield	8.13%	5.37%	4.33%	23.35%	6.79%	8.10%
Debt/Equity	0.16	0.40	0.77	0.19	0.03	0.28
Cash Flow (\$/share)	12.04	0.62	6.94	7.58	15.25	13.53
Growth Score	C	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	13.09%	10.78%	10.41%	NA	23.20%	9.13%
Proj. EPS Growth (F1/F0)	2.00%	-19.03%	-6.51%	209.62%	7.35%	-42.62%
Curr. Cash Flow Growth	6.55%	5.71%	5.26%	30.25%	9.74%	9.01%
Hist. Cash Flow Growth (3-5 yrs)	6.53%	13.95%	8.55%	NA	13.51%	8.98%
Current Ratio	0.08	1.30	1.34	0.66	0.54	0.15
Debt/Capital	13.95%	30.79%	44.59%	15.95%	3.22%	22.16%
Net Margin	15.84%	7.50%	10.13%	33.37%	17.29%	3.99%
Return on Equity	10.31%	7.54%	14.59%	4.55%	23.12%	5.79%
Sales/Assets	0.18	0.23	0.51	0.07	0.15	0.18
Proj. Sales Growth (F1/F0)	4.45%	0.00%	-1.54%	18.33%	5.39%	1.71%
Momentum Score	D	-	-	D	C	C
Daily Price Chg	2.55%	0.08%	0.91%	3.25%	1.46%	2.88%
1 Week Price Chg	3.87%	2.98%	2.30%	8.43%	9.80%	7.88%
4 Week Price Chg	16.92%	3.41%	8.54%	16.87%	19.52%	33.34%
12 Week Price Chg	14.67%	15.39%	13.68%	7.02%	24.87%	4.80%
52 Week Price Chg	-2.82%	-9.07%	3.71%	-5.96%	20.49%	-35.84%
20 Day Average Volume	519,133	113,584	2,015,804	722,844	136,873	910,401
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-9.88%	1.69%	44.89%
(F1) EPS Est 4 week change	2.24%	0.00%	1.67%	-9.88%	1.69%	44.89%
(F1) EPS Est 12 week change	-1.11%	4.76%	2.27%	-8.99%	1.69%	-25.65%
(Q1) EPS Est Mthly Chg	4.92%	0.00%	0.67%	1.46%	0.85%	-2.26%

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## 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.

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### 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>A</b>
Growth Score	<b>C</b>
Momentum Score	<b>D</b>
VGM Score	<b>B</b>

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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