
News Release



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NYSE Symbol: TMK

TORCHMARK CORPORATION REPORTS Third Quarter 2018 Results

McKinney, TX, October 24, 2018—Torchmark Corporation (NYSE: TMK) reported today that for the quarter ended September 30, 2018, net income was \$1.55 per diluted common share⁽¹⁾, compared with \$1.29 per diluted common share for the year-ago quarter. Net operating income for the quarter was \$1.59 per diluted common share⁽¹⁾, compared with \$1.23 per diluted common share for the year-ago quarter.

HIGHLIGHTS:

- Net income as an ROE⁽¹⁾ was 12.4%. Net operating income as an ROE excluding net unrealized gains on fixed maturities⁽¹⁾ was 14.7%.
- Life underwriting margins increased over the year-ago quarter by 10% and health underwriting margins increased over the year-ago quarter by 8%.
- Life premiums increased over the year-ago quarter by 8% at American Income and health premiums increased over the year-ago quarter by 8% at Family Heritage.
- Net health sales increased over the year-ago quarter by 15%.
- Average producing agent count increased over the year-ago quarter by 6% at Family Heritage.
- Approximately 877,000 shares of common stock were repurchased during the quarter.

(1) Includes the impact of the change in the corporate income tax rate from 35% to 21% due to the recent tax reform. See further discussion of the tax reform below.

FINANCIAL SUMMARY

Quarter End

(Dollar amounts in millions, except per share data)

(unaudited)

Net operating income, a non-GAAP⁽¹⁾ financial measure, has been used consistently by Torchmark's management for many years to evaluate the operating performance of the Company, and is a measure commonly used in the life insurance industry. It differs from net income primarily because it excludes certain non-operating items such as realized investment gains and losses and certain significant and unusual items included in net income. Management believes an analysis of net operating income is important in understanding the profitability and operating trends of the Company's business. Net income is the most directly comparable GAAP measure.

	Per Share Quarter Ended September 30,			Quarter Ended September 30,		
	2018	2017	% Chg.	2018	2017	% Chg.
Insurance underwriting income ⁽²⁾	\$ 1.53	\$ 1.34	14	\$ 176.0	\$ 159.1	11
Excess investment income ⁽²⁾	0.54	0.51	6	61.5	60.9	1
Parent company expense	(0.02)	(0.02)		(2.7)	(2.3)	
Income tax ⁽³⁾	(0.40)	(0.60)	(33)	(46.5)	(71.3)	(35)
Stock compensation benefit (expense), net of tax	(0.05)	—		(5.6)	(0.3)	
Net operating income	\$ 1.59	\$ 1.23	29	\$ 182.7	\$ 146.1	25
Reconciliation to net income (GAAP):						
Reconciling items, net of tax:						
Realized gains (losses) on investments	0.01	0.07		0.8	8.2	
Administrative settlements	(0.03)	—		(3.6)	—	
Non-operating fees	(0.01)	—		(1.2)	—	
Guaranty fund assessment	—	(0.01)		—	(0.9)	
Net income⁽⁴⁾	\$ 1.55	\$ 1.29		\$ 178.7	\$ 153.3	
Weighted average diluted shares outstanding (000)						
	114,974	118,443				

(1) GAAP is defined as accounting principles generally accepted in the United States of America.

(2) Definitions included within this document.

(3) In 2017, new tax legislation revised the corporate income tax rate from 35% to 21% effective January 1, 2018. In the third quarter of FY 2018, income tax expense was calculated based on the 21% rate as compared with a 35% rate for the third quarter of FY 2017.

As of December 31, 2017, the Company recorded \$877 million of tax benefits in net income as a result of remeasuring its deferred tax assets and liabilities using the lower corporate tax rate as of the date of enactment. Based on the analysis of the tax reform, the Company was able to determine a reasonable estimate of the impact in accordance with SEC Staff Accounting Bulletin No. 118. The guidance allows companies up to one year to finalize the impact. The Company did not make any adjustments to this estimate in Q3. However, the Company will continue to analyze relevant information to complete the accounting for income taxes and expects to complete the process in the fourth quarter of 2018.

(4) A GAAP-basis consolidated statement of operations is included in the appendix of this report.

Note: Tables in this news release may not sum due to rounding.

FINANCIAL SUMMARY, CONT

Management vs. GAAP measures

(Dollar amounts in millions, except per share data)

(unaudited)

Shareholders' equity, excluding net unrealized gains on fixed maturities, and book value per share, excluding net unrealized gains on fixed maturities, are non-GAAP measures that are utilized by management to view the business without the effect of unrealized gains or losses which are primarily attributable to fluctuation in interest rates associated with the available-for-sale portfolio. Management views the business in this manner because the Company has the ability and generally, the intent, to hold investments to maturity and meaningful trends can more easily be identified without the fluctuations. Shareholders' equity and book value per share are the most directly comparable GAAP measures.

	September 30,	
	2018 ⁽¹⁾	2017
Net income as an ROE ⁽²⁾	12.4%	11.7%
Net operating income as an ROE (excluding net unrealized gains on fixed maturities)	14.7%	14.4%
Shareholders' equity	\$ 5,539	\$ 5,168
Impact of adjustment to exclude net unrealized gains on fixed maturities	(602)	(1,123)
Shareholders' equity, excluding net unrealized gains on fixed maturities	\$ 4,937	\$ 4,045
Book value per share	\$ 48.35	\$ 43.78
Impact of adjustment to exclude net unrealized gains on fixed maturities	(5.25)	(9.51)
Book value per share, excluding net unrealized gains on fixed maturities	\$ 43.10	\$ 34.27

(1) Includes the effects of recent tax reform legislation.

(2) Calculated using average shareholders' equity for the measurement period.

CONTINUING INSURANCE OPERATIONS – comparing the third quarter 2018 with third quarter 2017:

Life insurance accounted for 73% of the Company's insurance underwriting margin for the quarter and 70% of total premium revenue.

Health insurance accounted for 26% of Torchmark's insurance underwriting margin for the quarter and 30% of total premium revenue.

Net sales of life insurance decreased 2%, while net health sales increased 15%.

INSURANCE PREMIUM REVENUE

(Dollar amounts in millions)

(unaudited)

	Quarter Ended		% Chg.
	September 30, 2018	September 30, 2017	
Life insurance	\$ 605.5	\$ 576.2	5
Health insurance	255.2	243.0	5
Total	\$ 860.8	\$ 819.2	5

INSURANCE UNDERWRITING INCOME

(Dollar amounts in millions, except per share data)

(unaudited)

Insurance underwriting margin is management's measure of profitability of its life, health, and annuity segments' underwriting performance, and consists of premiums less policy obligations, commissions and other acquisition expenses. Insurance underwriting income is the sum of the insurance underwriting margins of the life, health, and annuity segments, plus other income, less insurance administrative expenses. It excludes the investment segment, parent company expense and income taxes. Management believes this information helps provide a better understanding of the business and a more meaningful analysis of underwriting results by distribution channel. Insurance underwriting income, a non-GAAP measure, is a component of net operating income, which is reconciled to net income in the Financial Summary section above.

	Quarter Ended				
	September 30, 2018	% of Premium	September 30, 2017	% of Premium	% Chg.
Insurance underwriting margins:					
Life	\$ 168.6	28	\$ 152.7	27	10
Health	60.3	24	55.7	23	8
Annuity	2.6		2.6		
	231.4		211.1		10
Other income	0.4		0.4		
Administrative expenses	(55.8)		(52.4)		6
Insurance underwriting income	\$ 176.0		\$ 159.1		11
Per share	\$ 1.53		\$ 1.34		14

Insurance Results by Distribution Channel

Total premium, underwriting margins, first-year collected premium and net sales by all distribution channels are shown at www.torchmarkcorp.com on the Investors page at "Financial Reports."

American Income Agency was Torchmark's leading contributor to total underwriting margin at \$105 million, on premium revenue of \$297 million. Life premiums of \$273 million were up 8% and life insurance underwriting margin of \$93 million was up 11% from the year-ago quarter. As a percentage of life premium, life underwriting margin was 34%, compared to 33% a year ago. The average producing agent count during the quarter was 7,105, down 1% from a year ago, but up 1% from the previous quarter. The producing agent count at the end of the third quarter was 7,066. Net life sales were \$55 million, down 5% from the year-ago quarter.

Globe Life Direct Response was Torchmark's second leading contributor to total underwriting margin at \$42 million, on premium revenue of \$227 million. Life premiums of \$208 million were up 4% and the life underwriting margin was \$39 million, up 27% from the year-ago quarter. As a percentage of life premium, life underwriting margin was 19%, up from 16%. Net life sales were \$30 million, down 4% from the year-ago quarter.

LNL Agency was Torchmark's third leading contributor to total underwriting margin at \$28 million, on premium revenue of \$118 million. Life premiums of \$70 million were up 2% from the year-ago quarter, while life underwriting margin was down 11% to \$17 million. As a percentage of life premium, life underwriting margin was 24%, down from 27%. Net life sales were \$12 million, up 1% from the year-ago quarter.

LNL Agency produced health underwriting margin of \$12 million, on health premiums of \$48 million. Health underwriting margin as a percentage of health premium was 25%, up from 24%. Net health sales were \$5 million, up 4% from the year-ago quarter.

LNL Agency's average producing agent count during the quarter was 2,180, up 2% over a year ago, and approximately the same as the previous quarter. The producing agent count at the end of the third quarter was 2,221.

Family Heritage Agency was Torchmark's leading contributor to health underwriting margin at \$17 million on health premiums of \$69 million, which were 8% higher than the year-ago quarter. Health underwriting margin as a percentage of health premium was 24%, up from 23%. The average producing agent count during the quarter was 1,086, up 6% from a year-ago and up 3% from the previous quarter. The producing agent count at the end of the third quarter was 1,143. Net health sales were \$16 million, up 13% from the year-ago quarter.

UA Independent Agency was Torchmark's second leading contributor to health underwriting margin at \$16 million, on health premiums of \$96 million. Health underwriting margin as a percentage of premium was 17%, the same as the year-ago quarter. Net health sales were \$13 million, up 40% from the year-ago quarter.

Administrative Expenses were \$56 million, up 6% from the year-ago quarter. The ratio of administrative expenses to premium was in line with expectations at 6.5%, compared with 6.4% for the year-ago quarter.

Note: Net sales (health and life), a statistical performance measure, is calculated as the annualized premium issued, net of cancellations in the first 30 days after issue, except in the case of Globe Life Direct Response where net sales is annualized premium issued at the time the first full premium is paid after any introductory offer period has expired.

INVESTMENTS

EXCESS INVESTMENT INCOME

(Dollar amounts in millions, except per share data)

(unaudited)

Management uses excess investment income as the measure to evaluate the performance of the investment segment. It is defined as net investment income less both the required interest attributable to net policy liabilities and the interest on debt. We also view excess investment income per diluted common share as an important and useful measure to evaluate performance of the investment segment as it takes into consideration our stock repurchase program.

	Quarter Ended September 30,		
	2018	2017	% Chg.
Net investment income	\$ 221.6	\$ 213.9	4
Required interest:			
Interest on net policy liabilities ⁽¹⁾	(137.7)	(132.0)	4
Interest on debt	(22.4)	(21.0)	7
Total required interest	(160.1)	(152.9)	5
Excess investment income	\$ 61.5	\$ 60.9	1
Per share	\$ 0.54	\$ 0.51	6

(1) Interest on net policy liabilities is a component of total policyholder benefits (a GAAP measure).

Net investment income increased 4%, while average invested assets increased 5%. Required interest on net policy liabilities was in line with the increase in average net policy liabilities. The weighted average discount rate for the net policy liabilities was 5.6% and in line with the year-ago quarter.

Investment Portfolio

The composition of the investment portfolio at book value at September 30, 2018 is as follows:

	Invested Assets (Dollar amounts in millions) (unaudited)	
	\$	% of Total
Fixed maturities (at amortized cost)	\$ 15,462	92%
Policy loans	544	3
Other long-term investments ⁽¹⁾	182	1
Short-term investments	633	4
Total	\$ 16,822	100%

(1) Includes investments accounted for under the fair value option at amortized cost of \$100 million (fair value of \$108 million) as of September 30, 2018.

Fixed maturities at amortized cost by asset class as of September 30, 2018 are as follows:

	Fixed Maturities (Dollar amounts in millions) (unaudited)		
	Investment Grade	Below Investment Grade	Total
Corporate bonds	\$ 12,641	\$ 564	\$ 13,206
Municipal	1,262	—	1,263
Redeemable preferred stock:			
U.S.	284	59	343
Foreign	31	—	31
Government-sponsored enterprises	322	—	322
Government and agencies	89	—	89
Collateralized debt obligations	—	58	58
Residential mortgage-backed securities	1	—	1
Other asset-backed securities	150	—	150
Total	\$ 14,780	\$ 682	\$ 15,462

The market value of Torchmark's fixed maturity portfolio was \$16.2 billion compared with amortized cost of \$15.5 billion. Net unrealized gains were comprised of gross unrealized gains of \$1.1 billion and gross unrealized losses of \$314 million.

Torchmark is not a party to any derivatives contracts, including credit default swaps, and does not participate in securities lending.

At amortized cost and market value, 96% of fixed maturities were rated "investment grade." The fixed maturity portfolio earned an annual effective yield of 5.56% during the third quarter of 2018, compared to 5.64% in the year-ago quarter.

Acquisitions of fixed maturity investments during the quarter totaled \$206 million at cost. Comparable information for acquisitions of fixed maturity investments is as follows:

	Quarter Ended September 30,	
	2018	2017
Average annual effective yield	5.1%	4.4%
Average rating	BBB+	BBB+
Average life (in years) to:		
Next call	20.4	25.0
Maturity	26.0	26.0

SHARE REPURCHASE:

During the quarter, the Company repurchased approximately 877,000 shares of Torchmark Corporation common stock at a total cost of \$75 million for an average share price of \$85.84.

LIQUIDITY/CAPITAL:

Torchmark's operations consist primarily of writing basic protection life and supplemental health insurance policies which generate strong and stable cash flows. Capital at the insurance companies is sufficient to support operations.

On September 27, 2018, the Company completed the issuance and sale of \$550 million aggregate principal of 4.550% Senior Notes due in 2028. Torchmark intends to use the net proceeds of \$543.3 million to redeem the \$293 million outstanding principal on Torchmark's 9.250% Senior Notes, pay a make-whole premium on said notes, fund \$150 million of additional capital to its insurance subsidiaries, and use any remaining net proceeds for general corporate purposes including the repayment of a portion of the Company's outstanding commercial paper.

EARNINGS GUIDANCE FOR THE YEARS ENDING DECEMBER 31, 2018 and 2019:

Torchmark projects that net operating income per share will be in the range of \$6.08 to \$6.14 for the year ending December 31, 2018, and from \$6.45 to \$6.75 for the year ending December 31, 2019.

NON-GAAP MEASURES:

In this news release, Torchmark includes non-GAAP measures to enhance investors' understanding of management's view of the business. The non-GAAP measures are not a substitute for GAAP, but rather a supplement to increase transparency by providing broader perspective. Torchmark's definitions of non-GAAP measures may differ from other companies' definitions. More detailed financial information including various GAAP and non-GAAP measurements are located at www.torchmarkcorp.com on the Investors page under "Financial Reports."

CAUTION REGARDING FORWARD-LOOKING STATEMENTS:

This press release may contain forward-looking statements within the meaning of the federal securities laws. These prospective statements reflect management's current expectations, but are not guarantees of future performance. Accordingly, please refer to Torchmark's cautionary statement regarding forward-looking statements, and the business environment in which the Company operates, contained in the Company's Form 10-K for the year ended December 31, 2017, and any subsequent Forms 10-Q on file with the Securities and Exchange Commission and on the Company's website at www.torchmarkcorp.com on the Investors page. Torchmark specifically disclaims any obligation to update or revise any forward-looking statement because of new information, future developments or otherwise.

EARNINGS RELEASE CONFERENCE CALL WEBCAST:

Torchmark will provide a live audio webcast of its third quarter 2018 earnings release conference call with financial analysts at 11:00 am (Eastern) tomorrow, October 25, 2018. Access to the live webcast and replay will be available at www.torchmarkcorp.com on the Investors/Calls and Meetings page, at the Conference Calls on the Web icon. Immediately following this press release, supplemental financial reports will be available before the conference call on the Investors page menu of the Torchmark website at "Financial Reports."

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APPENDIX

TORCHMARK CORPORATION GAAP CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollar amounts in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Life premium	\$ 606	\$ 576	\$ 1,806	\$ 1,726
Health premium	255	243	758	731
Other premium	—	—	—	—
Total premium	861	819	2,565	2,456
Net investment income	222	214	658	635
Realized investment gains (losses)	1	13	15	6
Other income	—	—	1	1
Total revenue	1,084	1,046	3,239	3,099
Benefits and expenses:				
Life policyholder benefits	397	386	1,197	1,168
Health policyholder benefits	163	156	484	470
Other policyholder benefits	9	9	26	27
Total policyholder benefits	568	551	1,706	1,665
Amortization of deferred acquisition costs	129	122	388	370
Commissions, premium taxes, and non-deferred acquisition costs	70	68	209	198
Other operating expense	74	63	210	188
Interest expense	22	21	66	63
Total benefits and expenses	863	825	2,579	2,484
Income before income taxes	220	221	660	614
Income taxes	(42)	(67)	(123)	(183)
Income from continuing operations	179	153	537	431
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	—	—	—	(4)
Net income	\$ 179	\$ 153	\$ 537	\$ 427
Basic net income (loss) per common share:				
Continuing operations	\$ 1.59	\$ 1.32	\$ 4.74	\$ 3.69
Discontinued operations	—	—	(0.01)	(0.03)
Total basic net income per common share	\$ 1.59	\$ 1.32	\$ 4.73	\$ 3.66
Diluted net income (loss) per common share:				
Continuing operations	\$ 1.55	\$ 1.29	\$ 4.64	\$ 3.61
Discontinued operations	—	—	—	(0.03)
Total diluted net income per common share	\$ 1.55	\$ 1.29	\$ 4.64	\$ 3.58
Dividends declared per common share	\$ 0.16	\$ 0.15	\$ 0.48	\$ 0.45