First Quarter 2020 Conference Call

April 23, 2020 10:00 am

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Thank you. Good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officers, Frank Svoboda, our Chief Financial Officer, and Brian Mitchell, our General Counsel.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to the first quarter earnings release we issued yesterday. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures. I will now turn the call over to Gary Coleman.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thank you Mike, and good morning everyone. The developments of the last several weeks have been difficult for everyone and our thoughts are with all those impacted by the current crisis. Today, most of our comments will address our thoughts on the potential impact of COVID-19 on our insurance operations and financial position. However, we do want to begin by giving a brief summary of the first quarter results.

In the first quarter, net income was $166 million or $1.52 per share compared to $185 million or $1.65 per share a year ago. Net operating income for the quarter was $189 million or $1.73 per share, a per share increase of 5% from a year ago. On a GAAP reported basis, return on equity for the year was 9.6% and book value per share was $60.98. Excluding unrealized gains and losses on fixed maturities, return on equity was 14.1%, and book value per share grew 9% to $49.66.

In our life insurance operations, premium revenue increased 4% to $650 million, and life underwriting margin was $179 million, up 5% from a year ago. Health insurance premium revenue grew 5% to $280 million, and health underwriting margin was up 3% to $63 million. Administrative expenses were $64 million for the quarter, up 7% from a year ago and in line with our expectations. For the full year, we expect administrative expenses to be up around 5%.

I will now turn the call over to Larry for his comments on first quarter marketing results.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you Gary. We had strong sales and record recruiting growth in the first quarter. Total life sales were up 5%, while health sales were up 9%, and combined average agent count of the 3 exclusive agencies was up 15% over the year ago quarter, and total agent count at the end of the quarter was just over 12,000. I will discuss current trends at each of the distribution channels later in our comments.

I will now turn the call back to Gary for his comments on our investment operations.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thanks Larry. Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $63 million, a 4% decrease over the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income declined 2%. As to investment yield, in the first quarter, we invested $212 million in investment grade fixed maturities, primarily in the municipal, industrial and financial sectors. We invested at an average yield of 3.81%, an average rating of A+ and an average life of 27 years.

For the entire portfolio, the first quarter yield was 5.39%, down 14 basis points from the yield in the first quarter of 2019. As of March 31, the portfolio yield was approximately 5.39%. We have net unrealized gains in the fixed maturity portfolio of $1.5 billion.

One last item for the first quarter results.

We took an after-tax impairment of approximately $25 million on an offshore driller during the first quarter. Later, I will discuss our investment portfolio in more detail.

Now let's move to the current crisis and its potential impact on our insurance operations, investments and capital. I would like to start by talking about our general approach. To effectively navigate our crisis, proper planning, communication and teamwork is critical. Back in January, we formed a working group to monitor and evaluate coronavirus developments and discuss the possible impact it can have on our business. Once COVID-19 was recognized as immediately disruptive issue, we activated the crisis management teams as contemplated in our formal business continuity plan. These teams monitor developments, identify issues, recommend solutions, and develop communications for employees, agents and customers. The entire executive management team met on a daily basis as well. All this activity was designed to incorporate both a top-down and bottom-up approach to ensure an effective comprehensive response to the crisis.

In addition, the executive management team is having biweekly meetings with the Board of Directors to discuss our ongoing response to this crisis. Our main priority was to develop a plan that would maximize the safety and well-being of our employees, agents, and customers and ensure our ability to continue normal business operations. We were able to quickly shift most of our employees to working remotely, while maintaining compliance with our information security protocols. For the employees whose duties require them to be in the office, we implemented processes and procedures consistent with CDC guidelines to help provide a safe environment. We are extremely pleased with the manner in which our employees have responded to this crisis. I would like to take this opportunity to express our gratitude for everything our employees have done. Thanks to their efforts, we are operating at nearly full capacity with respect to all home office operations.

In monitoring operations, one key area of focus is premium collections. While it is still early, we have not seen an unusual decline in daily premium collections. This is consistent with past experience as the persistency of our in force block has historically been stable when difficult macroeconomic conditions exist. For the full year, we currently project life premiums to grow around 3% and life underwriting margin to be up 1%, with a potential range of a decline of 3% to an increase of 4%. We expect health premiums grow 5% to 6% and health underwriting margins to grow approximately 1%, with a potential range of a decline of 2% to an increase of 4%. Frank will provide more detail on the underlying assumptions related to premiums, underwriting margins and revised guidance later in his comments.

I will now turn the call back over to Larry to discuss the impact of COVID-19 on our marketing operations.

Larry M. Hutchison - - Globe Life Inc. - Co-Chairman & CEO

Thanks, Gary. Our agents have always done business face to face in customer homes and businesses. Obviously, COVID-19 presents a challenge to this way of doing business. As the crisis began, we quickly pivoted to a virtual sales and recruiting process to enable our agencies to continue their activities. While sales for the past several weeks have declined, I am very pleased with the willingness and ability of our agencies to quickly adapt to this difficult environment. I will now discuss current trends in each distribution channel.

At American Income, over the last 4 weeks, sales have been approximately 20% lower than they were in the weeks leading up to the crisis. However, sales for the last 2 weeks have only been around 10% lower than during the same time period last year as agents have more fully adapted to the virtual sales process. This trend is very encouraging and demonstrates the resiliency of this agency.

At Liberty National, the initial impact of COVID-19 crisis has created a 30% reduction in sales. However, the agencies in the field are very quickly adapting to the virtual sales process. I am also pleased with the immediate success seen with virtual recruiting. We continue to support ongoing virtual training and sales. We feel in the next 2 or 3 weeks, these systems and processes will be fully adopted as well. Because of this, we should see a continuation in sales and recruiting.

At Family Heritage, the agents just converted to a digital presentation last year, so the transition to a virtual sales process has been challenging. Over the last several weeks, the level of sales has declined approximately 30% compared to the same time period last year. However, I am encouraged with the positive attitude of the agency owners, and I am optimistic that we will work hard to make the best of this situation. For all the exclusive agencies, assuming shelter in place begins to ease in the near future, mid-third quarter and fourth quarter sales are expected to return to normal levels as we return to in-home selling in addition to virtual sales.

New agent recruiting has been very strong since mid-March, and we are seeing a concentration of high quality candidates. It is difficult to predict though when these new agents will become -- when these new recruits will become licensed agents with our companies since most of the licensed

testing centers were initially closed. A growing number of states are now allowing new agents to work with a temporary license, and testing centers are starting to reopen, which will allow licensing to resume in the remaining states. Recruiting is expected to continue to increase given the large number of displaced workers in this environment. It is too early in the second quarter to have any data for terminations. However, given the limited number of other work opportunities, we do not anticipate a significant increase in agent termination rates.

At direct to consumer, we have seen an increase in interest in our life insurance products over the past several weeks. Applications through our Internet and inbound phone channels have increased significantly. As we have noted in the past, difficult times tend to highlight the importance of basic protection life insurance. We believe our investments over the past few years in the digital self-serve and phone channels will generate continued success in the current environment. While it is difficult to predict what will happen going forward, if we continue to see this level of activity throughout the second quarter and into the third quarter, it is likely we will be at the upper end of our sales guidance or even slightly above for the full year.

At this point, our mailing facilities continue to operate normally. Post office service levels are in line with what we have experienced in the past. We have not seen any impact to our mailing processes. The U.S. Postal office has continued to report only minor disruptions to some retail locations in certain hotspots, primarily in New York, Pennsylvania, and Ohio. There has been significant discussion in the media about the postal service running out of money and shutting down in the next few months. We believe that it would be unrealistic from any perspective, political or otherwise, that the federal government would allow the postal service to cease operations.

At General Agency, through the early part of the second quarter, individual Medicare supplement sales are down approximately 30% from a year ago. It is always difficult to predict sales in this competitive marketplace, but I am encouraged to see the current levels of activity. Group Medicare sales are even more volatile and are generally heavily weighted towards the end of the year, so trends over the past several weeks are not meaningful.

To summarize the marketing discussion, I feel very good about the progress we are making. Since the onset of the pandemic, direct to consumer has seen an increase in demand. While there are sales challenges in this environment, we are seeing our agents continue to sell new business. The virtual sales and recruiting process will continue to provide great value once the crisis is over. I believe the success we are currently seeing with agent recruiting will help provide a strong foundation for long-term growth. While it is difficult to predict sales activity in this uncertain environment, we are providing our best estimates based on knowledge of our business and the current trends we are seeing.

Net life sales for the full year 2020 are expected to be as follows: American Income Life, a decrease of 5% to 10%; Liberty National, flat to a decrease of 15%; direct to consumer, an increase of 5% to a decrease of 5%. Net health sales for the full year 2020 are expected to be as follows: Liberty National, flat to a decrease of 15%; Family Heritage, flat to a decrease of 10%; United American Individual Medicare Supplement, flat to a decrease of 30%.

Now I will turn the call back to Gary to discuss the investment portfolio.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thanks Larry. Invested assets were $17.6 billion, including $16.3 billion of fixed maturities at amortized cost. Of the fixed maturities, $15.6 billion are investment grade with an average rating of A-, and below investment grade bonds are $740 million compared to $671 million a year ago. The percentage of below investment grade bonds to fixed maturities is 4.5% compared to 4.2% a year ago. Overall, the total portfolio is rated BBB+, same as a year ago. Bonds rated BBB are 55% of the fixed maturity portfolio, same as at the end of 2019.

While this ratio is in line with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher risk assets such as derivatives, equities, commercial and residential mortgages, CLOs, and other asset backed securities. We believe that the BBB securities that we acquire provide the best risk adjusted and capital adjusted returns due in large part to our unique ability to hold the securities to maturity regardless of fluctuations in interest rates or equity markets.

At this point, I would like to provide some additional information on certain components of our fixed maturity portfolio.

The potential impact of COVID-19 to certain sectors of the economy has recently been the subject of much discussion. Our investment in those sectors, which we consider to be airline, department store, leisure, restaurant, lodging, gaming, apparel, auto parts, toys, and trucking sectors, is about $444 million or less than 3% of our fixed maturity holdings. We have no unsecured debt in the airline or restaurant sectors.

And while those exposures are relatively minimal, approximately 10% of our fixed maturity portfolio is comprised of energy sector holdings. I want to take a moment to discuss how we view our position.

Approximately 57% or $922 million of the energy portfolio is in the midstream sector. This sector involves

transportation, storage and wholesaling of oil and gas and is generally well positioned to manage oil and gas price volatility. Our exposures here are focused on large cap, higher quality issuers that own critical infrastructure assets backed by long-term contracts with minimal direct exposure to commodity prices and volumes. We expect these issuers to adjust capital allocation policies to defend their credit quality. We anticipate limited downgrades and view default risk as limited.

Approximately 34% or $556 million of the energy portfolio consists of exploration and production. Our investments here are weighted towards U.S. independent issuers with significant scale and adequate liquidity to manage cash flow issues in this environment. Generally, our issuers in this sector are reducing capital investments, dividends, buybacks and headcount to mitigate the impact of lower oil prices. Many have hedge positions that provide additional protection. We view default risk with our E&P issuers to be limited with the primary risk being potential downgrades from NAIC 2 to NAIC 3.

Approximately 6% or $90 million of our energy portfolio is in the refinery sector. Our issuers here are the two largest U.S. refineries, Valero and Marathon Petroleum, and both are expected to maintain investment grade ratings during this cycle. The sectors most vulnerable to low oil prices are oilfield service and offshore drillers. Less than 4% or $63 million of our energy portfolio is in the oilfield service and offshore driller sectors. Our oilfield service exposure is in two of the largest service companies in the world, Halliburton and Baker Hughes, both with strong balance sheets and investment grade ratings. We see limited downgrade risk. Finally, we have only $13 million invested in offshore drillers.

Because we invest so long, a key criteria utilized in our investment process is that an issuer must have the ability to survive multiple cycles. This is particularly true in the energy sector. Our energy portfolio is well diversified across subsectors and issuers and is heavily weighted toward issuers that are less vulnerable to depressed commodity prices. While we have no intent to increase our holdings in this sector, we are comfortable with our current energy holdings.

Finally, lower interest rates continue to pressure investment income. For 2020, the average new money yield assumed at the midpoint of our guidance is 3.40% for the full year compared to 4.47% in 2019. While we like to see higher interest rates going forward, Globe Life can thrive in a lower for longer interest rate environment. Extended low interest rates will not impact the GAAP or statutory balance sheets under current accounting rules since we sell non-interest sensitive protection products.

While our net investment income and, to a lesser extent, our pension expense will be impacted in a continuing low interest rate environment, our excess investment income will still grow. It just won't grow at the same rate as invested assets. Fortunately, the impact of lower new money rates on our investment income is somewhat limited as we expect to have average turnover of less than 2% per year in our investment portfolio over the next five years.

Now I will turn the call over to Frank for his comments on capital and liquidity.

Frank M. **Svoboda** - Globe Life Inc. - Executive VP & CFO

Thanks, Gary. First I want to spend a few minutes discussing our share repurchases, available liquidity and capital position at the Parent Company, plus some actions we've taken recently in response to the current situation.

In the first quarter, we spent $139 million to buy 1.6 million Globe Life Inc. shares at an average price of $85.47. This amount was higher than normal due to higher excess cash flows available to the Parent in the quarter plus a favorable share price in March, when we repurchased slightly over 1 million shares at an average price of $75.31. The Company has temporarily postponed future repurchases while we evaluate the impact the COVID-19 pandemic will have on our operations.

The Parent ended the first quarter with liquid assets of $247 million. This amount is higher than normal due to the first quarter repurchases being less than the excess cash flows available to the parent. Plus, we increased our commercial paper borrowings by approximately $160 million late in the month to enhance our liquidity position. On April 9, Globe Life entered into a new $300 million, 364 day term loan facility from members of its bank line and borrowed all $300 million on April 15. We utilized a term loan structure as it was easier and less costly to obtain than a public debt offering, plus the fact that the term loan can be repaid at any time before its maturity, giving us added flexibility since we do not think we will need the full amount.

With the receipt of this $300 million term loan, plus the $247 million of liquid assets that were available at the end of March, the Company now has approximately $550 million of liquid assets at its disposal. In addition to these liquid assets, the Parent Company will still generate additional excess cash flow during the remainder of 2020. The Parent Company's excess cash flow, as we define it, results primarily from the dividends received by the Parent from its subsidiaries, less the interest paid on debt and the dividends paid to Globe Life shareholders. We intend on keeping our common dividend rate at its current level for the remainder of this year.

We anticipate the Parent Company's excess cash flow for the remainder of the year to be in the range of $180 million to $200 million. Thus, including the roughly $550 million of liquid

assets available -- currently available, we expect the Parent Company to have around $730 million to $750 million available during the remainder of this year. As I will discuss in more detail in just a few moments, we believe this amount of available assets is more than necessary to support the targeted capital levels within our insurance operations. Given that the Parent still has access to its credit facility and to public debt markets, we have substantial flexibility over the remainder of the year. Assuming current debt levels, including the new $300 million term loan, our debt-to-capital ratio at the end of the year should be approximately 27%, less than the 30% maximum ratio our rating agencies used to support our current ratings. As such, we would still have approximately $300 million of additional borrowing capacity if needed.

Now regarding liquidity and capital levels at our insurance subsidiaries.

In the current environment, we have been keenly focused on liquidity and capital within our insurance operations. With respect to liquidity, our insurance operations had over $100 million of cash and short term investments on hand at the end of the first quarter. Over the remainder of 2020, they expect to generate around $500 million of excess operating cash. This amount is net of anticipated higher claims and other impacts on cash flow from COVID-19 and after payment of all remaining dividends to the Parent. While we anticipate investing this cash long-term to fund future policy obligations, this liquidity is available in the near term should cash needs within the insurance companies be greater than anticipated. Given this level of operating cash flows, the insurance companies will be able to fund all remaining dividends payable to the Parent, and we do not see -- and we do not foresee any situation where any bonds would have to be sold to provide liquidity.

Now with respect to capital.

Our goal is to maintain capital at levels necessary to support our current ratings. As discussed on previous calls, Globe Life intends to target a consolidated company action level RBC ratio in the range of 300% to 320%. At December 31, 2019, our consolidated RBC ratio was 318%, near the high end of our range. Taking into account the downgrades and the impairment that incurred in the first quarter, this ratio would have been approximately 316%.

At an RBC ratio of 316%, we have approximately $80 million of capital at the insurance subsidiaries over the amount required at the low end of our consolidated RBC target of 300%. This excess capital, along with the over $700 million of liquid assets that we expect to be available at the Parent, provide over $800 million of assets available to fund possible capital needs.

As we consider the potential need for additional capital, the primary catalysts are lower statutory income due to COVID-19 related factors, lower statutory income due to investment portfolio defaults or impairments and investment downgrades that increase required capital.

In 2020, we anticipate that the higher claims from COVID-19 will be substantially offset by reduced commissions and other expenses associated with our lower sales. Thus, we believe our capital needs will be largely dictated by the amount of downgrades and future impairments on our investments.

To estimate the potential impact of these items, we have modeled several scenarios that take into account consensus views on the economic impact of the recession, the strength and timing of the eventual recovery and a bottoms-up application of such views on the particular holdings in our investment portfolio. We have also analyzed transition and default rates as published by Moody's and evaluated the potential impact to our RBC ratios should we experience the same transition and default rates as were experienced in 2001 and 2002 as well as from 2008 to 2010. Considering these various scenarios, we estimate our RBC ratios could be reduced over 1 or 2 years by approximately 35 to 60 points, requiring an additional $100 million to $235 million of capital to maintain a 300% RBC ratio. This is well below the amount of liquidity available to the Parent Company.

It is important to note that Globe Life's statutory reserves are not negatively impacted by the low interest rates or the lower equity market given our basic fixed protection products. Furthermore, the current interest rates do not have an impact on our statutory reserves given the strong underwriting margin in our products. In the aggregate, our statutory reserves are more than adequate under all cash flow testing scenarios.

Finally, with respect to our earnings guidance for 2020.

We are projecting the net operating income per share will be in the range of $6.65 to $7.15 for the year ended December 31, 2020. The $6.90 midpoint of this guidance reflects a $0.23 decrease over the midpoint of our previous guidance of $7.13 per share. This decrease is entirely attributable to several factors associated with the ongoing COVID-19 pandemic.

The first factor is lower sales and thus lower premium. As Larry indicated earlier, we now expect a decline in both life and health sales in 2020 rather than the increase we anticipated on our last call. These lower sales will lead to lower premium growth in 2020. Our premiums could also be negatively affected to a lesser extent by an increase in lapses due to the economic severity of this pandemic.

Overall, at the midpoint of our guidance, we expect our total life premiums to grow in 2020 by around 3%, down from the

4% growth we expected at the beginning of this year. In addition, we expect our total health premiums to grow by approximately 5% to 6%, down from the 7% to 8% growth indicated in our previous guidance. Despite this reduction in expected premiums, our total premium income is still anticipated to be approximately 3.5% to 3.6% higher than 2019 levels.

The next factor causing a reduction in guidance is the higher anticipated claims from the pandemic. At the midpoint of our guidance, we estimate additional life policy obligations of around $25 million, based on a review of various models that estimate total COVID-19 related deaths in the United States and applying favorable -- available fatality rate statistics to Globe Life's distribution of attained ages and face amounts across its policies in force. This takes into account that less than 5% of Globe Life's in force relates to individuals over age 70. We also anticipate higher supplemental health benefits of approximately $7 million.

Taking into account these higher claims as well as the impact of the lower premiums and lower acquisition costs, we now expect the life underwriting margin as a percentage of premium to be approximately 27.4% at our midpoint, down slightly from the 28% previously expected. The health underwriting margin percentage of premium should decrease from around 22.2%, as previously anticipated, to approximately 21.7%. Overall, the impact of the reduced premium and higher expected claims, offset by lower cost, is expected to reduce our net underwriting income by approximately $30 million to $35 million or about $0.24 per share on an after-tax basis.

In addition to the adverse effects of COVID on our underwriting income, we expect lower excess investment income of $6 million to $10 million, primarily due to the additional interest expense on the new $300 million term loan. The impact of the lower excess investment income on our earnings per share is offset by the impact of lower average diluted shares than previously expected due to the lower share price.

With respect to our share repurchases, our first priority is to ensure we have enough liquidity at the holding company to provide any additional capital that might be required as we recover from this pandemic. While we will not resume share repurchases until prudent to do so, the midpoint of our guidance does assume that we will be able to continue repurchasing shares in the third quarter this year and will be able to do so at a lower average share price than previously anticipated. While we cannot say exactly when that will be, we will be in a better position as time goes on to estimate the additional capital needs for our insurance operations and whether the Parent's excess cash flows will be needed to finance such capital.

If the Parent's excess cash flows are not needed to finance insurance company capital, as we currently expect, we anticipate returning any available excess cash flows back to our shareholders. The effect on our earnings per share of not repurchasing any additional shares in 2020 is included in the range of our guidance.

We have provided a wider range than normal due to the added uncertainty associated with the mortality and morbidity rates of this particular pandemic and the potential that attempts to reduce shelter in place restrictions could result in higher claims than expected or that sales could be lower than we estimate. The low end of our range takes into account higher mortality claims should U.S. deaths from the pandemic during 2020 be more than double our base estimate. The high end of the range contemplates that mortality claims are much lower than we anticipate and that sales are able to return to normal levels more quickly.

Those are my comments. I will now turn the call back to Larry.

Larry M. Hutchison - Globe Life Inc. - Co- Chairman & CEO

Thank you, Frank. I would like to discuss one more item before we open the call up for questions. Several investors have asked us recently how Globe Life was impacted during the global financial crisis of 2008 and 2009. While every crisis is different, I think it is relevant to briefly revisit our experience during that period. That crisis did not really impact our insurance operations. During 2009, we grew life sales and premiums. As has been the case in all difficult macroeconomic environments, we did not see any significant impact to the persistency of our in force block. We did have declines in health insurance, but that was due to market conditions and the health insurance landscape at that time, not related to general economic issues.

While we did see an impact to our investment portfolio and capital position, the impact was relatively minimal. Over a two year period, we had approximately $134 million in after-tax impairments, which were primarily related to bonds issued by highly rated financial institutions. We still had significant excess free cash flow in 2009 and 2010. We were one of the last companies to stop repurchasing stock in 2009 and one of the first to resume repurchasing stock early in 2010. We did not issue equity. We did issue debt, but that was done to refinance expiring debt.

Although every crisis is different, the global financial crisis helped demonstrate the strength of our business. Our business model is uniquely designed to provide stability throughout economic cycles. We firmly believe that Global Life is well positioned to navigate the current crisis and come out stronger on the other side.

Finally, in closing, I also want to thank all of our employees and agents for their efforts during these challenging times.

Those are our comments. We will now open the call up for questions.

QUESTIONS AND ANSWERS

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

I guess, first, I want to thank you for the very thoughtful and detailed discussion points. Very, very helpful. So just a few points for clarification. The first one being, you were talking about the improvement with share repurchases, and it broke up a bit on my line. Did you say that it's possible you could resume share repurchases starting in the third quarter?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Andrew, that is correct. Our base case at the midpoint of our guidance, we do assume that we will start repurchasing again in the third quarter.

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Great. And then with respect to the RBC comment about a 35 to 60 basis point decline over a 1- to 2-year period and then being about $160 million to $235 million short of where you would want to be at 300%, does that not take into account the cash flow generation from operations? Or does that include rating downgrades/defaults, offset partially by the earnings cash flows that you generate?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

That is taking into account just the impact of the downgrades and any potential defaults during that period.

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Oh great. So you could probably generate the cash flows to offset it over that 1- to 2-year time period pretty comfortably. Is that right?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, that would be right.

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Excellent. And just in terms of the agent count and the ability to recruit, I mean, do you see that ramping up pretty sharply in the second half of the year? I mean these are not bad numbers, and I am just wondering, maybe a little more color on how you might see that ramping up in the second half.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I do not think it's a matter of ramping up. I think it is already ramped up. We have had so much interest in the agency position since the beginning -- since the onset of the COVID crisis. What the difficulty has been is licensing agents. Initially, the testing centers were shut down. Only a handful of states -- only 4 states had temporary licenses. Now over 20 states have temporary licenses, and the testing centers are starting to reopen. So we are going to see an increase in agents, but the unknown is the termination rate. But because of the absence of work opportunities through the end of the year, I think we will see our termination rates do not increase. So I think we will see an increase in recruiting through the balance of the year like we have done in the last 2 years.

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Got it. And then just lastly, the mortality seems very manageable. Could you give us a little color on what your kind of base case assumptions are on U.S. incident, the overall mortalities in the United States and what that mortality rate would be on those numbers?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Sure. Yes. As you know, Andrew, that as we think about how we come up with our estimate, we have to take a look at the total U.S. deaths and trying to kind of really see what the data has out there for where those might occur and the level of coverage and how our policies kind of fit over top of all that. As a base case, we are estimating total U.S. deaths of around 80,000 at this point in time. And there is a -- and that is probably about 120% of the current model that's been out there for the Institute of Health Metrics and Evaluation. And then that translates -- what we are estimating is probably about 2,500 to 3,000 deaths that -- with respect to the Globe Life Companies themselves. And cash flow would be about $30 million, and then there is some reserves, of course, on that, and that gets you around the $25 million that we have got at the midpoint of our estimates.

Statutory, in this particular case, really, we do not expect to be significantly different than GAAP. It's probably -- we

have a little bit higher reserves. It is a little bit less, but not materially so.

Andrew Scott Kligerman - Credit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Awesome thank you so much.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Hi thank you. Just -- first, I was hoping you could talk a little bit more about the reasons you elected to take the 1-year term loan as opposed to issuing longer-term debt. And then just thinking about your liquidity, I think you have drawn down the term loan, and you have issued some additional commercial paper. And thinking about it, I mean, would your plan be that kind of, once you have a better sense of claims and potential capital needs in the insurance subsidiaries, you would kind of first pay down the excess liquidity and then use remaining cash flows -- would be the source for buybacks?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, I think that is exactly right. The -- as we talked about that, we did take out the short term because, one, it was something that was readily accessible. And as we were looking at the beginning of April, just wanted to make sure that we had as much flexibility as we could as we navigate through the next several months. As time goes on and as we get more comfortable with where we think the mortality experience will be as well as what potential impact from the economic situation and potential downgrades, then we do have that ability to reduce overall -- use some of that excess cash to reduce the amount of the term loan over the period of time and get that paid back. And then as well, we'd have the capacity to still be able to make some additional -- any additional capital contributions that we would be required to make.

Clearly, as time goes on, and we would also be looking to see would we -- if, in fact, there are needs for additional capital in the insurance companies, whether or not we would want to finance that with any type of long-term debt, we would just have to -- look to see what the extent of that is and where that ultimately takes us.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Got it, thank you. And as we look towards kind of the capital generation from the business, did I hear you right, kind of as we are thinking about cash flows, I guess, into next year, that you would expect relatively little impact on kind of ordinary dividend capacity because the higher claims would be offset by lower capital strain on the sales side?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

That is exactly right. And so just keep in your mind that we do generate on an annual basis north of $400 million of new capital each and every year within the insurance operations. And as you said, right now, it would appear that the mortality that we are expecting -- mortality and morbidity that we are expecting from this would be largely offset by the lower capital strain from the lower sales. Therefore, our real exposure to our future statutory earnings is really whatever types of defaults or impairments that we need to take from a statutory basis.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Got it thank you. And on that note, if I could just sneak in one more. Could you just comment a little bit more on the assumptions underlying the stress test that you gave for credit impairments and ratings downgrades? I think you said it's kind of framed off of 2001 and the financial crisis, but maybe any specifics on what that means in terms of kind of total impairments or the amount of the BBBs downgraded to high yield?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. No, we took a look at -- kind of our internal fundamental process was to look at a lot of different factors and different default rates for different segments and trying to -- and applying that to our particular holdings. And in that particular situation, we are looking at overall about 14% of our total portfolio being downgraded, and we would end up with below investment grades at that point in time of around 12% to 12.5%.

With respect to defaults, really, at this point in time, we do not see particular names that we are seeing that we are thinking have a high degree of risk of going into default at this point in time. But looking at just average, if we took a look at where the kind of average Moody's default rates and applying that, then there is potential for having maybe $50 million of defaults in the time of any -- of a particular year. So taking those into account is what really frames having a 35-point reduction in the RBC and gets to the -- again, the $100 million of additional capital needed to get back up to 300%.

If you look at the '01 stress test to kind of -- as our internal worst case, it gets pretty close to where -- really taking a look at '01 and '02, where we probably see more downgrades than we really have default risk. And in those particular cases, you are probably running somewhere in that 16% to 20% range on defaults -- or excuse me, on downgrades and a little bit higher

below investment grade, but not significantly different on the default side.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Got it, thank you very much.

Ian James Ryave - BofA Merrill Lynch, Research Division - Research Analyst

Thank you for taking my questions. I also appreciate the additional information on the impact from distribution and the financials related to this pandemic. It is very helpful. I wanted to ask you a few questions on the energy holdings in the investment portfolio. So going back to 2015 and 2016 and thinking about what has happened then, what's happened since then, have you, just from a high level, changed your philosophy on investing in energy since then?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

We have not invested that much in energy since that point in time, but what I would like to point out is the holdings that we have today are generally the same holdings we had back in 2015 and '16. And as you will remember, in early 2016, there was a great concern over these energy holdings. And then 1 year later, as oil prices went back up, we went from an unrealized loss on those investments to gain. So...

Ian James Ryave - BofA Merrill Lynch, Research Division - Research Analyst

Right. And then I asked all this because -- pardon. Yes, I was going to say that I was asking all of this because you are investing for 25-plus years, so it is a lot longer. And as you are looking and trying to navigate this, you have to take obviously a longer-term approach. That is kind of the angle I am going for.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, like -- what I was going to say is that I think that the fact in that period of time that these particular bonds, it shows that these companies can navigate through different cycles, and that's what we are looking for. As you said, we are holding long term. And so they came through that period well, and we think they will come through this period well as well.

Ian James Ryave - BofA Merrill Lynch, Research Division - Research Analyst

Great. And then do you give your breakout of BBB- holdings for the energy?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

I do not have that here in front of me. Frank, do you have that?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. Our total BBB- holdings in the energy is, at amortized cost, about $560 million. And $300 million of that is in the midstream and the remainder is in E&P.

Ian James Ryave - BofA Merrill Lynch, Research Division - Research Analyst

Great appreciate it, thanks,

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Hi, just a follow-up on Erik's question on the decision to use more short-term debt. I guess if I kind of add everything up, that would be 1 year or less maturity, I think you would now have around $760 million. And I guess just thinking about what most other companies have been doing recently, they have been terming out debt, making sure they do not potentially have to roll any debt in case the market becomes a lot more dislocated. Recognizing, I realize, the funding markets are open today, but if this is being done for contingency planning, wouldn't you have been better off doing something longer further out so you were not vulnerable to near-term debt maturities? Just want to know sort of strategically how you are thinking about that.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. Again, we really wanted to look at the added flexibility that, that would -- that, that provides us. We really were not interested in trying to access the long-term -- to get a long-term financing in the -- what they call the instable environment that the public debt markets were in, in the early part of February -- or excuse me, the early part of April.

So as we do look at it, we say if we have around $740 million of total cash available at this point in time, and at the high end of what we think could be needed out of that to contribute into our insurance company capital, that was about $235 million. So that would still leave us with just a little over $500 million of cash available and that we would have -- that would

provide the $300 million to be able to repay that short-term loan or the term loan, leave us with around $200 million to use for buybacks or whatever purposes.

Now we do anticipate that the CP market will continue to be available to us throughout the year. They have been available to us here this month. And we have been able to, especially here in the more recent weeks, issue CP at -- with tenors and at rates that are reasonable and acceptable to us. And so we do anticipate that, that will continue, especially with the different programs that the government has put in place. But we do kind of look at it as a backstop, and this is another reason that we kind of did it this way is that we do have our bank line that -- our regular credit facility of $750 million serves as a backstop for that CP program. So in the worst case, if -- should the CP market go away, we have that ability to pull on that bank line to pay down that CP.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Got you. And you -- are you either directly or indirectly participating in the government CP or the Fed CP program?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

We are not at this time.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Okay. But are you eligible, based on your rating?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

We are not currently eligible. There has been some discussions on -- we have a split rating. And to be qualified under its existing terms, you have to not have a split rating. And -- but there has been some efforts on the part of us as well as other various entities in different industries to have the government expand that. And it's my understanding that the Fed is considering that, but has not done that at this point in time.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Got you. And then just a few other quick ones for me. Direct Response, just given that you have had pretty strong sales momentum there, is there any concern? Or have you done any screens for the virus in terms of the sales?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Well, as we -- in the sense that we check the applications that come in, we have not seen a change in the mix of business by state, by age group, by type of product. So I'd say we have a normal distribution. And so we are not expecting a disparate impact from COVID on our new business that we are selling.

Michael C. Majors Globe Life Inc. - EVP of Administration & IR

And we have made some minor modifications in the underwriting also.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Got you. But nothing -- you have not seen any – there is no real change that you have seen that would be indicative of selection or anything like that?

Larry M. Hutchison - - Globe Life Inc. - Co-Chairman & CEO

No, and neither the direct to consumer or in the agency. We have done the same studies in the agency business. We are seeing the same mix of business, same products. Again, we have made some minor underwriting changes in the agency business as well, but they are minor.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Got you. And then final question. Did you say you expect sales to normalize by 3Q or 4Q of this year?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Yes. We are talking about mid-third quarter of this year, fourth quarter, that is assuming that the shelter-in-place restrictions are ended in the near term, which is sometime in the summer.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Okay. I guess my question related to that, even if the shelter-in-place orders are eliminated, don't you think there is going to be a very slow or reduced ability for face-to-face meetings? And going forward, that it is probably going to take longer than that for the normal activity from a sales standpoint to improve?

Larry M. Hutchison - - Globe Life Inc. - Co-Chairman & CEO

It may take longer. But at the same time, virtual sales, our training, and our success, our closing rates of virtual sales are going up. So as virtual sales become the norm, I think it will help our sales process. But again, it's impossible to predict at this point when is it they are going to remove shelter in place. I think people's behaviors are going to change, but I don't think it will eliminate face-to-face. It really depends a little bit on what state or what part of the country or Canada that you are talking about.

Thomas George Gallagher - Evercore ISI Institutional Equities, Research Division - Senior MD

Gotha, okay thanks.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Hi good morning. Can you just provide some additional detail on the extra health claims that you expect? Is that primarily hospital indemnity and Medicare supplement, just additional assumptions for hospitalization?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. At the midpoint of our guidance, really, most of the impact on the -- what we'd see is the -- our GAAP financials is really going to be from the ICU claims and maybe a little bit from hospital indemnity. But in large part, while we will see probably some higher Med. supp. claims relating to COVID, we are also seeing an actual -- a little bit of some lower claims countering that from some of the nonessential cases not going through. So actually starting to -- we kind of expect that on the Med. supp. that, that will, for the large part, will be offset and that we will end up kind of be on a net-net basis having it with the additional being from the ICU claims.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Got it. And then, am I correct that Family Heritage does not offer short-term disability policies?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

That is correct.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Okay thank you.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Hi, good morning. So first, I had a question just on the fixed income portfolio. Can you comment on what's happened to your markets in recent weeks since the end of the quarter? I am assuming they might have improved given the Fed announcement. And if that is the case, are you considering at all sort of de-risking the portfolio to try to take advantage of the improvement in valuation and especially as it relates to either energy or BBBs? Is that something that you are contemplating?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

First of all, Jimmy, I do not have -- how the market value has improved since quarter end. But I agree with it -- it might be better. But we do not have any plans at this point to de-risk the portfolio. Again, as Frank mentioned, we are -- our concern is more really from possible downgrades versus defaults. And based on our experience in 2008, '09, we had suffered significant downgrades. We held on to those bonds because we do hold to maturity. And later, those bonds were upgraded. So we do not contemplate doing any de-risking at this point in time.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Okay. And then on -- have you noticed any impact on your persistency in the life business because of COVID over the last 1.5 months or so?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. No, we really have not seen at this point in time any real change in our – we have been monitoring -- change in our overall persistency or really any impact on claims either. We do track on a daily basis and been looking to see indication of any adverse claims as well as other metrics that we have available to us and, at this point in time, have not seen anything unusual.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Okay, and then just lastly on...

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

As a matter of fact, Jimmy, we have seen -- Jimmy, we have actually seen a little bit of an increase in premium over prior year, but it is early, it is only about a month's worth of data. But we -- the good news is we have not seen any decline at all.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Yes. I think the concern that a lot of investors have had is, generally, your consumer base is middle income, lower income and they might be suffering to begin with. But I guess the premium levels are fairly low, so people -- it is one of the last things people actually canceled.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, I would agree with that.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Yes. The other -- the last thing I had a question on just was on share buyback. What is it that you are going to be watching to determine whether and when to resume share buybacks? Because you were obviously a lot more at -- you bought back a lot more in 1Q, but then ended up canceling or suspending the program. But what are you going to be watching to see when to resume?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. I think, you know Jimmy, we will really be taking a look to see -- and during here in the second quarter as we get more information on the bond holdings, we can see what their reports are, take that information into account, take a look at what happens with -- as we come out of shelter-in-place as a country and really from the world's perspective and how that impacts, you know, a large part on the holdings that we have so that we can get a better sense of what downgrade exposure that we might have in our portfolio since we think that's probably the greatest exposure that we have, quite honestly, to our capital.

And then we will be seeing whether, as we -- are the current trends that we are seeing from a mortality perspective within the U.S. and some of – that we are not maybe getting back into a second wave or something to that effect. But if the actions that have been taken by the country and if it kind of turns out as I think the consensus, if you will, has estimated, then I think that's what gives us more comfort that we will be able to then start up the buyback in the third quarter --, we will have a little bit more clarity as to where all that really has to go.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, Jimmy, we feel good about the estimates that we have given based on what we know today. But I think that we want to be cautious. And in the next 2 or 3 months, we will learn a lot more. And we will be a lot more sure of what the impact is going to be. And I think that is when we can make a better decision regarding share repurchases.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Okay thank you, good luck with everything.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Hi, good morning. Apologies if this is a little repetitive. I figured I'd ask about just the $750 million of liquidity, which I think included the $180 million to $200 million, and make sure I understand what's sort of embedded in that and what would be potentially paid back in terms of debt. So I mean in terms of the $750 million, the $180 million to $200 million, does that include your downgrades and your credit losses and sort of your base case? And how did that compare to -- I think you gave details on the stress case, but what are you assuming in terms of the base case? And then maybe start there and then I have got a follow-up.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

So as you think about just kind of how we get to the $740 million again, was that we had around $247 million, I am going to say, for round numbers, say, $250 million as of the end of the first quarter. And again, that was a little higher than normal because we did have -- while we would have our normal cash on hand, we had some excess cash flows in the first quarter over what we used for buybacks. And we used -- and we increased that CP borrowings by about $160 million. All those together gets you up to around the $250 million. And then you are looking at the term loan of another $300 million and then about another $180 million of additional excess at kind of at the midpoint of excess cash flows at the holding company in the second half of the year. So that's what really gets you ultimately to your $740 million. And then the $80 million is the excess capital at the holding -- at the -- within the insurance companies. That obviously can be used for any capital needs that they might have without having to look to the holding company themselves, so without having to look to that $740 million.

So as we look at the $740 million, we are thinking our -- based on our estimates at this point in time, the range of those capital contributions could be $100 million to $235 million. So that is going to leave us somewhere, we would think, $500 million to $650 million of excess cash at the holding company, when this would be all said and done, that ability to pay back the $300 million and still having cash available for buybacks.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

And should we consider a reduction in commercial paper as well, which I think is – it is increased by a decent amount. Would that be paid down as well? Or should we just think about the term loan?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Well, I think, clearly, we would take a look at that. And I think with respect to the CP, if we were able to go out and replace, I think our -- the preference would be for long-term capital needs that we would not be using the CP market for that, that we would be wanting to access long-term capital markets, the public debt markets for that -- for the long-term capital needs. So depending upon how much additional capital we, in fact, might need, if it is a very small number, we probably would not go out and access public debt markets for a very small amount. And -- but if it was a larger amount, then we would do that and then be able to pay back some of that CP if necessary.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. And then maybe a follow-up to one of Jimmy's questions on the ability to hold bonds. I heard the comment by Gary that I think you guys have the ability to hold them. But I guess in terms of willingness and thinking through high-yield allocations, whether it is relative to equity or relative to the portfolio, I mean, how high would you be willing to let that go before you would consider de-risking? And if you did decide to just let it go higher and not sell, would it change your view on where you should be running the RBC ratio in terms of what you are targeting?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, Alex, back in -- I keep going back to 2008, '09 period. We got up to 13% in below investment grade bonds at that time. And then just a year or 2 later, that was half of that. We are going to hold them unless we think there is a credit issue where they are not going to – where they are going to default or whatever. We will try to get out as soon as we can. But just the fact that they get downgraded into the high-yield, that does not mean we are going to make the decision to go ahead and sell just to reduce that level. So now in terms of how that affects RBC, if we do have that high amount in the- -- or the high yield increases a great deal, that will cause us to have to hold more capital. And we will do that. But I do not see that changing our overall risk tolerance level.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it, thank you.

Operator

At this time, we have no further questions in the queue.

Michael C. Majors - Globe Life Inc. - EVP of Administration & IR

All right. Thank you for joining us this morning. Those are our comments, and we will talk to you again next quarter.