Torchmark Corporation

1st QUARTER 2016 CONFERENCE CALL

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CORPORATE PARTICIPANTS

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Michael Kovak *Goldman Sachs - Analyst*

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Mike Majors - Torchmark Corporation - VP of IR

Thank you. Good morning. Joining the call today are Gary Coleman and Larry Hutchinson, 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 our 2015 10-K.

I will now turn the call over to Gary Coleman.

Gary Coleman - Torchmark Corporation - Co-CEO

Thank you Mike, and good morning everyone.

In the first quarter, net operating income from continuing operations was $133 million or $1.08 per share - a per share increase of 6% from a year ago. Net income for the quarter was $124 million or $1.01 per share - also a 6% increase on a per share basis. With fixed maturities at amortized cost, our return on equity as of March 31 was 14.5% and our book value per share was $30.65, an 8% increase from a year ago.

On a GAAP reported basis, with fixed maturities of market value, book value per share was $35.72, a decline of 6% from a year ago. In our life insurance operations, premium revenue grew 6% to $544 million, while life underwriting margin was $144 million, up 2% from a year ago.

Growth in underwriting margin lagged premium growth, due to higher claims, primarily in direct response. For the full year, we expect life underwriting margin to increase 2% to 4% over 2015. Net life sales were $104 million, flat compared to the year ago quarter.

On the health side, premium revenue grew 3% to $236 million and health underwriting margin was $52 million, approximately the same as a year ago. For the full year, we expect health underwriting margin to grow 1% to 2%.

Health sales declined 1% to $32 million, due to declining group sales. Individual health sales were up 1% to $28 million.

Administrative expenses were $48 million for the quarter, up 5% from a year ago, and in line with our expectations. The primary reason for the increase in administrative expenses is higher information technology costs. As a percentage of premiums from continuing operations, administrative expenses were 6.2%, same as a year ago. For the full year, we anticipate that administrative expenses will also be around 6.2% of premium.

I will now turn the call over to Larry Hutchison for his comments on the marketing operations.

Larry Hutchison - Torchmark Corporation - Co-CEO

Thank you, Gary. I will now go over the results for each Company.

At American Income, life premiums were up 9% to $220 million and life underwriting margin was up 11% to $69 million. Net life sales were $50 million, up 7% due primarily to increased agent productivity.

The average agent count for the first quarter was 6,206, down 2% over a year ago, and down 6% from the fourth quarter. The producing agent count at the end of the first quarter was 6,225. We expect 5% to 7% life sales growth for the full year 2016.

In our direct response operation at Globe Life, life premiums were up 7% to $200 million. Life underwriting margin declined 13%, to $37 million. Net life sales were down 8% to $41 million, due primarily to decreases in circulation. We expect life sales to be flat to down 3% for the full year 2016.

At Liberty National, life premiums were $68 million, approximately the same as the year-ago quarter, while life underwriting margin was $18 million, up 6%. Net life sales increased 11% to $9 million, while net health sales increased 19% to $5 million. The sales increases were driven primarily by improvements in agent productivity, recruiting, and retention.

The average producing agent count for the first quarter was 1,542, up 5% from a year ago, and flat compared to the fourth quarter. The producing agent count at Liberty National ended the quarter at 1,711. Life net sales growth is expected to be within a range of 7% to 9% for the full year 2016. Health net sales growth is expected to be within a range of 5% to 7% for the full year 2016.

At Family Heritage, health premiums increased 7% to $57 million, while health underwriting margin increased 8% to $12 million. Health net sales were down 9% to $11 million, due primarily to reduced agent productivity.

The average producing agent count for the first quarter was 827, up 5% from a year ago, but down 6% from the fourth quarter. The producing agent count at the end of the quarter was 881. We expect health sales growth to be in a range from 2% to 6% for the full year 2016.

At United American General Agency, health premiums increased 6% to $88 million. Net health sales were $12 million, down 2% compared to the year ago quarter.

Individual sales grew 2% to $9 million, while group sales declined 10% to $3 million. For the full year 2016, we expect growth in individual Medicare Supplement sales to be around 9% to 11%.

I will now turn the call back to Gary.

Gary Coleman - Torchmark Corporation - Co-CEO

I want to spend a few minutes discussing our investment operations.

First, regarding excess investment income

Excess investment income (which we define as net investment income less required interest on net policy liabilities and debt) was $55 million, flat compared to the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income increased 2%.

As discussed on previous calls, the Part D segment has a negative impact on excess investment income due to the negative cash flows that occur during the year, including the long delay in receiving reimbursements from CMS for excess claims paid by the Company. The impact of the lost investment income from the delayed receipt of reimbursements is reflected in income from continuing operations rather than in discontinued operations, in accordance with applicable accounting rules.

In the first quarter, Part D had a negative impact on excess investment income of approximately $2.8 million, compared to negative impact of $2.5 million in the year-ago quarter. For the full year 2016, we expect excess investment income to grow about 1% to 2%; however, on a per share basis, we should see an increase of about 5% to 6%. At the midpoint of our 2016 guidance, we are expecting a drag on excess investment income from Part D of approximately $8 million to $9 million, compared to a drag of $8 million in 2015.

Now, regarding the investment portfolio

Invested assets were $14.2 billion, including $13.5 billion of fixed maturities at amortized cost. Of the fixed maturities, $12.7 billion are investment grade with an average rating of A- and below investment grades are $771 million, compared to $604 million a year ago.

The percentage of below investment grade bonds of fixed maturities is 5.7% compared to 4.8% at the end of the fourth quarter. The increase in below investment grade bonds is due primarily to first quarter downgrades of securities in the energy and metals and mining sectors. However, due to increases in underlying commodity prices, subsequent to these downgrades, the current market values of these securities are significantly higher than at the time of the downgrades.

With the portfolio leverage of 3.6X, the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 20%. Overall, the total portfolio is rated A-, same as a year ago. In addition, we have net unrealized gains in the fixed maturity portfolio of $970 million, approximately $464 million higher than at the end of the fourth quarter.

Now, to complete the discussion of the investment portfolio, I would like to address our $1.6 billion of fixed maturities in the energy sector. The net unrealized loss of our energy portfolio declined from $165 million at the end of 2015, to $128 million at the end of the first quarter, an improvement of $37 million.

We believe the risk of realizing losses in the foreseeable future is minimal for the following reasons. First, even with significant rating agency downgrades in the first quarter, 89% of our energy holdings remain investment grade.

Next, only $143 million or 9% of our energy holdings are in the oil field service and drilling sector. While we had significant downgrades during the first quarter in these sectors, we have seen improvement in market values recently. We believe the companies we own have sufficient liquidity to endure the cycle.

Third, based on the consensus of expert views, our investment department believes that oil is more likely to increase to $50 or $60 a barrel during the next 12 to 24 months, than to remain at current levels. We believe that the companies in our portfolio can continue to operate for a very long time with oil prices at $40 to $50 a barrel. Even if oil declined to $30 a barrel and remained at that level for the next 12 to 24 months, we wouldn't expect to have significant defaults during that period.

Finally, the companies we have invested in have a variety of options they can utilize to avoid default, including, but not limited to: reducing distributions to partners, drawing on lines of credit, and reducing exploration activities. We do not expect significant further downgrades in our energy portfolio.

Also, the recent downgrades should not impact our stock buyback program. Frank will address this in more detail when he discusses capital.

As to investment yield

In the first quarter, we invested $287 million in investment grade fixed maturities, primarily in the industrial sector. We invested at an average yield of 5%, an average rating of BBB+, and an average life of 26 years.

For the entire portfolio, the first quarter yield was 5.83%, down 4 basis points from the 5.87% yield in the first quarter of 2015. At March 31, the portfolio yield was approximately 5.81%.

For the remainder of 2016, we have assumed a new money rate of 5% at the midpoint of our guidance. This rate is lower than we previously expected.

We are disappointed interest rates have not risen as expected. However, while the continued low interest rate environment will impact our income statement, it will not have a negative impact on the balance sheet.

Since we primarily sell non-interest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off DAC or put up additional GAAP reserves, due to interest rate fluctuations. In addition, we do not foresee a negative impact on our statutory balance sheet.

While we would benefit from higher interest rates, Torchmark would continue to earn substantial excess investment income in an extended low interest rate environment. As we have said before, Torchmark can thrive in either low or high interest rate environment.

Now, I'll turn the call over to Frank.

Frank Svoboda - Torchmark Corporation - CFO

Thanks, Gary.

First, I want to spend a few minutes discussing our share repurchases and capital position. In the first quarter, we spent $80 million to buy 1.5 million Torchmark shares at an average price of $53.26. So far in April, we have used $21 million to purchase 392,000 shares.

For the full year through today, we have spent $101 million of Parent Company cash to acquire more than 1.9 million shares at an average price of $53.38. These purchases are being made from the Parent Company's free cash flow. Free cash flow results primarily from the dividends received by the Parent from the subsidiaries, less the interest paid on debt and the dividends paid to Torchmark’s shareholders. We expect free cash flow in 2016 to be around $320 million.

Thus, including the $46 million available to the Parent from assets on hand at the beginning of the year, we currently expect to have approximately $366 million of cash and liquid assets available to the Parent during the year. As previously mentioned, to date, we have used $101 million of this cash to buy 1.9 million Torchmark shares, leaving around $265 million of cash and other liquid assets available for the remainder of the year.

As noted before, we will use our cash as efficiently as possible. If market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain at least $50 million to $60 million of assets at the Parent Company, absent the need to utilize any of these funds to support our insurance company operations.

Now, a couple of comments regarding Torchmark's recent debt offering. In early April, Torchmark completed the issuance and sale of $300 million of 6.125% fixed-rate, junior-subordinated debentures with a 40-year life, but callable after five years. The debt was sold pursuant to Torchmark's shelf registration statement from last August. The net proceeds from the debt issuance will be used to retire the $250 million outstanding principle amount, plus accrued interest on the 6.375% senior notes due June 15, 2016 and for general corporate purposes, including additional capital and other financing needs, if necessary, at our insurance subsidiaries

The issuance of the debt was consistent with guidance provided to S&P as to how we would refinance the upcoming maturity and the security will be treated as equity for their capital purposes. Both S&P and Moody's have assigned the same rating to the new junior subordinated security as exists on our current subordinated debentures. The issuance will have an immaterial impact on our earnings per share.

Now, regarding RBC at our insurance subsidiaries

We currently plan to maintain our capital at the level necessary to retain our current ratings. For the last three years, that level has been around NAIC RBC ratio of 325% on a consolidated basis.

This ratio is lower than some peer companies, but is sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities and our ratings. As of December 31, 2015, our consolidated RBC was 317%, 8 basis points below our target of 325%, primarily due to Part D earnings being lower and fourth quarter downgrades being greater than expected.

During the first quarter of this year, we had approximately $245 million of net downgrades on an NAIC basis within our fixed income portfolio. This amount includes total downgrades from NAIC Class 1 to 2, 2 to 3, and 3 to 4, net of any upgrades during that period.

Though we don't calculate RBC on a quarterly basis, we estimate that these net downgrades will result in a decrease in our RBC percentage of approximately 5 basis points. This effect on RBC is consistent with the general rule of thumb we outlined last quarter, stating that for every $100 million in downgrades, a 2 basis point reduction in RBC percentage would result and around $9 million of additional capital would be needed.

The combination of the shortfall as of the end of 2015, plus the additional capital needed due to the downgrades in the first quarter, indicates that we may need around $60 million of additional capital to return to a 325% RBC level. At this time, we do not plan on changing our targeted RBC level of 325%.

However, as indicated on the last call, should we believe that our RBC level is being adversely impacted by downgrades that we believe are temporary and that will reverse in the relatively near future, we may choose to temporarily target an RBC ratio below 325%. We are comfortable that any additional capital needed to meet our target RBC levels for 2016 could be funded with excess proceeds from our recent debt issuance, available assets on hand, and other sources of liquidity, without having to suspend or reduce the amount available for share buyback.

Now, a few comments about Part D

On April 7th, Torchmark was notified by the Center for Medicare and Medicaid Services that its two subsidiaries, UA and FUA, were released from intermediate sanctions and returned to normal marketing and enrollment status, effective as of that date. The plans had operated under sanction since August 1st of last year.

While our plans will be able to accept new enrollees, we anticipate that additional sales during the remainder of 2016 will be minimal. We continue to proceed with the possible sale of our Part D contracts, and the release of these sanctions will have no impact on the Company's previously announced commitment to exit the Medicare Part D business.

As noted on the last call, the disposition of our part D business will release around $70 million of capital that we held at the end of 2015 relating to this business. Since the risk based capital is determined primarily on the level of premiums received and claims made during the year, we will still be required to hold the majority of this capital at the end of 2016.

We estimate that approximately $10 million to $15 million of capital will become available in 2016, with the remainder to be released in 2017. We will consider an extraordinary dividend of the excess capital to the Parent Company, depending on our capital needs for 2017.

Now with respect to our guidance for 2016

We are projecting the net operating income from continuing operations per share will be in the range of $4.35 to $4.51 for the year ended December 31, 2016. The $4.43 midpoint of this guidance reflects a $0.05 increase over our previous guidance. $0.04 of this increase is due to the early adoption of a newly issued accounting standard, ASU 2016-9 as of January 1, 2016.

This new accounting standard simplifies certain aspects of accounting for our equity-based compensation and will primarily affect our net operating income through its impact on stock compensation expense net of taxes, diluted shares outstanding, and earnings per share. As required by the new standard, the adoption is prospective and thus will impact only 2016 and future periods.

In the first quarter, the Company recorded $2 million in additional tax benefits as a reduction to stock option expense in our first quarter operating earnings, as opposed to directly increasing equity as would have occurred under prior guidance. The adoption also resulted in an increase to the weighted average diluted shares. The net effect of the change in the first quarter was a $0.01 increase in earnings per share. Those are my comments.

I will now turn the call back to Larry.

Larry Hutchison - Torchmark Corporation - Co-CEO

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

QUESTION AND ANSWER

Eric Bass - Citigroup - Analyst

Hi, thank you. I guess first a question on direct response. I think on the last call you talked about targeting a margin for 2016 in the 19.5% to 20% range and the actual margin was about 18.5% this quarter. So, just wanted to get any updates on your expectations for the year for that one.

Frank Svoboda - Torchmark Corporation - CFO

Yes, Eric, our expectation for the full year hasn't changed at this point in time. The claims were a little bit higher in the first quarter, just due to some seasonal fluctuations. But our outlook for the full year is still in that, around that 19.5% to 20% range.

Eric Bass - Citigroup - Analyst

Okay, and then just to clarify on the debt proceeds, the extra $50 million, am I taking it right from your comments that you expect to keep that as sort of liquidity at the holding company, near term, and for general corporate purposes, so we may see the holding company liquidity a bit higher than $50 million for a period?

Frank Svoboda - Torchmark Corporation - CFO

Yes, that's possible. If, over the course of the year, we determine we need some additional financing down at the insurance subsidiaries, or additional capital before the end of the year, then we could use those proceeds to finance some of those operations.

Eric Bass - Citigroup - Analyst

Got it. And then, just one last quick one, you talked about the impact of the stock option, expense accounting change for this year. Should we think about, or how should we think about the impact beyond 2016?

Frank Svoboda - Torchmark Corporation – CFO

It's really hard to determine what it may be beyond 2016. Really depends on changes in share price, as well as the exercise patterns within the stock option grants that we have. At this point in time, we would anticipate that they would be in the same range as what we would see for 2016.

Eric Bass - Citigroup - Analyst

Okay. Thank you.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Good morning everybody. Just a real quickie on Part D and the recovery of delayed payments. Did that come in this quarter, or does it come in, in the second quarter?

Frank Svoboda - Torchmark Corporation – CFO

Well, there are receivables that are coming in throughout the year. The big payment from CMS will come in, in the fourth quarter of 2016, and we anticipate that being around $100 million for this year.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay. That's just what I wanted to know. Thank you.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Just a quick follow-up on the interest. We'll have -- is it June 15th retirement, you said, on the old one?

Frank Svoboda - Torchmark Corporation – CFO

That's correct.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

So, you'll have two and a half months of extra interest in Q2 and then it will go down, fractionally, Q3, Q4, does that calculate?

Frank Svoboda - Torchmark Corporation – CFO

That's exactly right.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay, and in your discussion on capital available for buyback, you know you went through the $60 million possible needs for the downgrade, but then you said you might operate with a little less RBC for a bit. Was the long and the short of it don't change your buyback assumptions for now, but they are a little bit at risk?

Frank Svoboda - Torchmark Corporation - CFO

Yes, I would say we do not anticipate that we are changing our buyback assumptions. And I think what I really had attempted to indicate was that, even with the level of downgrades that we've had, you know, we don't see significant downgrades coming in the future. We think that between the excess proceeds that we have from the debt offering, and our other sources, that we'll be able to fund whatever capital needs we need, without having to impact the share buybacks. So we would-- the guidance is around that 320%. We're fairly comfortable with that number.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

And you gave a nice, thoughtful analysis of your energy exposure and, sort of like, we're not going to be facing the same number of downgrades this quarter as we did last quarter. Was that the read? So we've got, you know, the current environment is factored into all your commentary?

Gary Coleman - Torchmark Corporation - Co-CEO

Yes Bob, we don't see significant further downgrades. For one thing, oil prices being up over $40 again is helpful to the bonds in our portfolio. And we've seen -- I think I mentioned that market value's improved, generalized gains improved -- excuse me unrealized losses improved by $37 million in the quarter. It's improved even further since then. It's improved by another $52 million since the end of the first quarter. So, we've -- all along we felt comfortable with our bonds. We feel even more comfortable with that now.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

That's helpful. Thank you.

Seth Weiss - Bank of America - Analyst

Hi, good morning. Thanks for taking the question. Frank, I just want to follow up again on the commentary on buyback and being able to use debt or other sources of liquidity to fund it if that RBC stays low for a period of time. You Know, you comment that you see the move below an RBC as sort of temporary, and I'm curious why that's temporary. Is it just if oil prices recover, that will get the bonds upgraded, and the RBC back to 325%?

Just trying to distinguish the difference between you know the fundamentals of the bonds being money good and what fundamentally would make that RBC revert back to a more normal level from what you consider to be temporarily lower?

Frank Svoboda - Torchmark Corporation - CFO

Yes, that is largely what we're really indicating there, is that we have had, obviously, some downgrades in the first quarter and in the latter part of last year. To the extent that the oil prices do recover, you know that we see the possibility and the probability that, eventually, those bonds would be upgraded to a higher NAIC level and requiring less RBC.

So, depending upon what we kind of see as the short-term or the long-term nature of when we think that recovery might occur, it may lead us to making the decision to you know temporarily target an RBC level less than that 325%, in anticipation of some of those future upgrades.

Seth Weiss - Bank of America - Analyst

Okay, I appreciate that. If we think about your example, and the comments around energy were helpful, in the sense that the fundamentals would still be okay, even if we stayed in a $30 to $40 oil range. But if that happened for a prolonged period of time, you would still see RBC lower, even if the quality of the bonds is good.

So at that point, would you have to see a sacrifice to the pace of buyback? I understand that 2016, we could hit that 320% number, but, if we look out into 2017, and we do have prolonged low-period of oil, are we looking at a scenario where, at some point, you have to sacrifice on the buyback?

Frank Svoboda - Torchmark Corporation - CFO

We clearly --

Gary Coleman - Torchmark Corporation - Co-CEO

Seth, I would --

Frank Svoboda - Torchmark Corporation - CFO

Go ahead, Gary.

Gary Coleman - Torchmark Corporation - Co-CEO

I would add that -- what Frank was describing, where we are now, we could--may need $60 million of capital to get to the 325%. We can -- the point is, we could easily do that with money that we have on hand. We don't expect significant further downgrades, but to the extent that happens, we still think we can cover that without effecting the buyback program.

One thing that Frank mentioned is, we're going to free up $70 million of capital in the next few years from Part D. That will go a long way toward helping, if there is any kind of capital shortage. The main thing is, we don't want to put the money down in the insurance companies, unless we -- until we determine we need to, because once it's down there, and then let's say bonds get upgraded and all of a sudden we have excess capital, it's difficult to get that excess capital back out, because we have to go through the extraordinary dividend process with the states.

So, we think the best use of capital right now is to monitor it. We've got the cash available to cover any shortfall, at this point. And, we've got additional capital being freed up in the next two years, so, you know, if we get down the road, and there is a sizable hole there, we'll fill it, but we're not at that point now. We would rather keep the money in the holding company, until that time comes.

Seth Weiss - Bank of America - Analyst

That's very helpful. Thanks for that.

Michael Kovak - Goldman Sachs - Analyst

Thanks for taking the question. Just wanted to walk through the guidance update on the quarter, recognizing $0.04 for the full year is due to some of the accounting changes that you discussed. Can you sort of talk us through what the other $0.01 increase that you have in there is from? It sounded like there were maybe some headwinds on the excess investment income, relative to the fourth quarter, and maybe a little bit in direct response, so it sounded like you were more comfortable with that. Can you give us a sense of the moving pieces?

Frank Svoboda - Torchmark Corporation - CFO

Sure. You're right, we've seen a little bit of that drag on the excess investment income. So, where we have a little bit better of an outlook is really in our Liberty National operations. I think, so, we have a little bit -- we've increased, if you will, where we kind of see -- I think in previous guidance we had pointed that we had thought that would be, you know, the margins for the full year, you know, would be closer to 26%.

Based on some of the experience and the claims activity that we're seeing there, and throughout the first quarter, we're feeling a little bit better about that and see our underwriting margin maybe getting closer to 27% on that particular, on that particular line. And then, just maybe a little bit better outlook for American Income as well, even though that's a little bit smaller. So, it's really a little bit better underwriting on those two lines of business, offset by a little bit of a drag on the excess investment income.

Michael Kovak - Goldman Sachs - Analyst

Okay. That makes sense. And then, in terms of thinking about the future growth in agency recruiting, can you give us an update on, sort of generally, what you're seeing, in terms of future pipeline for agency recruiting?

Larry Hutchison - Torchmark Corporation - Co-CEO

I'll talk about Globe First, or Direct Response. We are going to see circulation volume continue to decline in 2016, as we adjust our marketing efforts to maximize sales and profits. Currently, we're expecting about a 20% decrease in circulation volume for 2016. In terms of inquiries, we think we'll see a 1% to 3% increase in inquiries in electronic media. And, we should see a 15% to 20% decline in inquiries in that media.

With respect to the agency operations, we're expecting agency growth in all three agencies, projected growth at the end of the year. We think we'll have an ending agent count of American Income of about 6,600 agents to 6,750 agents. Liberty National will have an increase in agents, from 1,625 to 1,725 agents, and Family Heritage, we should see an agent, ending agent count of 900 to 1,000 agents. That's incorporated in our updated sales guidance, which is increased at Liberty National. We'll see an increase in life sales of 7% to 9%, net health sales at Liberty National should increase 5% to 7%.

Our sales guidance at American Income is unchanged from last quarter. We think we'll see a 5% to 7% increase. Family Heritage was slightly lowered, to 2% to 6%, because we had slower sales and lower productivity than anticipated in the first quarter.

Michael Kovak - Goldman Sachs - Analyst

Thanks. That's helpful.

Jimmy Bhuller - JPMorgan - Analyst

Hi, good morning. On the direct response business, can you discuss just the weakness in sales and how much of that is due to a reduction in circulation on your part, versus just lower success of some of the programs that you've got on? And then I have a follow-up as well.

Larry Hutchison - Torchmark Corporation - Co-CEO

Sure, Jimmy. I wouldn't characterize it as weakness in sales. This is intentional that we started to decrease circulation in the third and fourth quarter of last year. The decrease of sales expected in 2016's primarily a result of adjusting our marketing activities to eliminate those unprofitable sales. As we discussed previously, we encountered lower-than-expected profit margins in certain target populations, where we use prescription drug data. As a result, we decreased our circulation and we decreased our mailings in those unprofitable segments.

Additionally, this year, we've repriced segments of our new business to reflect updated mortality. We do have initiatives to increase circulation. We've tested formats, creative content, to improve our response rates and conversion rates. We're working to identify new media. And, finally, we're trying to negotiate the best possible media and print production costs, to maximize our circulation; all of which we hope will have a positive impact, and we'll get back some of that circulation as we proceed through 2016.

Jimmy Bhuller - JPMorgan - Analyst

And, then, just on your investment portfolio, how do you think about just managing your energy exposure, especially below investment grade energy? Spreads have obviously tightened recently and to the extend they tighten more, would you think about selling some of those bonds and, instead, reinvesting in higher-yield, or higher-grade securities, or are you comfortable holding on to them?

Gary Coleman - Torchmark Corporation - Co-CEO

Jimmy, I think we're comfortable holding on to them for, excuse me, we mentioned several reasons earlier. But, we -- oil prices are up significantly over where they were at the end of the year, and expectations are that they will be higher, going forward, so, you know we're buy and hold, and we don't see a need to sell any of them.

Jimmy Bhuller - JPMorgan - Analyst

Okay. Thank you.

Operator

And it does appear we have no further questions at this time. I'll return the floor to our presenters for any additional or closing remarks.

Mike Majors ***- Torchmark Corporation - VP of IR***

Alright, thanks for joining us. Those are our comments and we'll talk to you again next quarter.