2nd Quarter Conference Call

July 27, 2017

Corporate Participants

Frank M. Svoboda - Torchmark Corporation - EVP and CFO

Gary L. Coleman - Torchmark Corporation - Co-CEO

Larry M. Hutchison - Torchmark Corporation - Co-CEO

Mike C. Majors - Torchmark Corporation - VP of IR

Brian Mitchell - Torchmark Corporation - EVP and General Counsel

Conference Call Participants

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

Matt Coad - Autonomous Research - Analyst

Presentation

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

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 our 2016 10-K and any subsequent forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for a discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Gary Coleman.

Gary L. Coleman - *Torchmark Corporation - Co-CEO*

Thank you Mike, and good morning everyone. In the second quarter, net income was $140 million or $1.18 per share- a 4% increase on a per share basis. Net operating income from continuing operations for the quarter was $142 million or $1.19 per share- a per share increase of 7% from a year ago.

On a GAAP reported basis, return on equity as of June 30 was 11.4% and book value per share was $42.55. Excluding unrealized gains and losses on fixed maturities, return on equity was 14.3% and book value per share was $33.49, an 8% increase from a year ago.

In our life insurance operations, premium revenue increased 5% to $574 million and life underwriting margin was $147 million, up 3% from a year ago. Growth in underwriting margin continues to lag premium growth, due primarily to the direct response segment, as we have discussed in previous calls. For the year, we expect life underwriting income to grow around 2% to 4%.

On the health side, premium revenue grew 2% to $243 million while health underwriting margin was up 5% to $55 million. Growth in underwriting margin exceeded premium growth due primarily to favorable claims experience. For the year, we expect health underwriting income to grow 1% to 3%.

Administrative expenses were $51 million for the quarter, up 6% from a year ago, and in line with our expectations. As a percentage of premium from continuing operations, administrative expenses were 6.3% compared to 6.2% a year ago. For the full year, we expect administrative expenses to remain around 6.3% of premium.

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

Larry M. Hutchison - *Torchmark Corporation - Co-CEO*

Thank you Gary. At American Income, life premiums were up 9% to $247 million and life underwriting margin was up 11% to $80 million. Net life sales were $57 million, up 3%, due primarily to increased agent count. The average producing agent count for the second quarter was 7,009, up 6% from a year ago, and up 4% from the first quarter. The producing agent count at the end of the second quarter was 7,170.

At Liberty National, life premiums were up 1% to $68 million, while life underwriting margin was down 3% to $18 million. Net life sales increased 13% to $12 million, while net health sales were $5 million, down 3% from the year-ago quarter. The life sales increase was driven primarily by improvements in agent count.

The average producing agent count for the second quarter was 2,004, up 15% from a year ago, and up 10% compared to the first quarter. The producing agent count at Liberty National ended the quarter at 2,106. Once again we are very pleased with the results at Liberty National.

In our direct response operation at Globe Life, life premiums were up 2% to $203 million. Life underwriting margin declined 12% to $30 million. Net life sales were down 9% to $37 million. As we have discussed on previous calls, the sales decline is by design. We have decreased circulation in order to improve profitability in certain segments. Our primary marketing focus is to grow overall new business profits by maximizing margin dollars, rather than emphasizing sales levels or margins as a percentage of premium.

At Family Heritage, health premiums increased 7% to $63 million, and health underwriting margin increased 11% to $14 million. Health net sales grew 4% to $14 million. The average producing agent count for the second quarter was 1,035, up 11% from a year ago, and up 16% from the first quarter. The producing agent count at the end of the quarter was 1,030. We continue to be enthusiastic about the positive performance at Family Heritage.

At United American General Agency, health premiums increased 1% to $91 million. Net health sales were $13 million, up 26% compared to the year-ago quarter. Individual Medicare Supplement sales were up 4%, and group sales increased from $2 million to $5 million.

To complete my discussion of the market operations I will now provide some forward-looking information. We expect the producing agent count for each agency at the end of 2017 to be in the following ranges: American Income- 7,100 to 7,500; Liberty National- 2,000 to 2,200; Family Heritage- 970 to 1,070.

Life net sales trends for the full year 2017 are expected to be as follows: American Income- 6% to 10% growth; Liberty National- 14% to 18% growth; Direct Response- 6% to 9% decline.

Health net sales trends for the full year 2017 are expected to be as follows: Liberty National- flat to 4% decline; Family Heritage- 7% to 11% growth; United American Individual Medicare Supplement- flat to 5% growth.

I will now turn the call back to Gary.

Gary L. Coleman - *Torchmark Corporation - Co-CEO*

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

First, excess investment income

Excess investment income (which we define as a net investment income less required interest on net policy liabilities and debt) was $62 million, a 13% increase over the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was up 18%.

The higher than normal increase is due primarily to the following factors. 1) Interest expense was higher in the second quarter of 2016 due to debt issued early in that quarter to refinance a note that did not mature until late in the quarter; and also, 2) Investment income in 2017 is higher because the negative impact from lengthy delays in receiving Part D reimbursements has declined. For the second half of the year, we expect excess investment income to grow around 5% and excess investment income per share to grow around 9% to 10%.

Now regarding the investment portfolio

Invested assets are $15.3 billion, including $14.7 billion of fixed maturities at amortized costs. Of the fixed maturities, $14 billion are investment grade with an average rating of A-, and below investment grade bonds were $672 million compared to $763 million a year ago. The percentage of below investment grade bonds to fixed maturities is 4.6%, compared to 5.5% a year ago.

With a portfolio leverage of 3.7X, the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 17%.

Overall, the total portfolio is rated BBB+, just slightly under A- of a year ago. In addition, we have net unrealized gains in the fixed maturity portfolio of $1.7 billion, approximately the same as a year ago.

As to the investment yield

In the second quarter, we invested $154 million in investment grade fixed maturities, primarily in industrial sectors. We invested at an average yield of 4.90%, an average rating of BBB+, and an average life of 20 years. For the entire portfolio, the second quarter yield was 5.68%, down 12 basis points from the 5.80% yield in the second quarter of 2016. At June 30, the portfolio yield was approximately 5.68%. In the midpoint of our guidance, we're assuming an average new money rate of 4.80% for the remainder of the year.

We are still hoping to see higher interest rates going forward. Higher new money rates will have a positive impact on operating income by driving up excess investment income. We are not concerned about potential unrealized losses that are interest rate driven since we would not expect to realize them. We have the intent and more importantly, the ability to hold our investments to maturity. However, if rates don't rise, a continued low interest rate environment will impact our income statement, but not 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.

Those are my comments for the investments. I will now turn the call over to Frank.

Frank M. Svoboda - *Torchmark Corporation - EVP and CFO*

Thanks Gary. First, I want to spend a few minutes discussing our share repurchases and capital position. In the second quarter, we spent $81 million to buy 1.1 million Torchmark shares at an average price of $75.89. So far in

July, we have used $5 million to purchase 65,000 shares at an average price of $77.45. Thus, for the full year through today, we have spent $168 million of Parent Company cash to acquire more than 2.2 million shares at an average price of $76.08. These purchases are being made from the Parent Company's excess cash flow.

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 interest paid to Torchmark's shareholders. We expect the parent company's excess cash flow in 2017 to be in the range of $325 million to $330 million. With $168 million spent on share repurchases thus far, we can expect to have $157 million to $162 million available for the remainder of the year from our excess cash flow, plus other assets available to the Parent. As noted on previous calls, 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 approximately $50 million of Parent assets at the end of 2017, absent the need to utilize any of these funds to support our insurance company operations.

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 past several years, that level has been around an 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 and the relatively lower risk of our policy liabilities and our ratings.

At December 31, 2016, our consolidated RBC was 324%. Although we do not calculate RBC on a quarterly basis, we are still planning to target a 2017 consolidated RBC ratio of 325%.

Next, a few comments to provide an update on our direct response operations.

During the second quarter of 2017, the growth in total life underwriting income continued to lag behind the growth in premium due to higher policy obligations in our direct response operations. As discussed on previous calls, this is mostly attributable to higher obligations related to policies issued in calendar years 2011 through 2015.

On our last call, we noted that we anticipated the margin for the full year of 2017 to range between 14% to 16%. For the second quarter, the margin was 15%, fully in line with our expectations for the quarter. We still anticipate the margin for the full year to range between 14% to 16%.

Now with respect to our guidance for 2017

We are projecting the net operating income from continuing operations per share will be in the range of $4.70 to $4.80 for the year ended December 31, 2017. The $4.75 midpoint of this guidance reflects a $0.05 increase over our previous guidance. The

increase is primarily attributed to an improved outlook for underwriting income as well as an increase in investment income.

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

Larry M. Hutchison - *Torchmark Corporation - Co-CEO*

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

Question and Answers

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

Hi good morning. I had a couple of questions. Obviously very strong results overall, but the Direct Response business, the sales have stayed weak despite easy comps. So you mentioned the reduction in circulation. Have you fully pulled back from marketing in segments that you're deemphasizing? Or when do you reach that point where you would have fully sort of limited your marketing efforts beyond which you could start growing?

Larry Hutchison - *Torchmark Corporation - Co-CEO*

Jimmy, for 2017, we expect our insert media inquiries to be down about 12% to 15%. But our electronic inquires, will be up about 5%, and electronic inquiries represent about 2/3 of the inquiries received today, so we're seeing some positive in the marketing. The circulation for the year will be down about 12% to 15%, and mail volumes will be flat to down slightly. I think that beginning in late 2018 or 2019, we'll begin to see positive sales growth going forward. As our margins return to acceptable levels, we will expand our marketing efforts to increase sales. Again, those positive sales will occur as we use advanced analytics and better segmentation to identify the best responding, most profitable consumers at each segment of our business.

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

Okay. And then on just, obviously, there's uncertainty about what's happening with Medicare, but what are your expectations under the current administration in terms of changes in reimbursement rates on Med Advantage plans and whether or not that helps demand for Med Supp plans?

Larry Hutchison - *Torchmark Corporation - Co-CEO*

Brian, do you want to answer that question?

Brian Mitchell - *Torchmark Corporation - EVP and General Counsel*

Sure. Jimmy, we're constantly reviewing the proposals that come up on Capitol Hill. As of the current time, none of the proposals seem to be geared that way to doing away with original Medicare. With regard to your question as to reimbursements, again, that's up in the air. We do anticipate the possibility of increased reimbursements going forward, into the next year but nothing certain at this point.

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

Okay thank you.

Matt Coad - *Autonomous Research -Analyst*

Hi guys, thanks for taking my question. As you noted to earlier, it was a strong quarter in health with the underwriting margin of 5%, and thanks for the updated guidance. That updated guidance however implies a 1% to 2% decrease in the margin in 3Q and 4Q. So can you just provide some color on what caused the outperformance this quarter, and why you don't expect it to be sustainable?

Gary L. Coleman - *Torchmark Corporation - Co-CEO*

Kevin, we were having trouble hearing the question.

Frank M. Svoboda - *Torchmark Corporation - EVP and CFO*

Yes, Matt I think your question ultimately was looking at a little bit higher than -- higher margins on the -- from the health business in the first half of the year, we're not really seeing that in the second half of the year. And that's right, largely with respect to both Liberty and American Income. We did see some favorable claims in the second quarter that we're just not really seeing continuing on for the full year.

Matt Coad - *Autonomous Research -Analyst*

Thanks guys.

Frank M. Svoboda - *Torchmark Corporation - EVP and CFO*

Yes, this is Frank. I do need to clarify in my opening comments in explaining the excess cash flow. I accidently indicated that our excess cash flow was our dividends from -- the dividends received from the subsidiaries less the interest paid on debt, and it should be the dividends paid to Torchmark's shareholders. I think I accidently said interest on our Torchmark shareholders. I just want to clarify that.

Operator -

Thank you and at this time, we have no further questions in our queue. I'll turn the conference back over to our speakers for any additional or closing remarks.

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

Okay. Thank you for joining us this morning. Those are our comments, and we'll talk to you again next quarter.