



Globe Life – Q2 2024 10-Q Update

The company's 10-Q shows management misled analysts and investors, and a tightening regulatory noose.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 7

August 12, 2024 – On August 7, 2024, Globe Life published its 10-Q for Q2 2024 which contains several damning admissions about the company's conduct and unexplained changes in disclosure.

- Globe Life management misled analysts and shareholders about the existence of an SEC investigation
 - In its Q2 2024 10-Q, Globe Life finally disclosed that it received the first inquiry of the SEC investigation in **April 2024, at least 2 weeks before management told JP Morgan it was not under investigation.**
 - The inquiries made by the SEC are no longer described as “informal, preliminary”, and the company is apparently subject to a formal investigation.
 - The company failed to inform the market of a formal SEC investigation in a timely manner.
 - Our analysis of Globe Life's disclosures suggests the SEC has made at least 2 inquiries with the company.
- The 10-Q also contains multiple other changes in disclosure, despite the company claiming that the recently-completed independent investigation by Wilmer Hale and FTI Consulting found no fault in its reporting.
- No explanation is given for these changes.
 - The cautionary statements now include the risk of regulatory actions against the company.
 - Globe Life describe in detail their agent compensation structure.
 - The company included a legal case last mentioned in its Q2 2022 10-Q, despite the last major event in the case occurring in Q1 2023.
 - The company has changed the language around its performance metrics: net sales and first year collected premium.
- Globe Life spent over 85% of the \$370mm high end of its buyback program guidance for 2024 in just two months.
 - Globe Life drew a total of \$345m in liquidity from their FHLB funding; regardless of the original purpose for this liquidity draw, it was effectively used to finance the buyback.

Note: Unless otherwise noted, all images in this report are from Globe Life's Q2 2024 10-Q

Two things are clear from the disclosure changes quietly made to Globe Life's 10-Q: the regulatory pressure on the company is increasing, and the investigation (far from finding no fault) uncovered serious lapses in regulatory disclosure.



Globe Life misled analysts and shareholders on SEC investigation

Globe Life management misled JP Morgan analysts about the existence of an SEC investigation.

Viceroy reported on May 16, 2024, that Globe Life appeared to be the subject of an SEC investigation¹, something Viceroy confirmed to be true on June 27, 2024².

In its Q2 2024 10-Q, Globe Life finally disclosed that it received the first inquiry of the SEC investigation in **April 2024, at least 2 weeks before management told JP Morgan it was not under investigation.**

Globe Life management told JP Morgan analysts on May 16, 2024, that it was not the subject of an SEC investigation:

Meetings we hosted with management on May 16 affirmed our bullish stance on GL. Management discussed various allegations in recent short reports and its commentary on business trends was positive. We forecast Globe to report healthy operating results and an acceleration in share repurchases in the next few quarters. Nonetheless, we feel that business trends are less critical for the stock in the near term than regulatory/legal developments. Contrary to short-seller insinuations, management denied being subject to an SEC investigation (as of May 16). Also, the DOJ's subpoenas sought information on certain AIL agents and GL has no indications that the firm itself is under investigation.

Figure 1 – Excerpt from JP Morgan May 20, 2024, Globe Life research report

Just five days later (and one day after JP Morgan published its research report informing the market Globe Life management had denied being the subject of an SEC investigation), Globe Life released an 8-K³ disclosing that it had “received a preliminary, informal inquiry from the SEC's Fort Worth Regional Office”

Item 8.01 Other Events.

In response to recent inquiries, Globe Life Inc. (“Globe Life” or the “Company”) announces that it has received a preliminary, informal inquiry from the SEC's Fort Worth Regional Office requesting information related to recent short seller reports making allegations about the Company. Globe Life intends to fully cooperate with the SEC. At this time, the SEC has not notified the Company that it is conducting a formal investigation, asserted any claims against the Company, or indicated that it intends to do so. While no assurances can be made, at present management does not believe that it is reasonably possible or probable that this matter will result in a material loss.

Figure 2 Globe Life 8-K dated May 21

JP Morgan promptly published a note, pointing out that:

- Globe Life did not disclose **when** it had received the inquiry from the SEC
- JP Morgan was concerned about the accuracy of the company's statements during the meetings on May 16.
- It was possible that Globe Life received the inquiry prior to the meeting with JP Morgan, which it denied being the subject of an investigation.

¹ <https://viceroyresearch.org/2024/05/16/globe-life-foia-update/>

² <https://viceroyresearch.org/2024/06/27/globe-life-sec-enforcement-confirms-active-investigation/>

³ <https://www.sec.gov/Archives/edgar/data/320335/000032033524000027/gl-20240521.htm>



This morning, GL filed an 8-K announcing that it “received a preliminary, informal inquiry from the SEC’s Fort Worth Regional Office requesting information related to recent short seller reports making allegations about the Company.”

- Globe’s filing did not include the timing of its notification by the SEC, and the company did not comment beyond what is in the 8-K in our conversation this morning. As such, it is possible that GL received the SEC inquiry prior to Thursday last week, when it denied being the subject of an investigation (we hosted meetings with GL on May 16).
- Background from the SEC website on its investigations: “All SEC investigations are conducted privately. Facts are developed to the fullest extent possible through informal inquiry, interviewing witnesses, examining brokerage records, reviewing trading data, and other methods. With a formal order of investigation, the Division’s staff may compel witnesses by subpoena to testify and produce books, records, and other relevant documents. Following an investigation, SEC staff present their findings to the Commission for its review. The Commission can authorize the staff to file a case in federal court or bring an administrative action. In many cases, the Commission and the party charged decide to settle a matter without trial.”
- An “informal inquiry” seems to pose less risk than a “formal investigation,” but the former can turn into the latter depending on the findings. Besides the nature of the inquiry, we are concerned about the accuracy of the company’s statements during our meetings on Thursday.

Figure 3 – Excerpt from JP Morgan May 20, 2024, Globe Life research report

On June 27, 2024, Viceroy published confirmation that the company was under investigation by the SEC.

In its Q2 2024 10-Q, Globe Life finally disclosed that it received the first inquiry of the SEC investigation in **April 2024, at least 2 weeks before management told JP Morgan it was not under investigation.**

The company has changed its language, removing the phrase “At this time, the SEC has not notified the Company that it is conducting a formal investigation”. Globe Life also no longer describes the inquiry as “preliminary, informal”.

In April 2024, the Company received an inquiry from the SEC’s Fort Worth Regional Office requesting information related to recent short seller reports making allegations about the Company. The Company has provided information in response to the SEC’s requests and continues to cooperate fully with the SEC. At this time, the SEC has not asserted any claims against the Company or indicated that it intends to do so. While no assurances can be made, at present management does not believe that it is reasonably possible or probable that this matter will result in a material loss.

The company also consistently refers to multiple short seller reports. Viceroy’s first report on Globe Life was released on the last day of April and was the second report on the company after Fuzzy Panda’s report. **We believe this means the SEC made multiple inquiries to Globe Life over this period, contrary to their disclosures.**

Globe Life management may have materially misled investors multiple times. While this game of deception is great business for their lawyers, we doubt it bodes well for the company.

This behaviour is to be expected from a company that first disclosed a DOJ subpoena received in November 2023 nearly six months later in its Q1 2024 10-Q.



Other changes in Disclosures

In its earnings call and 8-k dated July 22, 2024, Globe Life claimed that the investigation into its SEC filings by Wilmer Hale and FTI Consulting had found no fault in its process. However, there are multiple new and changed disclosures in its Q2 2024 10-Q when compared to previous periods.

Regulatory actions

Globe Life (or more likely their lawyers) found it necessary to change their cautionary statements to include regulatory actions against the company:

CAUTIONARY STATEMENTS

We caution readers regarding certain forward-looking statements contained in the foregoing discussion and elsewhere in this document, and in any other statements made by, or on behalf of Globe Life whether or not in future filings with the Securities and Exchange Commission. Any statement that is not a historical fact, or that might otherwise be considered an opinion or projection concerning the Company or its business, whether express or implied, is meant as and should be considered a forward-looking statement. Such statements represent management's opinions concerning future operations, strategies, financial results or other developments. We specifically disclaim any obligation to update or revise any forward-looking statement because of new information, future developments, or otherwise.

Forward-looking statements are based upon estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control, including uncertainties related to the impact of the recent pandemic and associated direct and indirect effects on our business operations, financial results, and financial condition. If these estimates or assumptions prove to be incorrect, the actual results of Globe Life may differ materially from the forward-looking statements made on the basis of such estimates or assumptions. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, which may be national in scope, related to the insurance industry generally, or applicable to the Company specifically. Such events or developments could include, but are not necessarily limited to:

1. Economic and other conditions, including the continued impact of inflation, geopolitical events, and the recent pandemic on the U.S. economy, leading to unexpected changes in lapse rates and/or sales of our policies, as well as levels of mortality, morbidity, and utilization of health care services that differ from Globe Life's assumptions;
2. Regulatory developments, including changes in accounting standards or governmental regulations (particularly those impacting taxes and changes to the Federal Medicare program that would affect Medicare Supplement);
3. Market trends in the senior-aged health care industry that provide alternatives to traditional Medicare (such as Health Maintenance Organizations and other managed care or private plans) and that could affect the sales of traditional Medicare Supplement insurance;
4. Interest rate changes that affect product sales, financing costs, and/or investment portfolio yield;
5. General economic, industry sector or individual debt issuers' financial conditions (including developments and volatility arising from geopolitical events, particularly in certain industries that may comprise part of our investment portfolio) that may affect the current market value of securities we own, or that may impair an issuer's ability to make principal and/or interest payments due on those securities;
6. Changes in the competitiveness of the Company's products and pricing;
7. Litigation **results, results or regulatory actions against the Company**;
8. Levels of administrative and operational efficiencies that differ from our assumptions (including any reduction in efficiencies resulting from increased costs arising from the impact of higher than anticipated inflation);
9. The ability to obtain timely and appropriate premium rate increases for health insurance policies from our regulators;
10. The customer response to new products and marketing initiatives;
11. Reported amounts in the consolidated financial statements which are based on management estimates and judgments which may differ from the actual amounts ultimately realized;
12. Compromise by a malicious actor or other event that causes a loss of secure data from, or inaccessibility to, our computer and other information technology systems;
13. The impact of reputational damage on the Company's ability to attract and retain agents;
14. The severity, magnitude, and impact of natural or man-made catastrophic events, including but not limited to pandemics, tornadoes, hurricanes, earthquakes, war and terrorism, on our operations and personnel, commercial activity, level of claims, and demand for our products; and
15. Globe Life's ability to access the commercial paper and debt markets, particularly if such markets become unpredictable or unstable for a certain period.

Readers are also directed to consider other risks and uncertainties described in other documents on file with the Securities and Exchange Commission.

Safe harbor statements are typically legal boilerplate and rarely changed. We believe this is an indicator of the increasing regulatory and legal pressure on the company.

Agent compensation summary

Globe Life finally published its Agent compensation structure but conveniently leaves out the MLM-like structure and opaque agency structure that is the cause of so many of its legal and regulatory problems.

Excluding our Direct to Consumer Division, we sell our policies primarily through independently contracted agents ("agents") who earn commissions in accordance with contracts they have with the respective insurance subsidiary of the Company. These contract arrangements with agents cover commission structures and rates, contract periods, credit terms for settlement of agent advance accounts, vesting rights in future renewal commissions upon termination of contracts and responsibility for premium collections. Contract terms with agents vary, but generally commissions are earned over the life of the policy as premiums are paid. Commissions are calculated on a policy-by-policy basis and vary by product type and policy year. Commission rates are higher for the first-year premium when a policy is issued and are generally reduced for policies that remain in effect for renewal periods (e.g., commission rates may reduce in years 2-10 and again in year 11 and after). After a certain period (typically 10 years), commission rates become constant over the remaining life of the policy and are considered level commissions.

Generally, commissions are paid to an agent when due over the life of a policy as premiums are paid. However, some agents may qualify to have their commissions (primarily first-year commissions) paid in advance of when the commissions are earned. To the extent an advance is made, we will generally advance up to 65% of first year commissions. This creates an agent debit balance which is classified within "Other receivables" in the consolidated financial statements. If an agent has an agent debit balance with the company, commissions earned by that agent are generally first applied to reduce the amounts owed the company. Any excess will be paid to the agent in cash.

Commissions are earned by the agent over the contract period as long as premium is paid by the policyholder and the policy stays in force. As the commissions are earned by the agent and commission expense is incurred by the Company the agent debit balance is reduced. The portion of commission expense incurred related to non-level commissions is deferred and recorded as "Deferred acquisition cost." The portion of level commission is recognized as an expense within "Commissions, premium taxes, and non-deferred acquisition costs."



Burkes class action

Strangely, Globe Life mentioned the Burks v. Arias and American Income Life case. The company has not mentioned this case since Q2 2022, despite the last major development occurring in Q1 2023.

On July 22, 2022, putative class and collective action litigation was filed against Arias Agencies and American Income Life Insurance Company ("American Income") (collectively, "Defendants") in United States District Court for the Western District of Pennsylvania (*David Burkes v. Arias Agencies and American Income Life Insurance Company*, Case No. 2:22-cv-1054). The complaint alleges that insurance agent trainees should have been classified as employees, and after contracting should have been classified as employees instead of independent contractors. Plaintiff David Burkes is a former Pennsylvania independent sales agent and asserts claims under Pennsylvania law on behalf of a putative class of all individuals who trained to become and/or worked as sales agents for American Income in the three years prior to July 22, 2022 through case conclusion. Burkes makes claims (a) under the Pennsylvania Minimum Wage Act and the Pennsylvania Wage Payment and Collection Law for the alleged failure to pay minimum wage, alleged failure to pay for time spent in training, alleged failure to pay for missed meals and rest breaks, allegedly requiring putative class members to pay for work-related expenses, and allegedly subjecting putative class members to "chargebacks"; (b) for unjust enrichment for allegedly benefiting from the uncompensated labor of putative class members; and (c) for the rescission of putative class members' agent contracts. Burkes also asserts a collective action on behalf of the same group of individuals for minimum wage, overtime, liquidated damages, and attorney's fees and costs under the Fair Labor Standards Act for the three years prior to July 22, 2022 through case conclusion, as well as a claim that American Income allegedly did not keep accurate records of hours worked by sales agents. On January 26, 2023, the court entered an order compelling Burkes to arbitrate his claims on an individual basis and staying the case pending completion of arbitration. Burkes' individual claims, as well as the individual claims of other current and former agents who are members of the putative class, are currently pending in arbitration.

This case is notable as it is a class action primarily concerned with the misclassification of ALL agents as contractors, when they should have been classified as employees. Globe Life notably fails to mention this in their disclosure.

We note that no new documents have been added to the docket for this case since January 2023, and it appears the company believes that this case may have a material effect on its operations going forward.

Performance metrics

For the first time, Globe Life disclosed that it does not include cancellations as lapses when reporting its first year collected premium. First Year Collected Premium is a metric used to indicate how much new premium income is expected in the future, therefore lapses are excluded.

We have highlighted the new sections below.

We use three measures as indicators of premium growth and sales over the near term: "annualized premium in force," "net sales," and "first-year collected premium."

- Annualized premium in force is defined as the premium income that would be received over the following twelve months at any given date on all active policies if those policies remain in force throughout the twelve-month period.
- Net sales is calculated as annualized premium issued, net of cancellations in the first thirty days after issue, except in the case of Direct to Consumer, where net sales is annualized premium issued at the time the first full premium is paid after any introductory offer period (typically 1 month) has expired. Management considers net sales to be a better indicator of the rate of premium growth than annualized premium issued since annualized premium issued excludes cancellations, and cancellations do not contribute to premium income.
- First-year collected premium is defined as the premium collected during the reporting period for all policies in their first policy year. First-year collected premium takes lapses into account in the first year when lapses are more likely to occur, and thus is a useful indicator of how much new premium is expected to be added to premium income in the future. First-year collected premiums are lower than net sales over the prior 12 months because premiums are not collected on lapsed policies after the date of lapse.

Cancellations are not included in lapses.

We believe the result is that using these metrics causes models to consistently overestimate how much new premium will be added to premium income in the future, as metric does not consider cancellations.

We can think of two reasons for this:

- a) A discrepancy found during the investigation and the lawyers required its disclosure for a clean slate
- b) Cancellations have increased resulting in an unsustainable dislocation from what it claims to represent

Both Net Sales and First Year Collected premium have a negative correlation with premiums or annualized premium in force. Neither metric serves its purpose.



The Buyback

Globe Life spent \$356mm on stock repurchases in H1 2024: \$329.7m from “excess cashflows” and \$26.4m from the proceeds of option exercises.

Astonishingly, \$332.6m of Globe Life’s buyback expenditure was made in the first two months of Q2 2024. Globe Life spent over 85% of the \$370mm high end of its buyback program guidance for 2024 in just two months.

GL Share Repurchases			
Month	Shares purchases	Average price / share	Cost
Jan	150,000	122.14	18,321,000
Feb	40,557	128.4	5,207,519
Mar	–	–	–
Q1 Total	190,557	123.47	23,528,519
Apr	1,845,837	77.85	143,698,410
May	2,227,926	84.79	188,905,846
Jun	–	–	–
Q2 Total	4,073,763	81.65	332,604,256
H1 Total	4,264,320	83.51	356,132,775

Figure 4 – Globe Life Share Repurchases

Globe Life increased their collateralized funding agreements with the FHLB by \$165mm in H1 2024, drawing an additional \$180mm of liquidity via short-term FHLB funding, making for a total draw of liquidity from FHLB of \$345mm.

Federal Home Loan Bank (FHLB): FHLB membership provides certain of our insurance subsidiaries with access to various low-cost collateralized borrowings and funding agreements. The membership requires ownership of FHLB common stock, as well as the purchase of activity-based common stock equal to approximately 4.1% of outstanding borrowings.

Globe Life owned \$36.4 million in FHLB common stock as of June 30, 2024 and \$22.3 million as of December 31, 2023. The FHLB stock is restricted for the duration of the membership and recorded at cost (par) as required by applicable guidance. The FHLB stock is included in “Other long-term investments” in the *Condensed Consolidated Balance Sheets*. Borrowings with the FHLB are subject to the availability of pledged assets at the insurance subsidiaries of Globe Life. As of June 30, 2024, Globe Life’s insurance subsidiaries maximum borrowing capacity under the FHLB facility was approximately \$640 million, net of outstanding funding agreements and short-term borrowings, on pledged assets with a fair value of \$1.4 billion. As of June 30, 2024, \$303 million in funding agreements were outstanding with the FHLB, compared to \$138 million as of December 31, 2023. This amount is included in “Other policyholders’ funds” in the *Condensed Consolidated Balance Sheets*. In addition, the Company had \$180 million in short-term borrowings from the FHLB as of June 30, 2024, compared to \$0 as of December 31, 2023, this amount is recorded in “Short-term debt”.

Regardless of the original purpose for this liquidity draw, it was effectively used to finance the buyback.



Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Globe Life, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

Important Disclaimer – Please read before continuing

This report has been prepared for educational purposes only and expresses our opinions. This report and any statements made in connection with it are the authors' opinions, which have been based upon publicly available facts, field research, information, and analysis through our due diligence process, and are not statements of fact. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them. We believe that the publication of our opinions about public companies that we research is in the public interest. We are entitled to our opinions and to the right to express such opinions in a public forum. You can access any information or evidence cited in this report or that we relied on to write this report from information in the public domain.

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We have a good-faith belief in everything we write; however, all such information is presented "as is," without warranty of any kind – whether express or implied.

In no event will we be liable for any direct or indirect trading losses caused by any information available on this report. Think critically about our opinions and do your own research and analysis before making any investment decisions. We are not registered as an investment advisor in any jurisdiction. By downloading, reading or otherwise using this report, you agree to do your own research and due diligence before making any investment decision with respect to securities discussed herein, and by doing so, you represent to us that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report. You should seek the advice of a security professional regarding your stock transactions.

This document or any information herein should not be interpreted as an offer, a solicitation of an offer, invitation, marketing of services or products, advertisement, inducement, or representation of any kind, nor as investment advice or a recommendation to buy or sell any investment products or to make any type of investment, or as an opinion on the merits or otherwise of any particular investment or investment strategy.

Any examples or interpretations of investments and investment strategies or trade ideas are intended for illustrative and educational purposes only and are not indicative of the historical or future performance or the chances of success of any particular investment and/or strategy. As of the publication date of this report, you should assume that the authors have a direct or indirect interest/position in all stocks (and/or options, swaps, and other derivative securities related to the stock) and bonds covered herein, and therefore stand to realize monetary gains in the event that the price of either declines.

The authors may continue transacting directly and/or indirectly in the securities of issuers covered on this report for an indefinite period and may be long, short, or neutral at any time hereafter regardless of their initial recommendation.