

May 5, 2014



# Primerica Reports First Quarter 2014 Results

***16% growth in net income and a 12% increase in net operating income***

***Diluted EPS of \$0.81 and diluted operating EPS of \$0.77***

***14.6% net income return on stockholders' equity and 14.9% net operating income return on adjusted stockholders' equity (ROAE)***

***95,382 life insurance licensed representatives***

DULUTH, Ga.--(BUSINESS WIRE)-- Primerica, Inc. (NYSE: PRI) announced today financial results for the quarter ended March 31, 2014. Total revenues were \$324.3 million in the first quarter of 2014 and net income was \$45.1 million, or \$0.81 per diluted share.

Operating revenues increased by 9% to \$324.1 million and net operating income increased by 12% to \$43.3 million compared with \$296.2 million and \$38.6 million, respectively, in the year ago quarter. Net operating income per diluted share increased 20% to \$0.77 and ROAE was 14.9% in the first quarter of 2014. Solid operating results in the first quarter were primarily driven by growth in New Term premiums and strong Investment and Savings Products performance including 15% growth in ending client asset values. Insurance and operating expenses increased as expected with growth in our business and reflect significantly lower expenses associated with the Florida Retirement System (FRS) matter compared with the first quarter of 2013. First quarter results also reflect lower net investment income highly correlated to our stock repurchases throughout 2013 and a lower yield on invested assets.

Consistent with our strategy to focus on core distribution competencies, in the first quarter of 2014 Primerica sold its short-term statutory disability insurance business (DBL) and discontinued marketing its student life insurance business, both of which were distributed through non-core distribution channels managed by our New York insurance subsidiary. Results from the DBL operations have been reported in discontinued operations, which are excluded from segment and operating results, for all periods presented.

Rick Williams, Chairman of the Board and Co-Chief Executive Officer said, "We started the year strong with a 12% increase in net operating income led by a 29% increase in Investment and Savings Products net operating income. Diluted operating EPS grew by 20%, benefitting from 2013 share repurchases."

John Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer said, "We continued to see positive sales force trends with growth in the recruitment of new representatives, new life insurance licenses and the size of the life insurance licensed sales force compared with the first quarter a year ago."

## Distribution Results

- The size of our life-licensed sales force increased 5% to 95,382 at March 31, 2014 compared with 90,917 at March 31, 2013. In the first quarter, recruiting of new representatives increased 4% to 48,306 and new life insurance licenses grew 4% to 7,447 compared with the year ago quarter. The percentage of license non-renewals and terminations in relation to the size of the sales force declined versus the prior year period. The size of our life-licensed sales force remained consistent with the fourth quarter. On a sequential basis, recruiting of new representatives increased 27% from 38,022, primarily due to seasonally slower recruiting levels during the fourth quarter. The lower level of fourth quarter recruits, many of whom are licensed in the first quarter, also contributed to the 12% sequential decline in new life licenses from 8,485 in the prior quarter.
- In the first quarter, term life insurance policies issued were down 2% to 49,320 while the average annualized premium per issued policy increased 2% compared with the first quarter of 2013. Productivity in the quarter of .17X policies per life licensed representative per month was slightly lower than .18X in both the prior year and sequential quarter. Historically productivity in the first quarter has been lower than in other quarters and this year it was also impacted by severe weather across North America. On a sequential basis, fewer life insurance applications submitted during the slower holiday season led to a 6% decline in term life insurance policies issued compared with the fourth quarter of 2013.
- In the first quarter of 2014, Investment and Savings Products sales grew 3% to \$1.41 billion primarily reflecting strong retail mutual funds sales compared with the first quarter a year ago. Sequentially, ISP sales increased 10% compared with the fourth quarter of 2013 reflecting strong retirement and saving sales typical of the first quarter. Market performance drove client asset values to an all-time high of \$45.84 billion, up 15% at March 31, 2014 relative to a year ago and up from \$44.99 billion at the end of the fourth quarter.

## Segment Results

Primerica operates in two primary business segments: Term Life Insurance and Investment and Savings Products, and has a third segment, Corporate and Other Distributed Products. As previously noted, results from the DBL operations, including a \$1.6 million after-tax gain on the sale recognized in the first quarter of 2014, have been reported in discontinued operations for all periods presented. As such, we have reclassified prior year period revenues, benefits and expenses and net income of \$10.0 million, \$8.9 million and \$0.7 million, respectively, from Corporate and Other Distributed Products to discontinued operations, thereby removing them from operating results. Results for the segments are shown below.

|                     | Actual            |         |         |             | Operating (1)     |         |         |             |
|---------------------|-------------------|---------|---------|-------------|-------------------|---------|---------|-------------|
|                     | Q1 2014           | Q1 2013 | (2)     | (3)% Change | Q1 2014           | Q1 2013 | (2)     | (3)% Change |
|                     | (\$ in thousands) |         |         |             | (\$ in thousands) |         |         |             |
| <b>Revenues:</b>    |                   |         |         |             |                   |         |         |             |
| Term Life Insurance | \$182,980         | \$      | 167,833 | 9%          | \$182,980         | \$      | 167,833 | 9%          |

|                                          |                  |                   |           |                  |                   |           |
|------------------------------------------|------------------|-------------------|-----------|------------------|-------------------|-----------|
| Investment and Savings Products          | 123,270          | 108,722           | 13%       | 123,270          | 108,722           | 13%       |
| Corporate and Other Distributed Products | 18,078           | 21,895            | -17%      | 17,815           | 19,609            | -9%       |
| Total revenues                           | <u>\$324,328</u> | <u>\$ 298,450</u> | <u>9%</u> | <u>\$324,065</u> | <u>\$ 296,164</u> | <u>9%</u> |

**Income (loss)  
from continuing  
operations  
before income  
taxes:**

|                                                             |                  |                  |            |                  |                  |            |
|-------------------------------------------------------------|------------------|------------------|------------|------------------|------------------|------------|
| Term Life Insurance                                         | \$ 47,204        | \$ 45,125        | 5%         | \$ 47,204        | \$ 45,125        | 5%         |
| Investment and Savings Products                             | 34,028           | 26,353           | 29%        | 34,028           | 26,353           | 29%        |
| Corporate and Other Distributed Products                    | (14,400)         | (12,338)         | 17%        | (14,663)         | (11,614)         | 26%        |
| Total income from continuing operations before income taxes | <u>\$ 66,832</u> | <u>\$ 59,140</u> | <u>13%</u> | <u>\$ 66,569</u> | <u>\$ 59,864</u> | <u>11%</u> |

(1) See the Non-GAAP Financial Measures section and the segment Operating Results Reconciliations at the end of this release for additional information.

(2) In the second quarter of 2013, Primerica began classifying the deposit asset underlying the 10% reinsurance agreement with Citigroup, Inc. (Citigroup), as well as its related mark-to-market adjustments, within the Corporate and Other Distributed Products segment instead of within the Term Life Insurance segment. As such, results for Q1 2013 include the reclassification of Net Investment Income from the Term Life Insurance Segment to the Corporate and Other Distributed Products Segment of \$564. The change does not impact our consolidated financial statements.

(3) The results of operations from DBL prior to its disposal were reported in our Corporate and Other Distributed Products segment. As such, we have reclassified revenues, other operating expenses, and income from before income taxes of \$9,995, \$1,630, and \$1,092, respectively, in Q1 2013 from our Corporate and Other Distributed Products segment into discontinued operations.

**Term Life Insurance.** In the first quarter of 2014, Term Life operating revenues increased 9% to \$183.0 million and operating income before income taxes increased 5% to \$47.2 million compared with the first quarter of 2013. Revenue growth continues to be driven by net premiums, which increased by 11% from the year ago period. Allocated net investment

income was flat with the prior year period, as growth in required assets was offset by lower yield on invested assets. While policy persistency was stable and consistent with the prior year period, DAC amortization in the first quarter grew faster than net premiums due to an increased portion of commissions deferred in recent years. Total incurred claims for the quarter were in-line with our historical experience, while insurance expenses increased with growth in the business and infrastructure.

Sequentially, operating income before income taxes declined 6% reflecting higher insurance expenses, slightly higher incurred claims and lower allocated net investment income in the first quarter, partially offset by seasonally lower persistency in the fourth quarter. Several items positively impacted results for the fourth quarter of 2013, including higher allocated net investment income from called securities, a premium tax refund and a reversal of previously amortized commissions.

**Investment and Savings Products.** In the first quarter, operating revenues increased 13% to \$123.3 million and operating income before income taxes increased 29% to \$34.0 million compared with the year ago period. Year-over-year ISP sales increased 3%. Sales volumes shifted from Canadian segregated funds, variable annuity internal transfers and other sales that generate limited to no sales-based revenues in the prior year period to retail mutual funds and fully commissionable variable annuity sales with higher sales-based revenues in the current period. The growth in overall sales combined with this shift in product mix drove a 17% year-over-year increase in sales-based revenues. During the first quarter, asset-based revenue increased 13% primarily driven by 16% growth in average client asset values. Legal fees and expenses associated with FRS were \$0.6 million, significantly less than the prior year level of \$3.9 million. We've made significant progress in resolving the FRS matter with over 95% of claimants accepting the settlement.

Sequentially, operating income before income taxes decreased 4% compared with the fourth quarter as fluctuations in the mix of both product sales and client asset values more than offset sequential growth in sales and assets. The increase in sales-based revenues was consistent with the growth in sales of products that generate sales-based revenue. A shift to retail mutual fund sales from annuities during first quarter's Individual Retirement Account season resulted in a modest increase in the sales-based commission expense payout rate. With regard to asset-based earnings, results were generally flat with the fourth quarter as most of the growth in average client assets came from U.S. products which generally have lower asset-based earnings than our Canadian products. First quarter Canadian segregated fund DAC amortization was slightly elevated compared with the fourth quarter due to market performance and redemption rates.

**Corporate and Other Distributed Products.** Operating revenues of \$17.8 million were 9% lower and operating losses before income taxes grew by \$3.0 million compared with the first quarter of 2013. Results reflect higher employee-related expenses as well as lower allocated net investment income primarily due to growth in Term Life required assets, prior year capital deployment and lower yield on invested assets versus the prior year period.

## **Taxes**

Our effective income tax rate for the first quarter of 2014 was 34.9%, which is lower than the prior year period rate of 35.5% primarily due to the limited deductibility of IPO stock awards that fully vested in April 2013. Sequentially, our effective income tax rate was consistent with

34.7% in the fourth quarter.

## **Capital and Liquidity**

In conjunction with our plan to deploy \$150 million of capital in 2014, during the first quarter we repurchased 283,000 shares of Primerica common stock for \$13.1 million with the majority of the years' capital deployment anticipated in the second half of the year, subject to the regulatory approval of a reserve financing transaction. As of March 31, 2014, our investments and cash totaled \$2.01 billion compared with \$1.98 billion as of December 31, 2013. Our invested asset portfolio had a net unrealized gain of \$113.2 million (net of unrealized losses of \$11.6 million) at March 31, 2014, up from \$100.0 million at December 31, 2013 due to a decline in interest rates.

Primerica Life Insurance Company's statutory risk-based capital (RBC) ratio was estimated to be in excess of 490% as of March 31, 2014, well positioned to support existing operations and fund future growth. Our debt-to-capital ratio was 23.0% March 31, 2014.

## **Non-GAAP Financial Measures**

We report financial results in accordance with U.S. generally accepted accounting principles (GAAP). We also present operating revenues, operating income before income taxes, net operating income and adjusted stockholders' equity. Operating revenues, operating income before income taxes and net operating income exclude the impact of realized investment gains and losses, including other than temporary impairments (OTTI), for all periods presented. Operating income before income taxes and net operating income exclude the expense associated with our IPO-related equity awards and the impact of charges recorded for the potential settlement of claims made by certain Florida Retirement System plan participants for all periods presented. Adjusted stockholders' equity excludes the impact of net unrealized gains and losses on invested assets for all periods presented. Our definitions of these non-GAAP financial measures may differ from the definitions of similar measures used by other companies. Management uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our financial performance. Furthermore, management believes that these non-GAAP financial measures may provide users with additional meaningful comparisons between current results and results of prior periods as they are expected to be reflective of our core ongoing business. These measures have limitations, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Reconciliations of non-GAAP to GAAP financial measures are attached to this release.

## **Earnings Webcast Information**

Primerica will hold a webcast Tuesday, May 6, 2014 at 10:00 am ET, to discuss first quarter results. This release and a detailed financial supplement will be posted on Primerica's website. Investors are encouraged to review these materials. To access the webcast go to <http://investors.primerica.com> at least 15 minutes prior to the event to register, download and install any necessary software.

A replay of the call will be available for approximately 30 days on Primerica's website, <http://investors.primerica.com>.

## Forward-Looking Statements

Except for historical information contained in this press release, the statements in this release are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements contain known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from anticipated or projected results. Those risks and uncertainties include, among others, our failure to continue to attract and license new recruits, retain sales representatives or license or maintain the licensing of our sales representatives; our or our sales representatives' violation of or non-compliance with laws and regulations; incorrect assumptions used to price our insurance policies; the failure of our investment products to remain competitive with other investment options; our failure to meet RBC standards or other minimum capital and surplus requirements; a downgrade or potential downgrade in our insurance subsidiaries' financial strength ratings or our senior debt ratings; inadequate or unaffordable reinsurance or the failure of our reinsurers to perform their obligations; heightened standards of conduct or more stringent licensing requirements for our sales representatives; the inability of our subsidiaries to pay dividends or make distributions; the loss of key personnel; and general changes in economic and financial conditions, including the effects of credit deterioration and interest rate fluctuations on our invested asset portfolio. These and other risks and uncertainties affecting us are more fully described in our filings with the Securities and Exchange Commission, which are available in the "Investor Relations" section of our website at <http://investors.primerica.com>. Primerica assumes no duty to update its forward-looking statements as of any future date.

## About Primerica, Inc.

Primerica, Inc., headquartered in Duluth, GA, is a leading distributor of financial products to middle income households in North America. Primerica representatives educate their Main Street clients about how to better prepare for a more secure financial future by assessing their needs and providing appropriate solutions through term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of fourth parties. In addition, Primerica provides an entrepreneurial full or part-time business opportunity for individuals seeking to earn income by distributing the company's financial products. We insured more than 4 million lives and have over 2 million client investment accounts at December 31, 2013. Primerica stock is included in the S&P MidCap 400 and the Russell 2000 stock indices and is traded on The New York Stock Exchange under the symbol "PRI".

## PRIMERICA, INC. AND SUBSIDIARIES Condensed Balance Sheets

|                                                             | March 31,<br>2014 (1) | December 31,<br>2013 |
|-------------------------------------------------------------|-----------------------|----------------------|
|                                                             | (In thousands)        |                      |
| <b>Assets</b>                                               |                       |                      |
| Investments:                                                |                       |                      |
| Fixed maturity securities available for sale, at fair value | \$ 1,771,572          | \$ 1,755,712         |
| Equity securities available for sale, at fair value         | 47,086                | 39,894               |

|                                        |                     |                      |
|----------------------------------------|---------------------|----------------------|
| Trading securities, at fair value      | 10,934              | 12,991               |
| Policy loans and other invested assets | 26,580              | 26,806               |
| Total investments                      | 1,856,172           | 1,835,403            |
| Cash and cash equivalents              | 158,438             | 149,189              |
| Accrued investment income              | 19,689              | 18,127               |
| Due from reinsurers                    | 4,074,527           | 4,055,054            |
| Deferred policy acquisition costs      | 1,242,983           | 1,208,466            |
| Premiums and other receivables         | 170,577             | 175,789              |
| Intangible assets                      | 67,692              | 68,863               |
| Income taxes                           | 35,548              | 32,450               |
| Other assets                           | 303,759             | 282,780              |
| Separate account assets                | 2,458,739           | 2,503,829            |
| Total assets                           | <u>\$10,388,124</u> | <u>\$ 10,329,950</u> |

## **Liabilities and Stockholders' Equity**

### **Liabilities:**

|                                          |                  |                  |
|------------------------------------------|------------------|------------------|
| Future policy benefits                   | \$ 5,103,278     | \$ 5,063,103     |
| Unearned premiums                        | 1,465            | 1,802            |
| Policy claims and other benefits payable | 243,576          | 253,304          |
| Other policyholders' funds               | 340,175          | 337,977          |
| Notes payable                            | 374,494          | 374,481          |
| Income taxes                             | 127,906          | 105,885          |
| Other liabilities                        | 375,864          | 377,690          |
| Payable under securities lending         | 109,094          | 89,852           |
| Separate account liabilities             | 2,458,739        | 2,503,829        |
| Total liabilities                        | <u>9,134,591</u> | <u>9,107,923</u> |

### **Stockholders' equity:**

|                                                           |                     |                      |
|-----------------------------------------------------------|---------------------|----------------------|
| Common stock                                              | 546                 | 548                  |
| Paid-in capital                                           | 462,838             | 472,633              |
| Retained earnings                                         | 679,182             | 640,840              |
| Accumulated other comprehensive income, net of income tax | 110,967             | 108,006              |
| Total stockholders' equity                                | <u>1,253,533</u>    | <u>1,222,027</u>     |
| Total liabilities and stockholders' equity                | <u>\$10,388,124</u> | <u>\$ 10,329,950</u> |

(1) Unaudited

**PRIMERICA, INC. AND SUBSIDIARIES**  
**Condensed Statements of Income**  
**(Unaudited)**

**Three months ended March 31,**

|                                                    | 2014                                     | 2013       |
|----------------------------------------------------|------------------------------------------|------------|
|                                                    | (In thousands, except per-share amounts) |            |
| <b>Revenues:</b>                                   |                                          |            |
| Direct premiums                                    | \$ 568,205                               | \$ 560,904 |
| Ceded premiums                                     | (402,715)                                | (410,604)  |
| Net premiums                                       | 165,490                                  | 150,300    |
| Commissions and fees                               | 126,933                                  | 112,273    |
| Net investment income                              | 21,599                                   | 23,216     |
| Realized investment gains (losses), including OTTI | 263                                      | 2,286      |
| Other, net                                         | 10,043                                   | 10,375     |
| Total revenues                                     | 324,328                                  | 298,450    |

**Benefits and expenses:**

|                                                                 |           |           |
|-----------------------------------------------------------------|-----------|-----------|
| Benefits and claims                                             | 75,191    | 68,816    |
| Amortization of deferred policy acquisition costs               | 35,193    | 31,252    |
| Sales commissions                                               | 65,121    | 55,048    |
| Insurance expenses                                              | 28,502    | 25,512    |
| Insurance commissions                                           | 4,083     | 4,223     |
| Interest expense                                                | 8,606     | 8,795     |
| Other operating expenses                                        | 40,800    | 45,664    |
| Total benefits and expenses                                     | 257,496   | 239,310   |
| Income from continuing operations before income taxes           | 66,832    | 59,140    |
| <b>Income taxes</b>                                             | 23,347    | 21,005    |
| Income from continuing operations                               | 43,485    | 38,135    |
| <b>Income from discontinued operations, net of income taxes</b> | 1,595     | 710       |
| Net income                                                      | \$ 45,080 | \$ 38,845 |

**Basic earnings per share:**

|                          |         |         |
|--------------------------|---------|---------|
| Continuing operations    | \$ 0.78 | \$ 0.66 |
| Discontinued operations  | 0.03    | 0.01    |
| Basic earnings per share | \$ 0.81 | \$ 0.67 |

**Diluted earnings per share:**

|                            |         |         |
|----------------------------|---------|---------|
| Continuing operations      | \$ 0.78 | \$ 0.64 |
| Discontinued operations    | 0.03    | 0.01    |
| Diluted earnings per share | \$ 0.81 | \$ 0.65 |

**Shares used in computing earnings per share:**



|         |        |        |
|---------|--------|--------|
| Basic   | 55,211 | 56,598 |
| Diluted | 55,233 | 58,407 |

**PRIMERICA, INC. AND SUBSIDIARIES**  
**Consolidated Operating Results Reconciliation**  
(Unaudited – in thousands, except per share amounts)

|                                                                           | Three months ended March 31, |            |          |
|---------------------------------------------------------------------------|------------------------------|------------|----------|
|                                                                           | 2014                         | 2013       | % Change |
| Operating revenues                                                        | \$ 324,065                   | \$ 296,164 | 9%       |
| Realized investment gains (losses), including OTTI                        | 263                          | 2,286      |          |
| Total revenues                                                            | \$ 324,328                   | \$ 298,450 | 9%       |
| Operating income before income taxes                                      | \$ 66,569                    | \$ 59,864  | 11%      |
| Realized investment gains (losses), including OTTI                        | 263                          | 2,286      |          |
| Other operating expense - IPO equity awards                               | -                            | (3,010)    |          |
| Income from continuing operations before income taxes                     | \$ 66,832                    | \$ 59,140  | 13%      |
| Net operating income                                                      | \$ 43,314                    | \$ 38,602  | 12%      |
| Realized investment gains (losses), including OTTI                        | 263                          | 2,286      |          |
| Other operating expense - IPO equity awards                               | -                            | (3,010)    |          |
| Tax impact of reconciling items                                           | (92)                         | 257        |          |
| Income from continuing operations                                         | 43,485                       | 38,135     | 14%      |
| Income from discontinued operations, net of income taxes                  | 1,595                        | 710        |          |
| Net income                                                                | \$ 45,080                    | \$ 38,845  | 16%      |
| Diluted operating earnings per share (1)                                  | \$ 0.77                      | \$ 0.64    | 20%      |
| Net after-tax impact of operating adjustments and discontinued operations | 0.04                         | 0.01       |          |
| Diluted earnings per share (1)                                            | \$ 0.81                      | \$ 0.65    | 24%      |

(1) Percentage change in earnings per share is calculated prior to rounding per share amounts.

**CORPORATE AND OTHER DISTRIBUTED PRODUCTS SEGMENT**  
**Operating Results Reconciliation**

(Unaudited – in thousands)

|                                                     | Three months ended March 31, |                    |
|-----------------------------------------------------|------------------------------|--------------------|
|                                                     | 2014                         | 2013               |
| Operating revenues                                  | \$ 17,815                    | \$ 19,609          |
| Realized investment gains (losses), including OTTI  | 263                          | 2,286              |
| Total revenues                                      | <u>\$ 18,078</u>             | <u>\$ 21,895</u>   |
| Operating loss before income taxes                  | \$ (14,663)                  | \$ (11,614)        |
| Realized investment gains (losses), including OTTI  | 263                          | 2,286              |
| Other operating expense - IPO equity awards         | -                            | (3,010)            |
| Loss from continuing operations before income taxes | <u>\$ (14,400)</u>           | <u>\$ (12,338)</u> |

**PRIMERICA, INC. AND SUBSIDIARIES**  
**Adjusted Stockholders' Equity Reconciliation**  
(Unaudited – in thousands)

|                                                                                     | March 31, 2014      |
|-------------------------------------------------------------------------------------|---------------------|
| Adjusted stockholders' equity                                                       | \$ 1,175,969        |
| Unrealized net investment gains recorded in stockholders' equity, net of income tax | 77,564              |
| Stockholders' equity                                                                | <u>\$ 1,253,533</u> |

Primerica, Inc.

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Source: Primerica, Inc.