

# Third Quarter 2018 Investor Presentation

September 30, 2018

# Safe Harbor Statement and Non-GAAP Measures

Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially.

Investors should consider the important risks and uncertainties that may cause such differences, including those risks discussed in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Our forward-looking statements speak only as of the date of this presentation or as of the date they were made, and we undertake no obligation to update those statements.

The historical and forward-looking financial information contained in this presentation includes measures which are based on methodologies other than U.S. Generally Accepted Accounting Principles (GAAP) such as core earnings, core earnings per share, pretax reporting segment income excluding DAC unlocking, and book value per share excluding some components of accumulated other comprehensive income. A reconciliation of non-GAAP measures to the closest GAAP measures is available in the Appendix of our Investor Supplement.

# Our Foundation: Financially sound company with strong strategy for profitable growth

## Longevity

- Founded by Educators for Educators<sup>®</sup> in 1945
- Offering 403(b) tax-qualified annuities since 1961
- NYSE listed (HMN) since 1991

## Financial strength

- \$11.3B in assets<sup>(1)</sup>
- \$1.2B in 2017 premium and contract deposits
- \$1.8B market capitalization<sup>(1)</sup>
- Highly rated by all four major rating agencies

## Niche market

- Educators have preferred risk profile
- Homogeneous customer set
- Serving nearly 4,000 school districts nationwide

## Multiline model

- Revenues balanced between P&C and L&R
- Ability to provide total household solutions
- Provides earnings diversification

Proud to be the largest multiline financial services company focused on America's educators

# Driven by a noble mission

## Mission

We listen to and understand educators and those who serve our community. They are taking care of our children's future. We believe they deserve someone to look after theirs.

## Vision

We aspire to be the company of choice to provide financial solutions for all educators and others who serve our communities - to help them protect what they have today and prepare for a successful tomorrow.

## Value Proposition

We understand and solve the issues facing educators and others who serve the community, helping them achieve financial success to live better and retire happier.

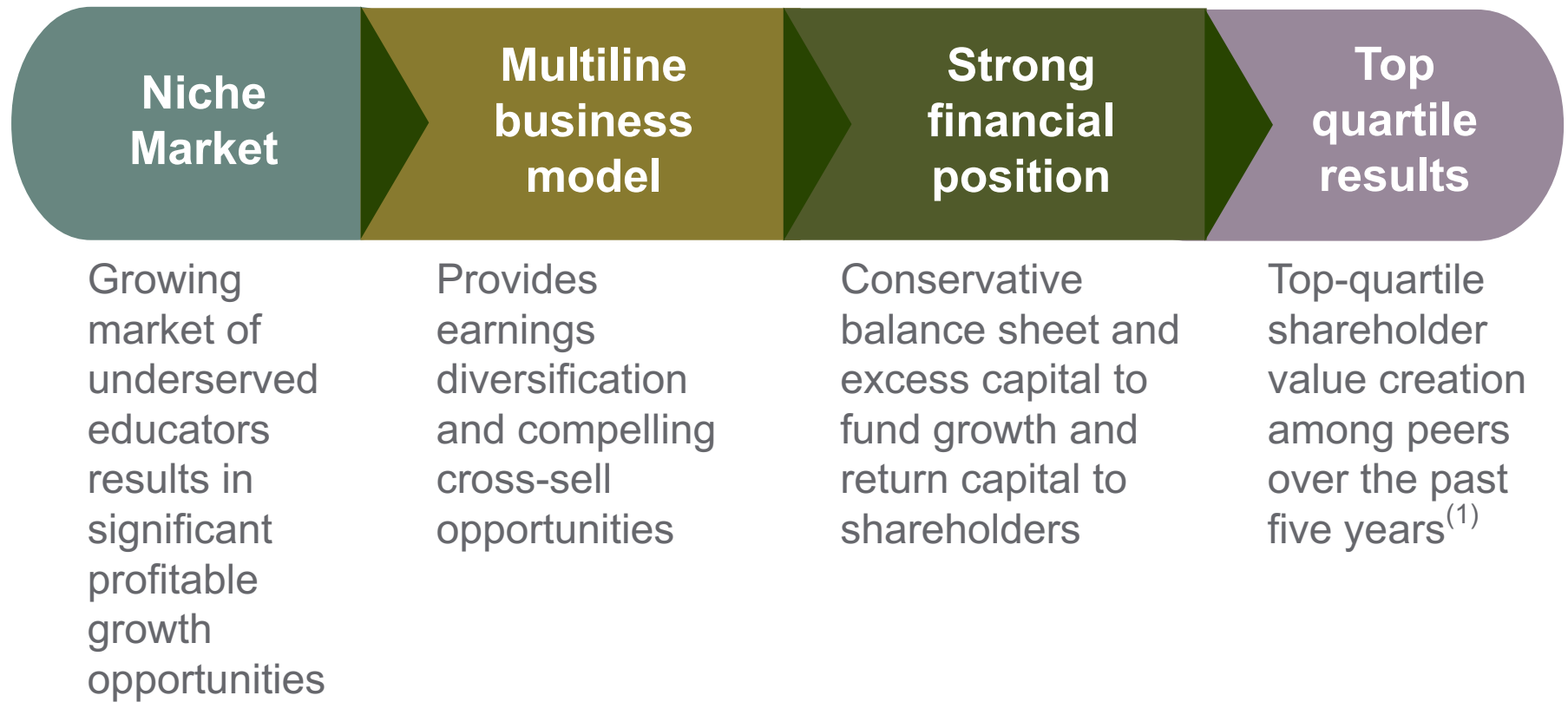
# Aligned with our 'PDI' growth strategy

**Products** designed to meet educators' needs and protect their unique risks

Knowledgeable, trusted **distribution** tailored to educator preferences

Modern, scalable **infrastructure** that is easy to do business with

# Creating a differentiated investment opportunity



(1) Book value per share excluding net unrealized investment gains/losses on securities. As of 12/31/2017, top quartile ranking in peer group reflects book value growth and dividend growth includes Large, Mid and Small cap personal lines and life insurance companies, over past 5 years. Source: SNL Financial

# Focus on K-12 educator niche market creates homogeneous customer set

Educators have an attractive risk profile

## Conservative & loyal

- Usually buy higher insurance limits
- Tend to bundle auto & home insurance
- Loyalty results in strong retention

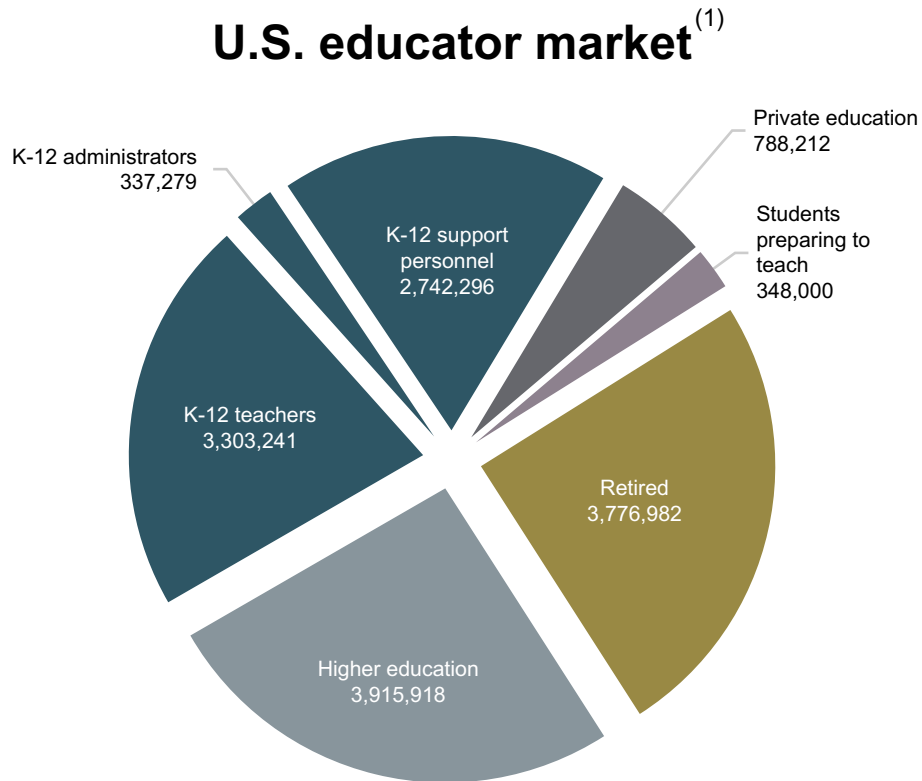
## Work close to home

- Generally live close to school with short commutes
- Off-hour commutes with light traffic
- Tend to be off during adverse weather conditions

## Fiscally responsible

- Focused on achieving goals
- Strong desire for guidance and education
- Open to reallocating savings to retirement needs

# Sizable opportunity within existing K-12 educator market and adjacent segments

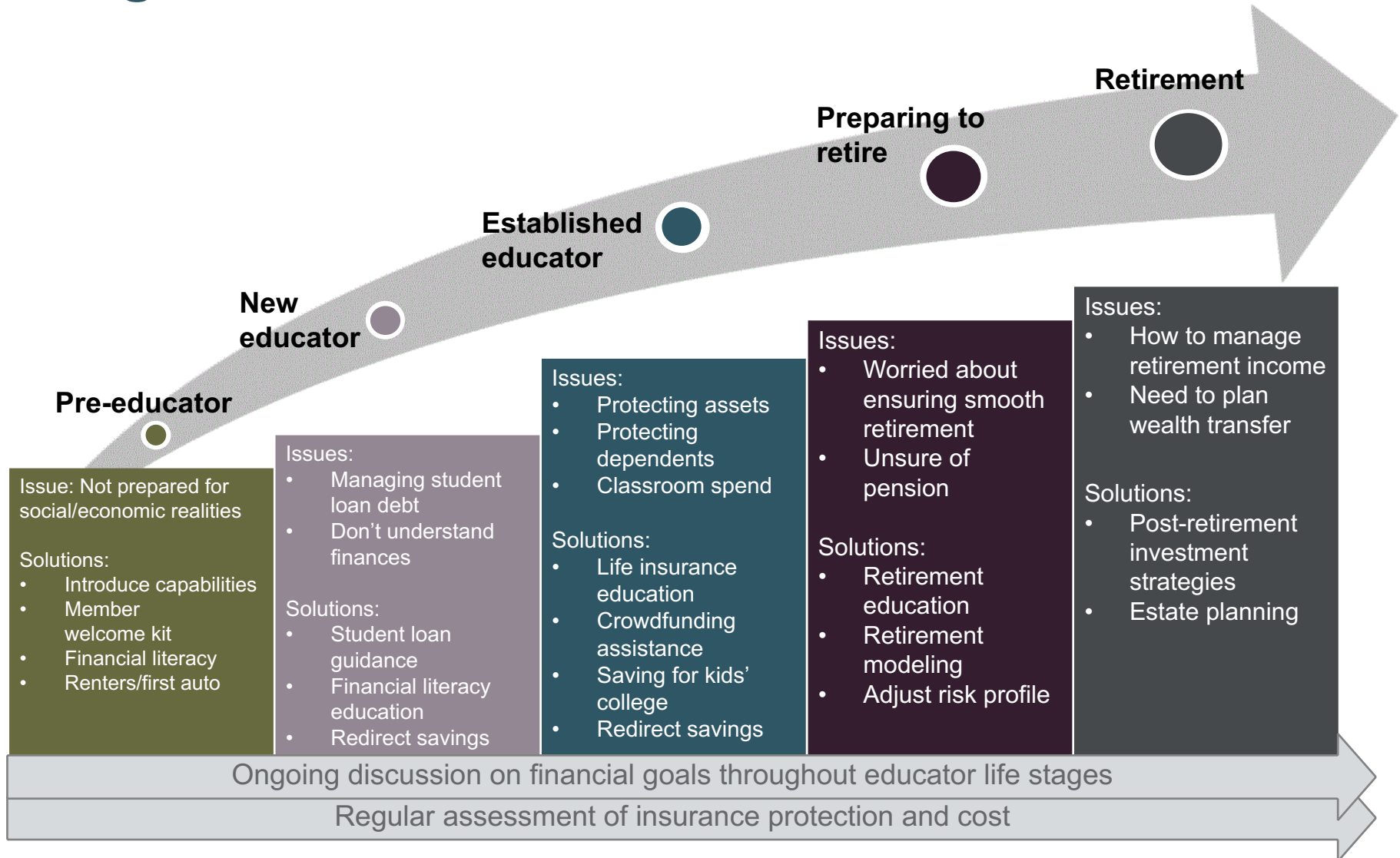


- 6.4 million K-12 educators nationwide
- Current customer base of roughly 360,000 educator households and nearly one million customers
- Sizable demographic shift as Baby Boomers retire and Millennials make up a higher percentage of the workforce

(1) K-12, private education and higher education numbers from U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, December 2016. Student preparing to teach estimate derived from U.S. Dept. of Education, National Center for Education Statistics, The Condition of Education, 2016 (current year Education major Bachelors Degrees awarded times 4). Retired educator estimate derived from 2017 State Teacher and Public Employee Retirement Plans (public K-12 retirees receiving benefits).



# Solutions tailored for educators at every life stage



# Our value proposition supports our solutions orientation for consumers

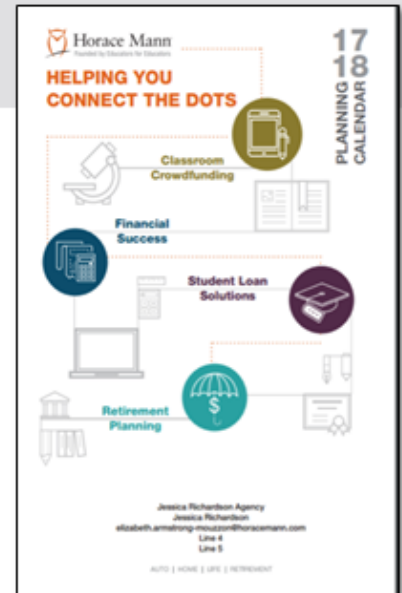
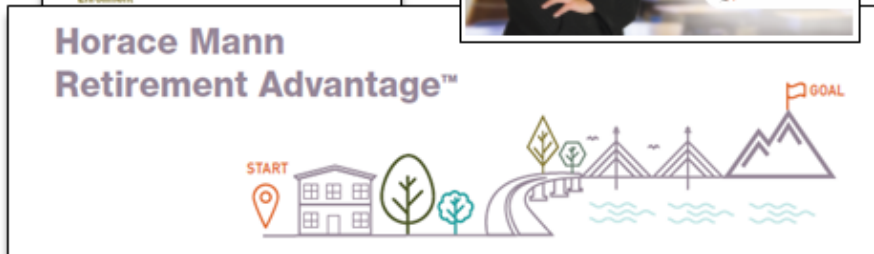
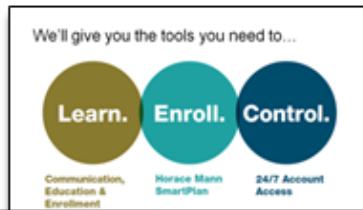


**B2C**

## Educator audience

We understand and solve the issues facing educators, including identifying savings in their budget to redirect to retirement.

- Classroom crowdfunding
- Student Loan Solutions
- Financial education



Leveraging our historical strengths with educators ...

# Our value proposition supports our solutions orientation for employers

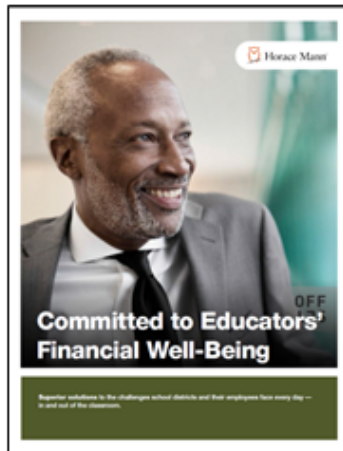


**B2B**

## School district audience

We have developed solutions for issues facing superintendents and business officials at the district level.

- Increase productivity and morale
- Reduce turnover
- Lower benefit costs



**Horace Mann Retirement Advantage™**  
Helps educators get retirement ready

We understand the challenges educators face... We have the experience and the expertise

**Program Design**

**Work seamlessly**  
Easily integrate  
Provide assistance  
Assist teachers and school employees

### The Employer Experience

We make it easy for you and your benefits team

- 1 Individual account records for each participant
- 2 Daily valuation reconciliation of plan and participant account balances
- 3 Processing of distributions, including rollovers and in-service withdrawals
- 4 Participant confirmations of transactions

Horace Mann

### How we help school districts

Every educator in your district has financial goals they want to achieve. We can partner with you to offer educational programs, apprenticeships, and customized financial products to help them make smart decisions and feel more confident about their financial future.

Challenges FROM EDUCATORS	Solutions FROM HORACE MANN	Benefits FOR YOUR EDUCATORS, DISTRICTS AND COMMUNITIES
New teachers often struggle to pay off student loans	Student Loan Solutions	• Lower financial pressure • More attractive career choice
Out-of-pocket expenses and financial challenges add to teachers' economic pressures, reduce morale and increase attrition	HoraceMann.org workshops and funding Financial Success workshops	• Greater financial security • Improved morale
Educators with inadequate retirement savings are more likely to retire later, increasing district benefit costs	State Retirement workshops	• Teachers who are better prepared for retirement

... while also building capabilities to address the unique needs of districts.

# Multi-faceted market access strategy

1

**Superior customer experience delivered through nearly 700 exclusive distributors**

- Strong relationships with local school districts
- In schools presenting workshops, supporting school projects
- Community partners

2

**Buildout of complementary distribution channels to address educator preferences**

- Online quoting of auto, property, life
- Direct sales team
- Alternate channels funnel back to trusted advisor for annual review

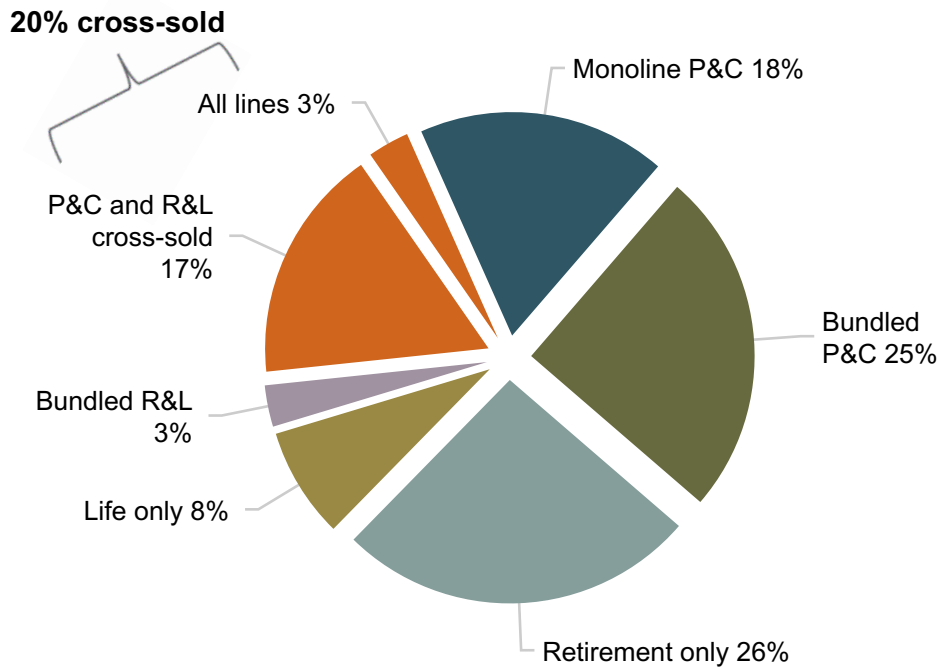
3

**Strategic association relationships to build brand awareness and affinity**

- Association of School Business Officials
- AASA, The School Superintendents Association
- The NEA Foundation
- Multiple state and local associations

# Multiline model in niche market leads to industry-leading cross-sell penetration

## Educator household distribution by product <sup>(1)</sup>



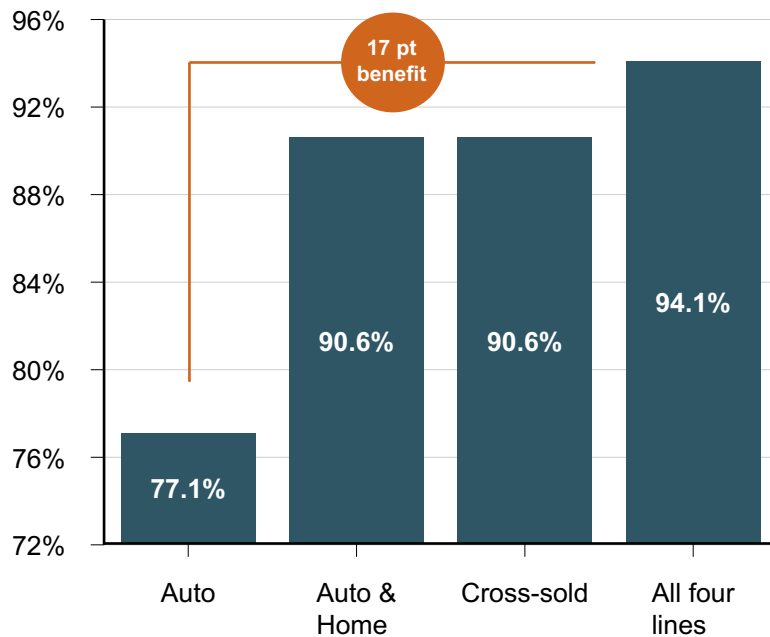
- Educator customer cross-line penetration of 20% far exceeds industry average of 12% <sup>(2)</sup>
- Significant additional cross-sell opportunities
  - 43% buying only P&C products
  - 37% buying only L&R products
- Targeted marketing efforts to drive more cross-line sales

(1) HMN data: ~360,000 educator households as of September 30, 2018; cross-line households defined as Auto and/or Property plus Retirement, Life and/or Group

(2) Industry data per LIMRA, 2018 multiline exclusive agent average

# Cross-sold customer base leads to higher policyholder retention

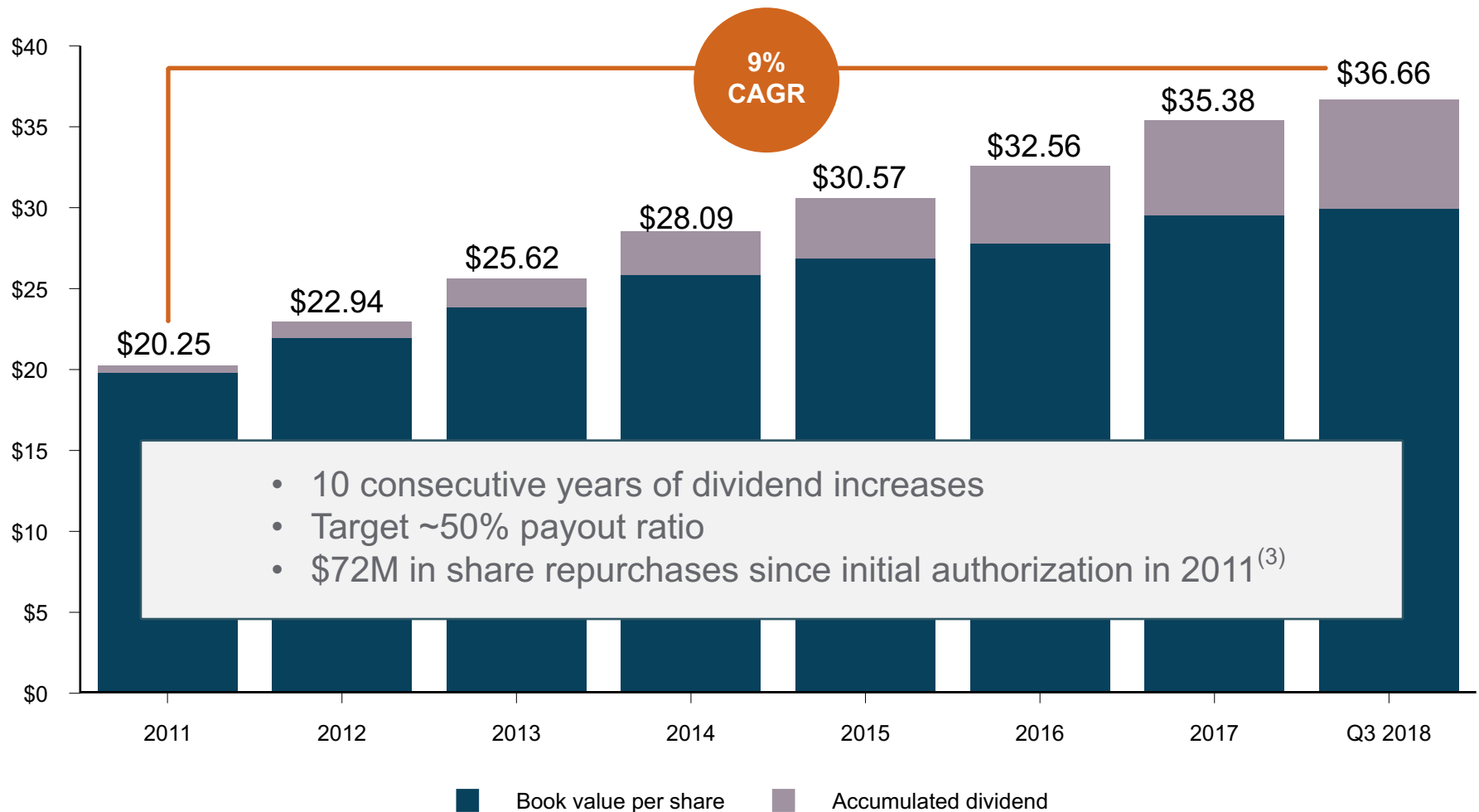
Auto retention by product mix<sup>(1)</sup>



- Policy retention and persistency exceeds industry averages and improves with cross-sell efforts
  - 83% Auto
  - 88% Property
  - 95% Life
  - 94% Retirement
- Minimal impact to auto retention despite high single-digit rate increases

# Focus on long-term shareholder value

Top-quartile book value growth<sup>(1)</sup> and 2.5% dividend yield<sup>(2)</sup>

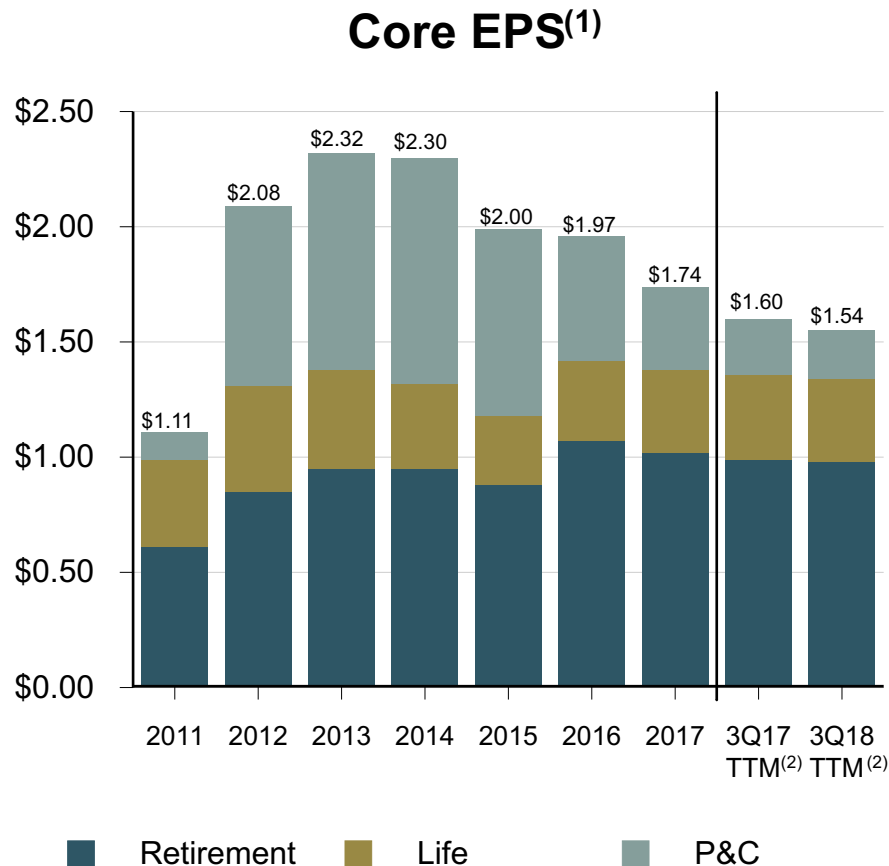


(1) Book value per share excluding net unrealized gains/losses on securities. 2011 numbers restated to include retrospective application of new accounting guidelines for deferred policy acquisition costs. Top quartile ranking includes large, mid- and small-cap personal lines and insurance companies.

(2) Based on 9/30/18 closing stock price of \$44.90.

(3) Two share repurchase authorizations totaling \$100 million. Repurchases executed at average price of \$25.36 vs. VWAP of \$31.28 as of 9/30/18.

# Multiline business model protects core earnings



- Diversification of business model provides steady earnings through variety of market conditions
  - Fluctuating catastrophe losses
  - Changing driving patterns
  - Continuing low interest rates
  - Evolving retirement trends
- Allows for long-term PDI investments in business
- Retirement earnings provide stability with steady growth
- Long runway for Life segment as customer penetration is low
- Profitability initiatives to address P&C earnings

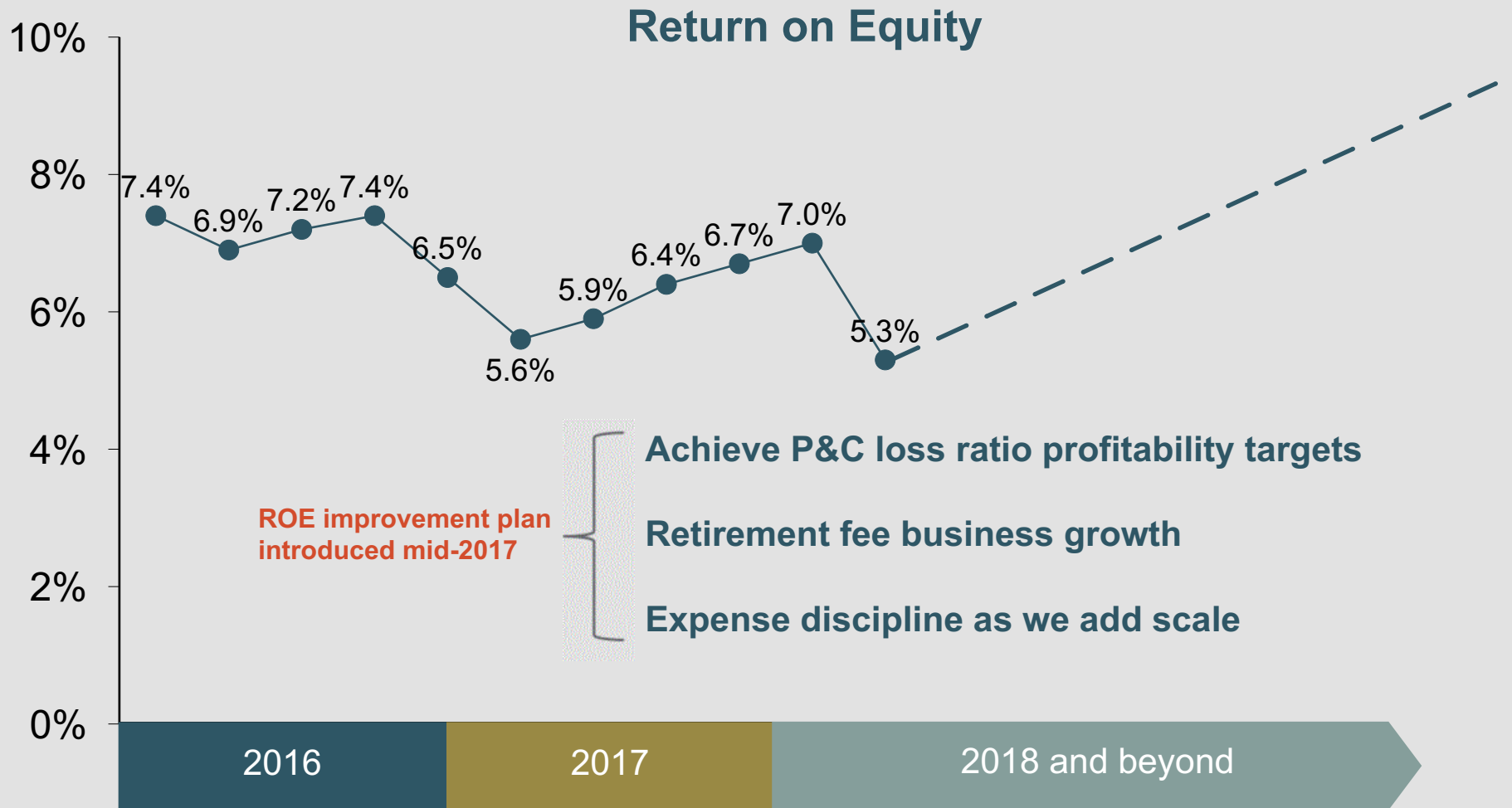
(1) Core EPS (dilutive basis) reflects net income excluding net investment gains and losses. Full year 2017 and 3Q 2017 TTM excludes the one-time \$99.0 million re-measurement of the net deferred income tax liability (\$2.38 per dilutive share impact) that occurred during 4Q 2017.

(2) Trailing 12 months from quarter stated



# Clear roadmap to return to double-digit core ROE

Incremental gains since initiative introduced masked by higher-than-modeled cat losses in 2018



# More capabilities planned for 2018 and beyond

Laser-focused on improving ROE through profitable growth and capital deployment

P

- Growth in fee-based retirement product sales
- Continuous improvement of P&C pricing segmentation
- Enhanced homeowners package options and benefits
- Minor enhancements to Life product suite
- Optimize Horace Mann General Agency

D

- Increase points of distribution
- Align points of contact with educator preferences
- Execution focus
- Build on B2B capabilities
- Focus resources on profitable geographies
- Solidify repeatable sales process

I

- Continue P&C and L&R systems modernization
- Further refine advanced planning capabilities & tools
- Enhanced customer experience
- Thoughtfully rationalize expense growth to drive ROE improvement

Deploy excess capital to accelerate PDI initiatives

# Business details and results



# Q3 2018 highlights

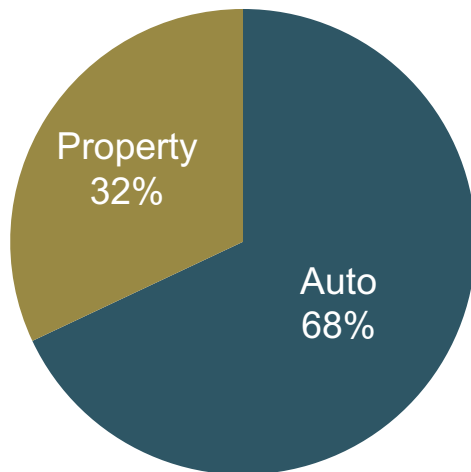
## Core EPS<sup>(1)</sup>



- Third quarter combined ratio of 110% included 19 points of catastrophe losses; **underlying auto loss ratio improved 3.1 points** compared to prior year quarter
- **18% growth in Retirement sales**, illustrating strong market response to fee-based product offerings
- **66% increase in third-quarter Life sales**, reflecting gains across all product types
- **Acquisition of Benefit Consulting Group** to expand strategic capabilities in retirement market

# P&C segment: Providing coverage to protect what educators have today

## P&C Written Premiums (\$633M)<sup>(1)</sup>



### Opportunity

- Preferred risk profile
- Loyal customers less likely to leave due to rate actions

### Products

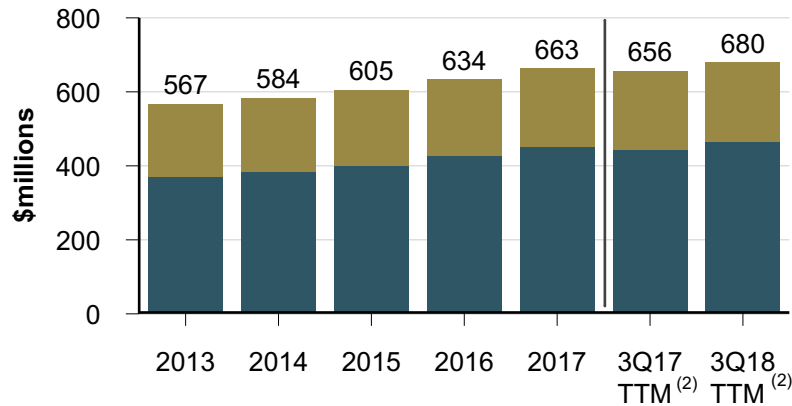
- Auto, homeowners, renters and umbrella
- Majority of P&C business is bundled Auto and Home
- Partnerships through Horace Mann General Agency

### Strategy

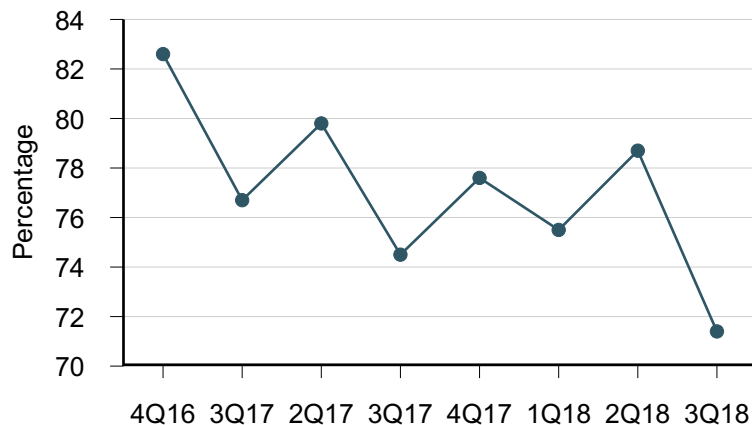
- Continuous improvement of P&C pricing segmentation
- Grow direct channel
- Modernize P&C infrastructure to enhance customer experience and ease of doing business

# P&C segment: Continued premium growth while improving profitability

## Written premiums



## Underlying auto loss ratio

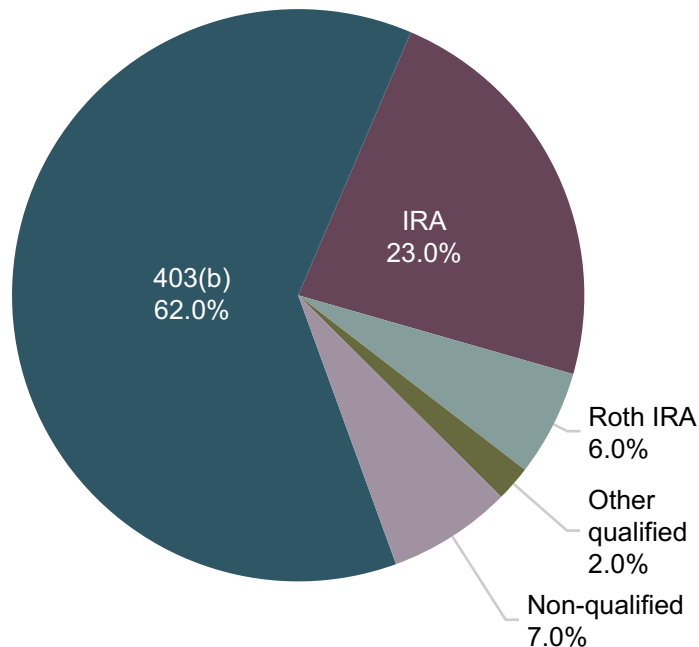


## Results

- 3% increase in written premiums year-over-year
- Continued underlying auto loss ratio improvement
- Auto loss ratio generally runs about 4 points better than industry<sup>(1)</sup>
- Profitability initiatives ongoing

# Retirement segment: Helping educators meet their financial goals with tailored solutions

**Retirement product composition<sup>(1)</sup>**



## Opportunity

- Educators face complicated retirement system offerings
- Educators want guidance to plan for the future

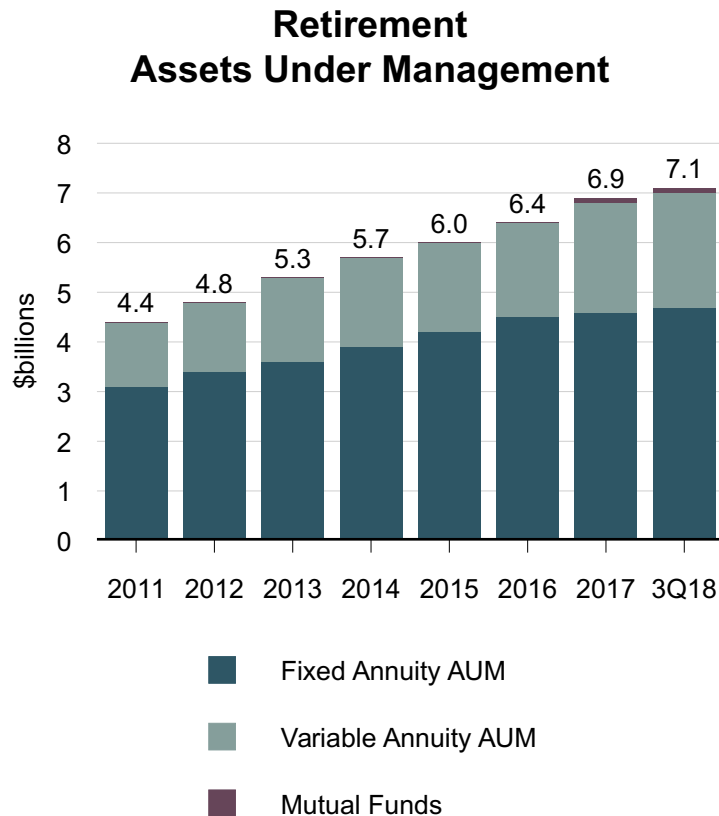
## Products

- Fixed annuities, variable annuities and Retirement Advantage mutual fund platform

## Strategy

- Leverage captive agents to build relationships with homogeneous set of customers
- Advanced planning capabilities & tools
- Build on B2B opportunity

# Retirement segment: Strong market response to full suite of product options



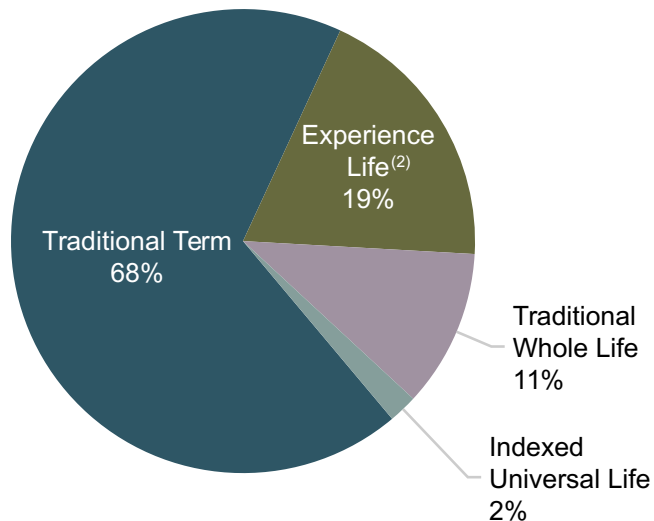
## Results

- Total assets under management increased 7%<sup>(1)</sup> year over year
- Since introducing mutual fund products, customer choice shifting from traditional annuities
- Pressure from low interest rate environment of the past decade



# Life segment: Sizable opportunity in our middle-market educator niche

## Individual insurance in force<sup>(1)</sup>



### Opportunity

- Many educators are uninsured or underinsured

### Products

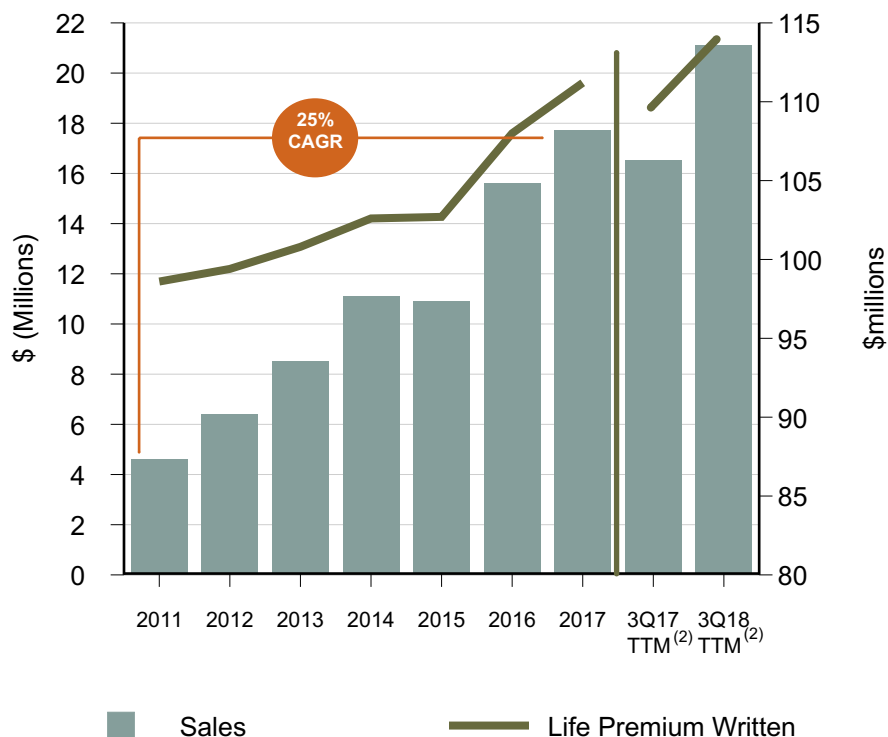
- Basic coverages appropriate for educator income levels
- Full suite of Life products available

### Strategy

- Leverage trusted agents to cross-sell customers
- Improve ease of doing business, including use of automated underwriting tools to reduce time to issue policies

# Life segment: Profitable in-force block with double-digit sales growth

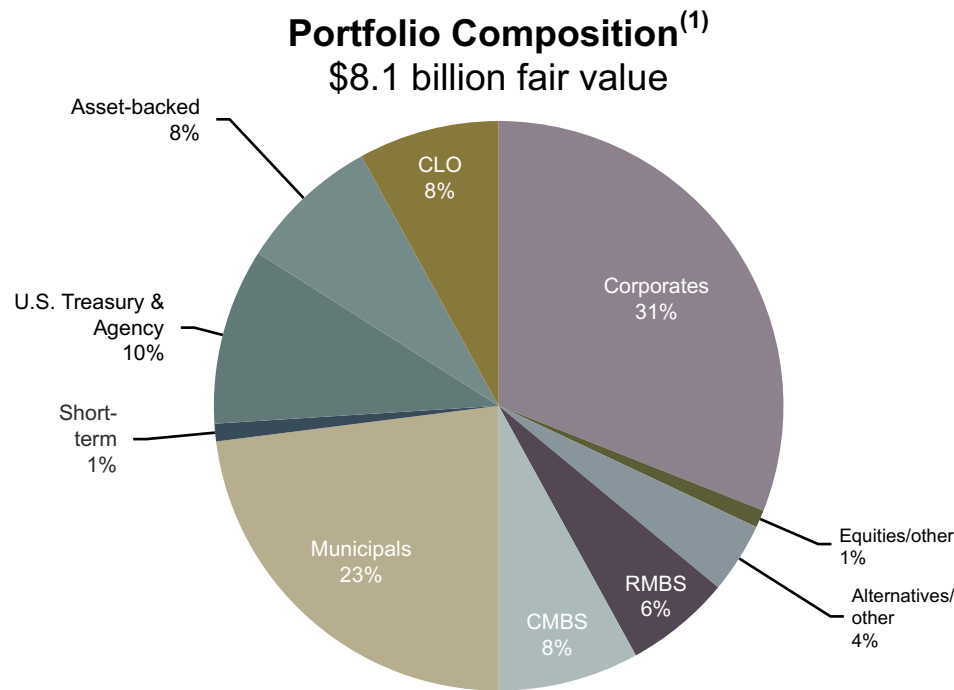
## Life Sales & Premium Written



## Results

- Consistent double-digit sales growth, spread across all product types
- Face amount persistency above 95%<sup>(1)</sup>
- Mortality in line with historical trends

# Investments: Conservative, well-diversified investment portfolio designed to support product offerings

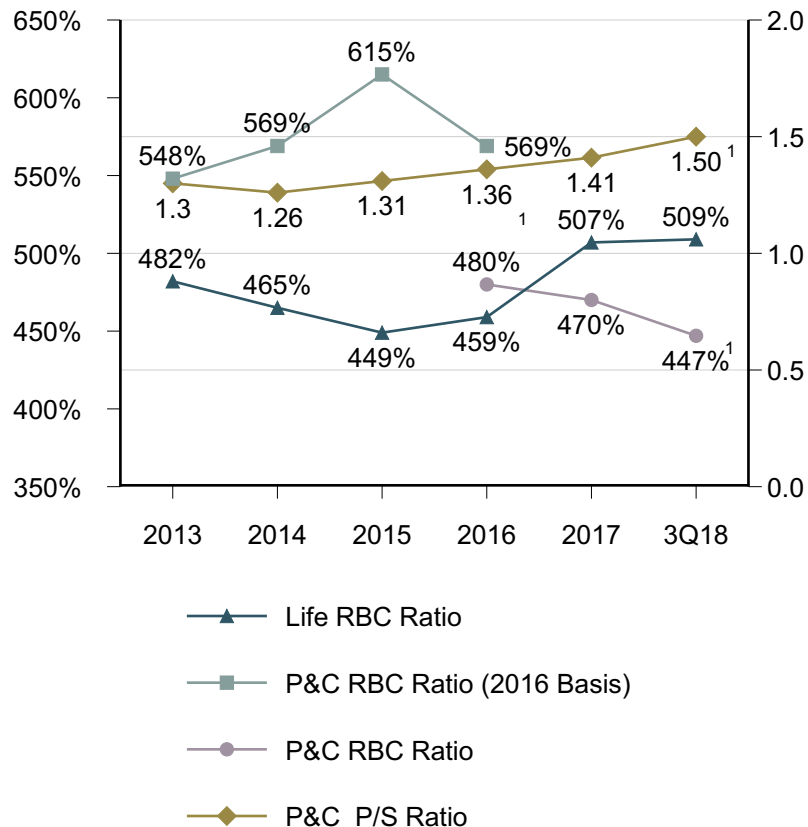


## Results

- High-quality, well-diversified portfolio across fixed income sectors
  - A+ weighted-average quality
  - Average duration 6.0 years
- Focused on risk and asset liability management
  - \$7.1 billion portfolio supports long-dated L&R liabilities
  - \$1.0 billion portfolio supports P&C
- New purchases focused on improving portfolio quality
  - New money rate of ~4.0% YTD

# Capital strong, with more than adequate capital to grow our businesses

## Capital Ratios



- Consistent earnings, along with our conservative bias have resulted in strong capital ratios
  - P&C loss reserves held at top half of independent actuarial range
  - Conservative L&R product design
  - Portfolio conservatively positioned
- Q3 2018 debt-to-capital ratio<sup>(2)</sup> of 19.5%

# Appendix



# Horace Mann at a glance

<b>Exchange ticker symbol</b>	NYSE:HMN
<b>Share price</b>	\$44.90 <sup>(1)</sup>
<b>Shares Outstanding</b>	41.0 million <sup>(1)(2)</sup>
<b>Market Capitalization</b>	\$1.8 billion <sup>(1)</sup>
<b>Annualized Dividend Per Share</b>	\$1.14 <sup>(1)</sup>
<b>Dividend Yield Per Share</b>	2.5% <sup>(1)</sup>
<b>Average Daily Volume</b>	137K shares (52-week average daily volume as of 9/30/18)
<b>Book Value Per Share</b>	\$29.93 <sup>(1)(3)</sup>
<b>Analyst Coverage</b>	Dowling & Partners: Gary Ransom Janney Montgomery Scott: Robert Glasspiegel JMP Securities: Matt Carletti Keefe, Bruyette & Woods: Christopher Campbell

(1) As of September 30, 2018

(2) 41.9 million weighted average diluted shares for Q3'18

(3) Excluding net unrealized investment gains/losses on securities

# Highly rated by all rating agencies

Education market focus, earnings diversification and capital strength cited

Current Financial Strength Ratings		
Agency	Rating (affirmed/reviewed)	Outlook
S&P	A (2/8/18)	Stable
Moody's	A2 (10/2/18)	Stable
A.M. Best	A (5/23/18)	Stable
Fitch	A (7/17/18)	Stable

## Recent Ratings Upgrades

- In Q3 2018, Moody's upgraded P&C and Life businesses to A2 from A3
- In Q4 2016, Moody's upgraded our P&C outlook to Positive from Stable
- In Q1 2016, A.M. Best upgraded our P&C rating to "A" from "A-"

# Committed to Corporate Social Responsibility

## Our Business Practices

- Business strategy decisions guided by customer focus
- Corporate governance standards aligned with shareholder interests
- Strong risk management process and culture

## Our People

- Certified as “A Great Place to Work<sup>®</sup>”
- Investment in employee professional development
- Focus on ethical business decisions, ethics training and annual certification

## Our Community

- Financial education curriculum for educators  
DonorsChoose.org national partner
- Sponsor of teaching excellence awards and programs to address local education challenges

## Our Environment

- Reducing or eliminating paper in billing, claims reporting and customer communication
- Committed to reducing our carbon footprint
- Waste reduction efforts across offices



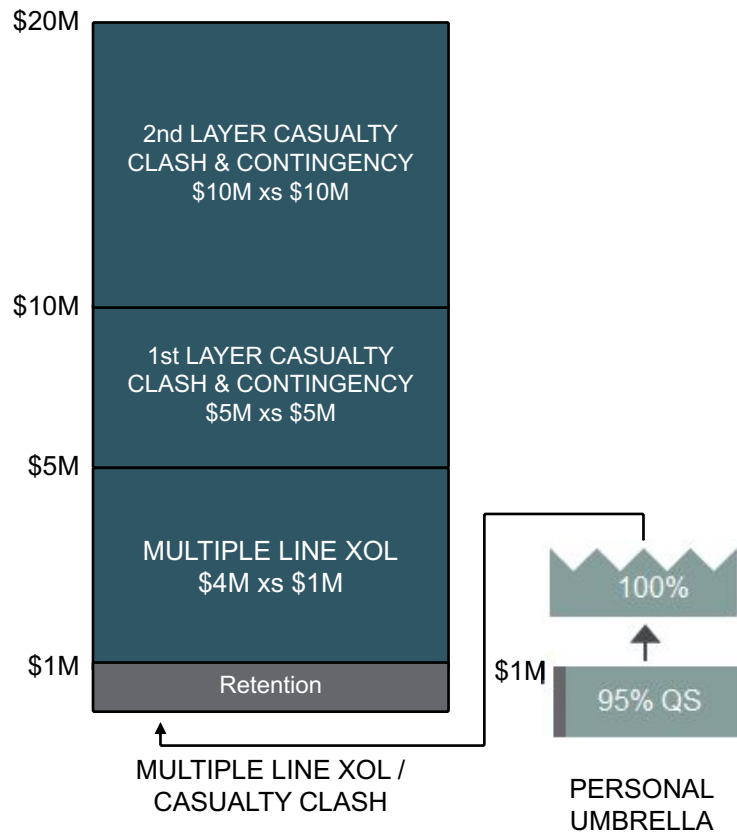
# Strong and stable P&C reserves further reduce potential earnings volatility

Net P&C Reserve Position			
	Independent Actuary		HMN
(\$M)	Low	High	Held
2017	\$234.1	\$277.0	\$261.8
2016	\$219.8	\$260.0	\$246.6
2015	\$214.3	\$257.7	\$251.2

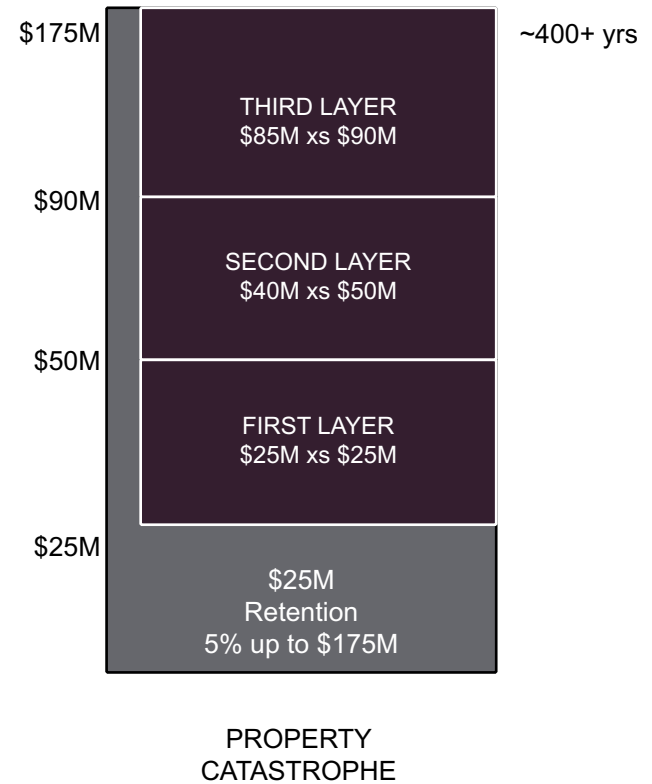
- **Appropriate conservatism**
  - Disciplined reserving practices
  - Recent favorable reserve development consistent with independent observations
  
- **Strong claims organization/capabilities**
  - Centralized claim offices
  - Technology/infrastructure
  - Implementation of best practices and procedures

# Current single-event catastrophe reinsurance provides PML coverage of approximately 400+ years

Multiple Line XOL / Casualty<sup>(1)</sup>



Property<sup>(1)</sup>



# Consolidated GAAP income statement

(\$ in Millions, except EPS and BV / Share)	2014	2015	2016	2017	At 3Q18
Written premium and contract deposits	\$1,167.7	\$1,256.5	\$1,262.5	\$1,227.1	\$923.8
Earned premium and contract charges	\$715.8	\$731.9	\$759.1	\$794.7	\$615.4
Net investment income	329.8	332.6	361.2	373.6	288.1
Other income	4.2	3.2	4.5	6.6	7.7
Benefits, claims, settlement expenses and interest credited	644.5	679.2	733.1	780.9	626.9
Total other expenses and taxes	308.0	303.6	310.2	321.9	247.2
Core earnings (excluding net investment gains / losses and DTL re-measurement)	\$97.3	\$84.9	\$81.5	\$72.1	\$37.1
Core earnings per diluted share	\$2.30	\$2.00	\$1.97	\$1.74	\$0.89
Core ROE (excluding net unrealized investment gains/losses and DTL re-measurement)	9.7%	7.9%	7.4%	6.4%	5.3%
DTL re-measurement and net investment gains/losses after tax	6.9	8.6	2.3	97.3	1.5
Net income	\$104.2	\$93.5	\$83.8	169.4	38.6
Book value per share (excluding net unrealized investment gains/losses)	\$25.38	\$26.86	\$27.79	\$29.51	\$29.93

# Consolidated GAAP balance sheet

(\$ in Millions)	2014	2015	2016	2017	At 3Q18
<b>Assets</b>					
Investments	\$ 7,403.5	\$ 7,648.0	\$ 7,999.3	\$ 8,352.3	\$ 8,242.0
Cash	11.7	15.5	16.7	7.6	6.4
Separate account assets	1,813.6	1,800.7	1,923.9	2,152.0	2,292.5
DAC	215.1	253.2	267.6	257.8	305.4
Goodwill	47.4	47.4	47.4	47.4	47.4
Other assets	277.2	292.2	321.9	381.2	387.1
Total assets	\$ 9,768.5	\$ 10,057.0	\$ 10,576.8	\$ 11,198.3	\$ 11,280.8
<b>Liabilities</b>					
Policy liabilities & other policyholder funds	\$ 5,958.2	\$ 6,376.1	\$ 6,733.1	\$ 6,906.3	\$ 7,071.8
Separate account liabilities	1,813.6	1,800.7	1,923.9	2,152.0	2,292.5
Long term debt	199.9	247.0	247.2	297.5	297.7
Short term debt	38.0	—	—	—	—
Other liabilities	422.3	368.5	378.6	340.9	314.5
Total liabilities	8,432.0	8,792.3	9,282.8	9,696.7	9,976.5
Shareholders' equity	1,336.5	1,264.7	1,294.0	1,501.6	1,304.3
Total liabilities & equity	\$ 9,768.5	\$ 10,057.0	\$ 10,576.8	\$ 11,198.3	\$ 11,280.8

# Nine-month 2018 guidance highlights

	2017 Actual	Full-Year 2018 Guidance
<b>Core earnings per diluted share</b>	<b>\$1.74</b>	<b>\$1.45-\$1.60</b> <i>Updated due to nine-month weather losses</i>
Total P&C net written premium	\$662.8 million	<i>Unchanged: continue to expect 4-6% increase</i>
Catastrophe load (contribution to combined ratio)	9.5 points	<i>Updated: raised to ~11 points due to nine-month cat losses</i>
Auto underlying loss ratio	77.2%	<i>Unchanged: improving 1.5-2.0 points</i>
Property underlying loss ratio	47.2%	<i>Updated: slightly elevated over prior year due to non-cat weather losses</i>
Expense ratio	26.7%	<i>Unchanged: ~27% on continued investment in business opportunities</i>
Retirement net income excluding DAC unlocking	\$49.6 million	<i>Updated: in range of \$49 to \$50 million</i>
Life net income	\$17.3 million	<i>Updated: in range of \$18-\$19 million</i>

## Contact

Heather J. Wietzel

Vice President, Investor Relations

[heather.wietzel@horacemann.com](mailto:heather.wietzel@horacemann.com)

217.788.5144

[investors.horacemann.com](http://investors.horacemann.com)

