

# First Quarter 2018 Investor Presentation

May 2, 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® in 1945
- Serve nearly 4,000 school districts nationwide
- NYSE listed (HMN) since 1991

## Financial strength

- \$11 billion<sup>(1)</sup> in assets
- \$1.2 billion<sup>(1)</sup> in premium & contract deposits
- \$7 billion<sup>(1)</sup> in Retirement AUM
- \$1.8 billion<sup>(1)</sup> market cap

## Multiline model

- Offer auto, property, retirement and life products
- Provides earnings diversification
- Ability to provide total household solutions

## Niche market

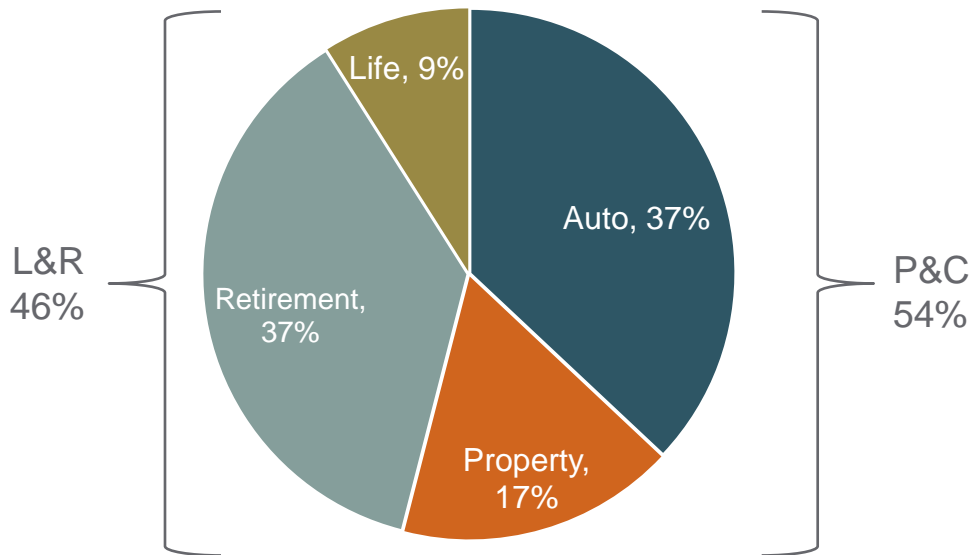
- Educators have preferred risk profile
- Homogenous customer set
- Loyal customer base with above-average cross-sell and retention numbers

<sup>(1)</sup>As of 12/31/2017

# The largest multiline financial services company focused on America's educators

Multiline business model provides earnings diversity

**2017 Premium & Contract Deposits (\$1.2B)**



Balanced earnings and revenues between P&C and L&R business

Provides stability throughout multiple earnings cycles and market conditions

Provides opportunity to increase customer loyalty by providing more products

Industry leading cross-line penetration | Strong retention | Multi-faceted market access strategy

# Focus on K-12 educator niche market creates homogenous 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

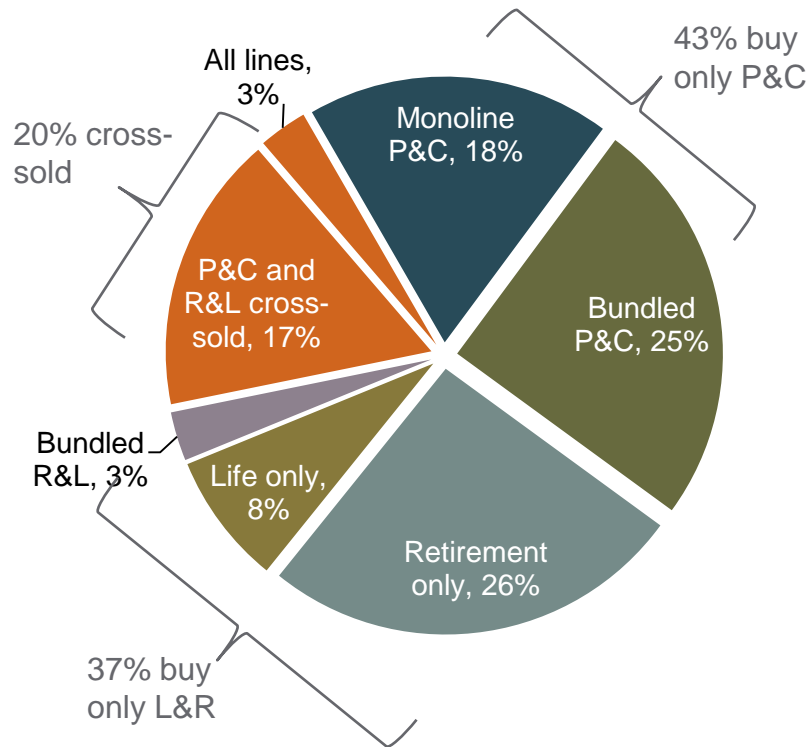
- Generally live close to school with short commutes
- Off-hour commutes with light traffic
- Tend to be off during adverse weather conditions

## Fiscally responsible

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

# 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

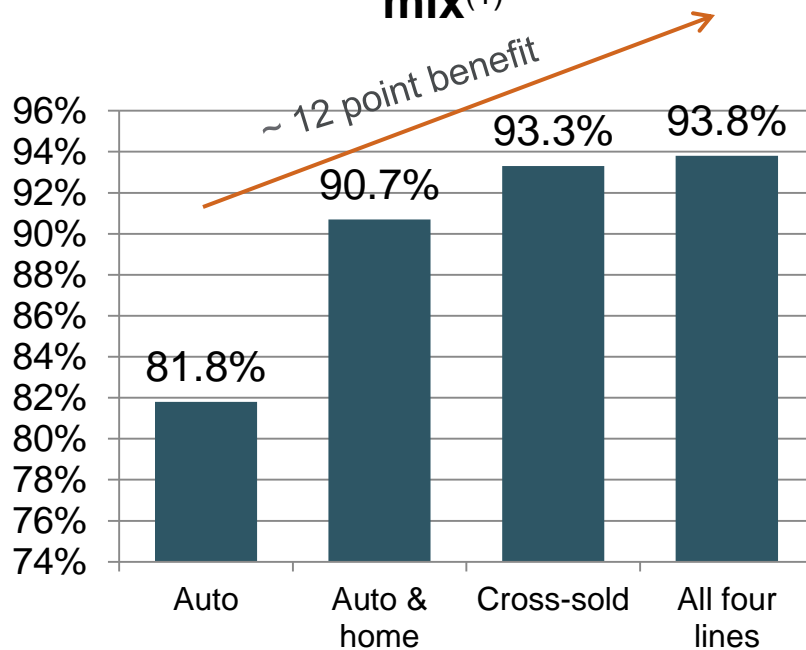
Targeted marketing efforts underway to drive more cross-line sales

(1) HMN data: ~360,000 educator households as of March 31, 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 retention numbers

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



Policy retention & persistency exceeds industry averages and improves with cross-sell efforts

- 83% Auto
- 88% Property
- 95% Life
- 92% Retirement

Minimal impact to auto retention despite high single-digit rate increases

# Multi-faceted market access strategy

1

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

- Strong relationships with local school districts
- In the 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



# Our vision guides our strategy

**We aspire to be the company of choice** to provide financial solutions for all educators — to help them protect what they have today and prepare for a successful tomorrow.

**We can achieve this** by understanding and solving the issues facing educators, helping them to achieve financial success to live better and retire happier.

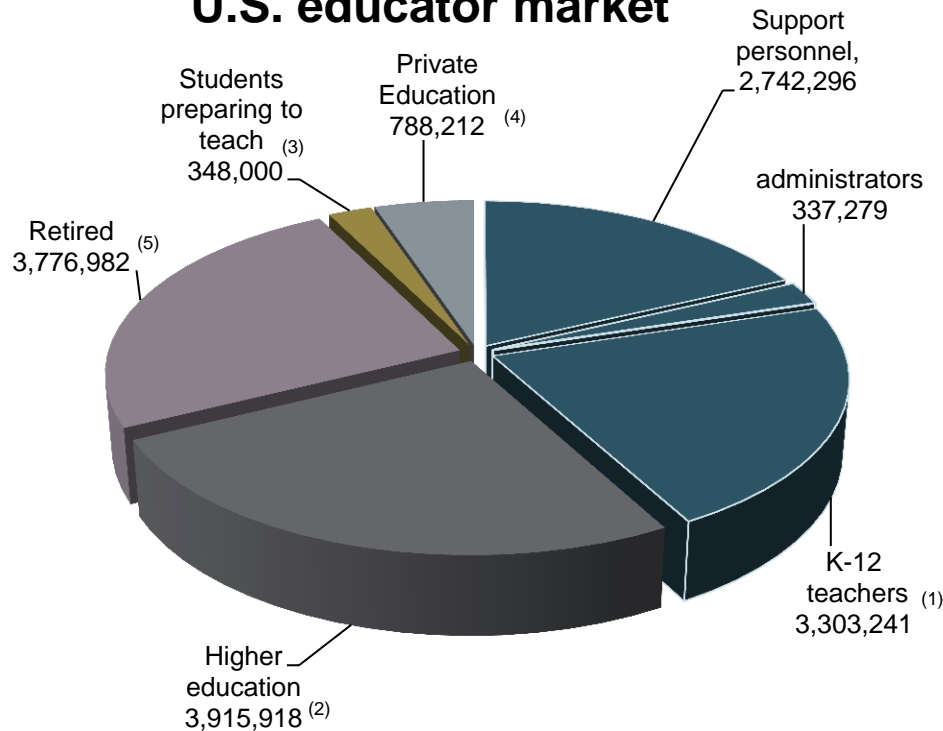
**Products** designed to meet educators' needs and protect their unique risks

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

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

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

## U.S. educator market



6.4 million K-12 educators nationwide

Current customer base of roughly 360,000 educator households and nearly one million customers

Sizeable demographic shift as Baby Boomers retire and Millennials make up a higher percentage of the workforce

(1) U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, December 2016

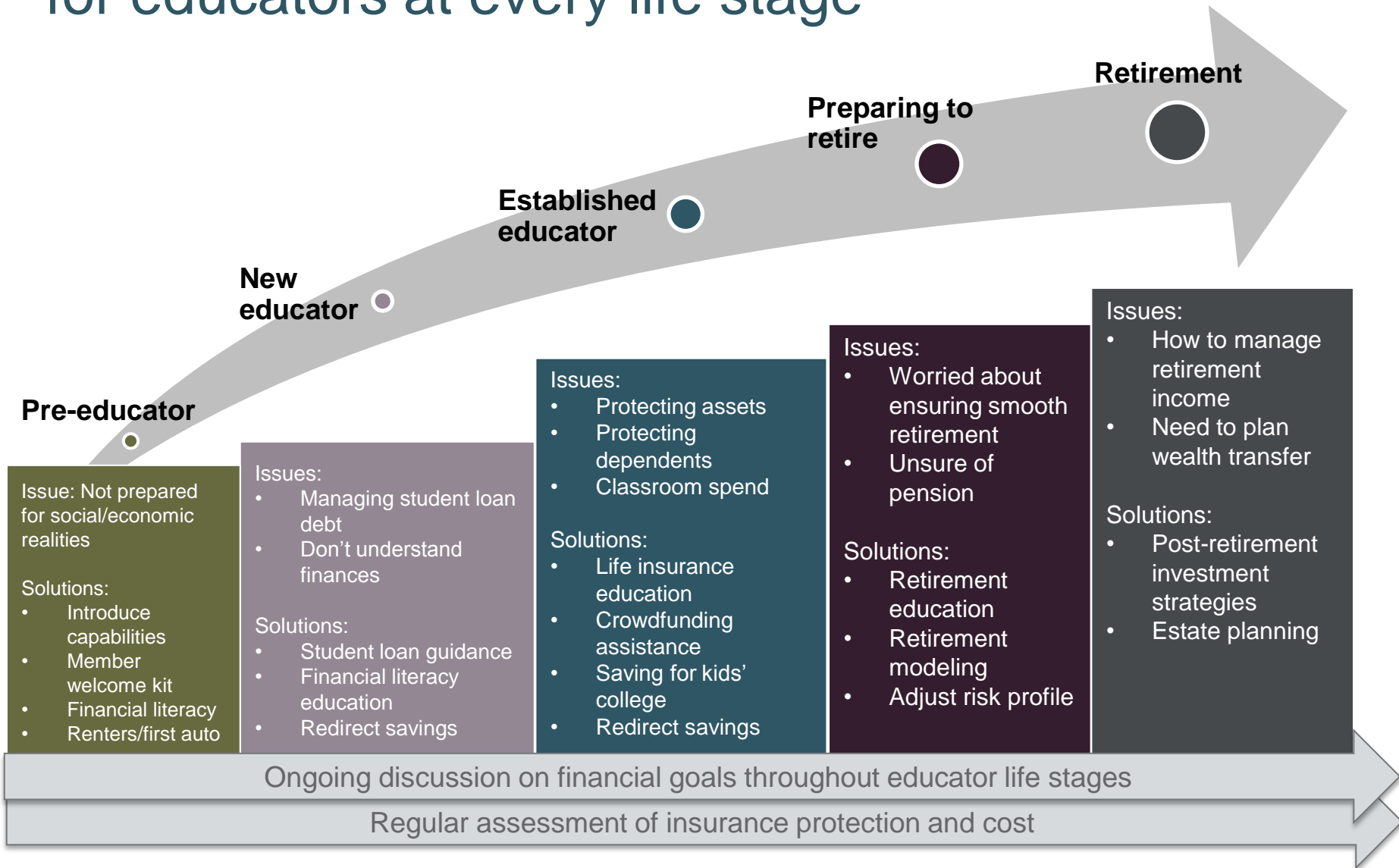
(2) U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, December 2016

(3) U.S. Dept. of Education, National Center for Education Statistics, The Condition of Education, 2016 (Estimated, current year Education major Bachelors Degrees awarded times 4)

(4) U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, 2016 (Total private employment based on public teacher/staff ratio)

(5) Analysis of 2017 State Teacher and Public Employee Retirement Plans (Estimate of Public K-12 retirees receiving benefits)

# Our strategy: Solutions tailored for educators at every life stage



# Layering on institutional capabilities creates complete solution for the educator market



# Improvements in product, distribution and infrastructure have built a strong foundation

## P

- Full suite of Life and Retirement products:
  - Revamped and re-priced existing Life products
  - Introduced FIA and IUL products
  - New open architecture 403(b)7 platform
- Continuous improvement of P&C pricing segmentation
- Introduction of Student Loan Solutions

## D

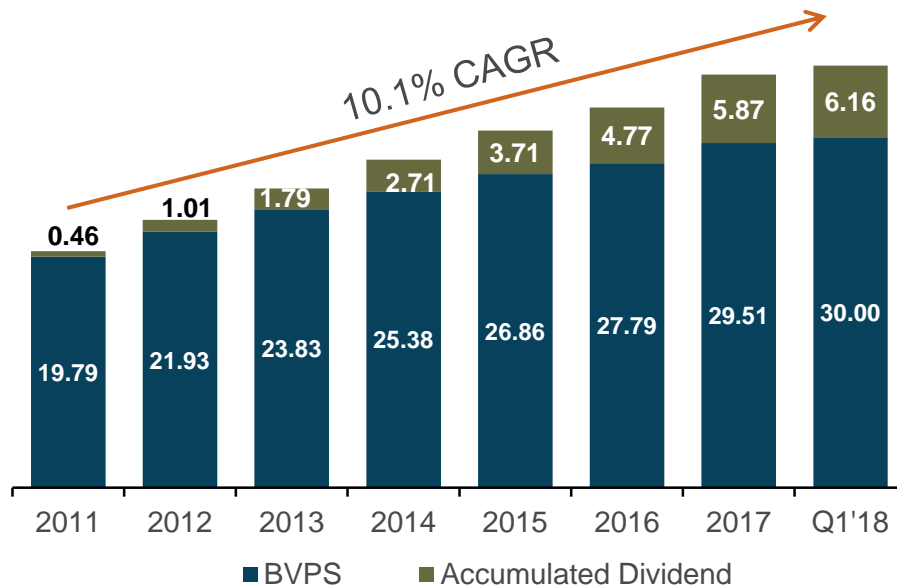
- Enhanced agent quality standards and improved agency support
- Common repeatable sales process
- Development of complementary channels will allow customers to choose access points
  - Captive Agents
  - Direct
  - Institutional

## I

- Life & Retirement systems modernization nearly complete
- P&C modernization in progress
- Introduced advanced planning capabilities & tools
- Improving customer and agent experience
- Widening the pipes to support greater new business volumes

# Solid financial results have resulted in top quartile book value growth<sup>(1)</sup> and a compelling dividend yield

**Book Value Plus Accumulated Dividends<sup>(1)</sup>**



- \$30.00 book value per share<sup>(2)</sup> as of Q1 2018, up 8.3% from a year ago
- Annualized 2018 shareholder dividend of \$1.14
  - Increase of 3% represents the 10<sup>th</sup> consecutive year of increases
  - Dividend yield of 2.6%<sup>(3)</sup>
  - Target ~ 50% payout ratio
- Opportunistic share buyback program
  - Repurchases of \$72.2 million since December 2011 at an average price of \$25.35 versus VWAP of \$30.52 through Q1'18
  - \$27.8 million remains under share repurchase authorization

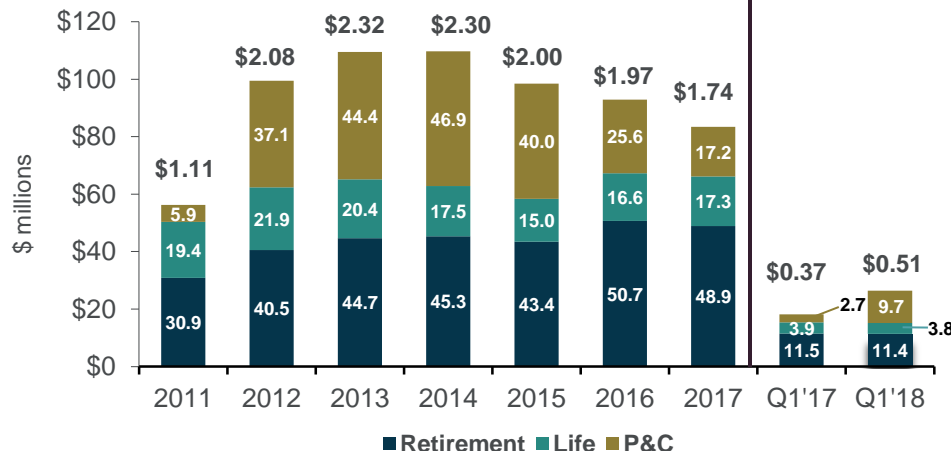
(1) Book value per share excluding net unrealized investment gains/losses. 2011 numbers have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs. Top quartile ranking in peer group includes Large, Mid and Small cap personal lines and life insurance companies.

(2) Excluding net unrealized investment gains (losses).

(3) Based on 3/31/18 closing stock price of \$42.75.

# Multiline business model has generated solid core earnings

**Core Earnings by Segment (\$ millions)  
Plus Total Core EPS<sup>(1)</sup>**

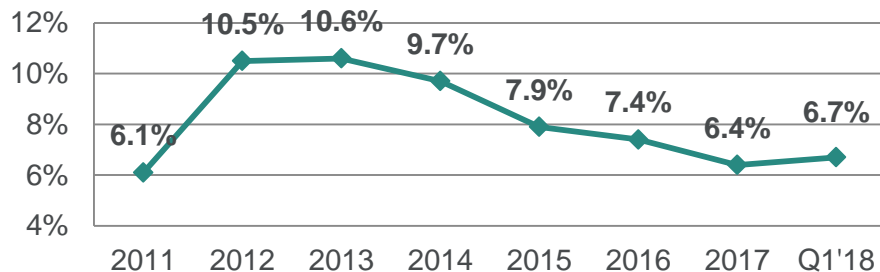


Core earnings per share<sup>(1)</sup> reflect diversification of multiline business model; earnings growth led by P&C

- Continued growth of assets under management and proactive spread management have generated 8% earnings growth CAGR
- Significantly fewer cats in P&C compared to Q1'17 and high-single digit rate increases and other profitability improvement actions

Current 2018 EPS guidance of \$2.10 - \$2.30

**Core ROE<sup>(2)</sup>**



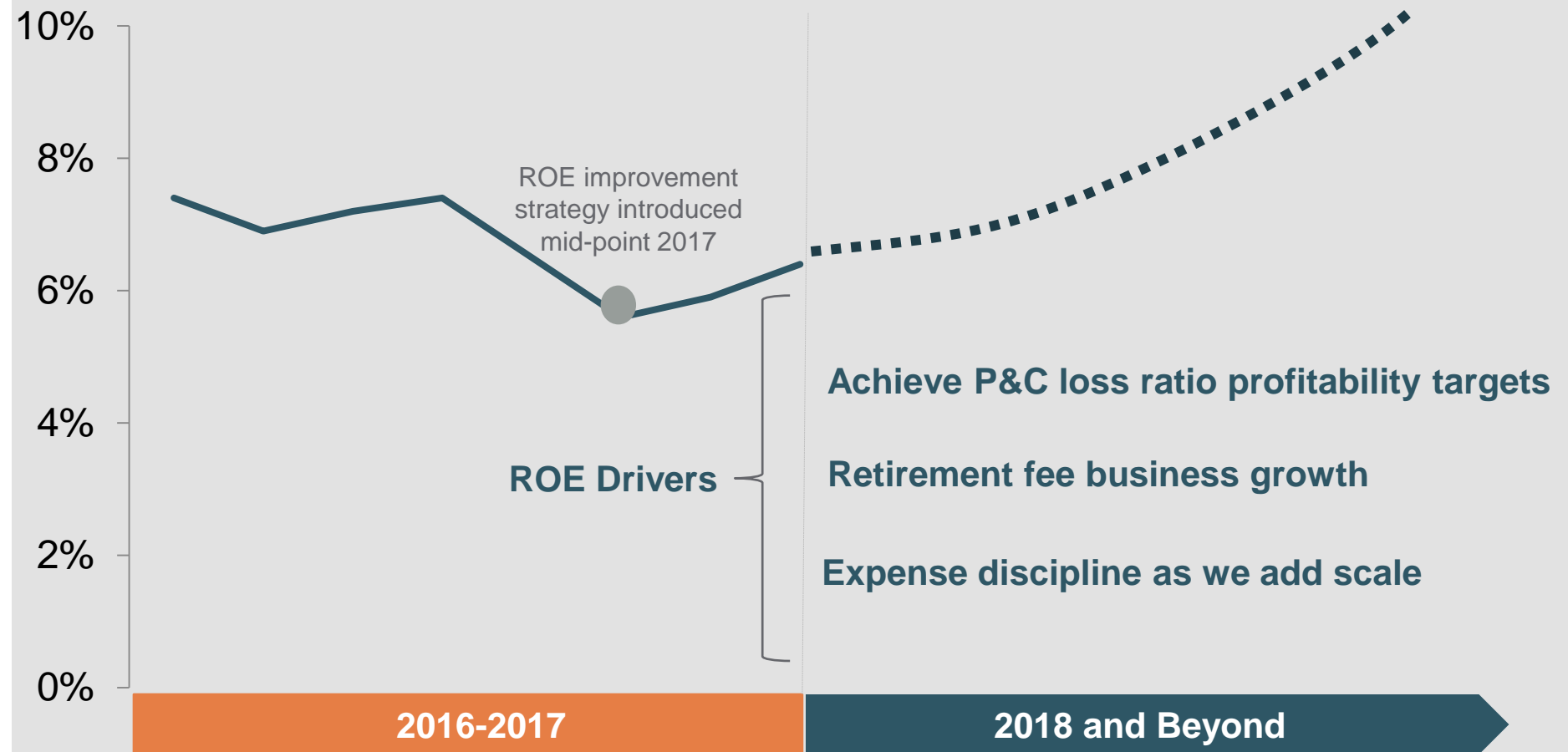
(1) Core earnings reflects net income excluding net realized investment gains and losses and the \$99.0 million re-measurement of the net deferred tax liability (DTL) that occurred on 12/31/17.

(2) Core ROE excludes net unrealized investment gains and losses and re-measurement of the DTL and all periods presented are based on trailing 12 months of core earnings.

# Clear roadmap to deliver a higher ROE

Incremental gains realized since second half of 2017

## Return on Equity





# Further capabilities planned for 2018

Laser-focused on improving ROE and achieving profitable growth

## 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, including recruiting veteran producers
- Execution focus
- Build on B2B capabilities and support for institutional team
- Focus resources on profitable geographies
- Solidify repeatable sales process

## I

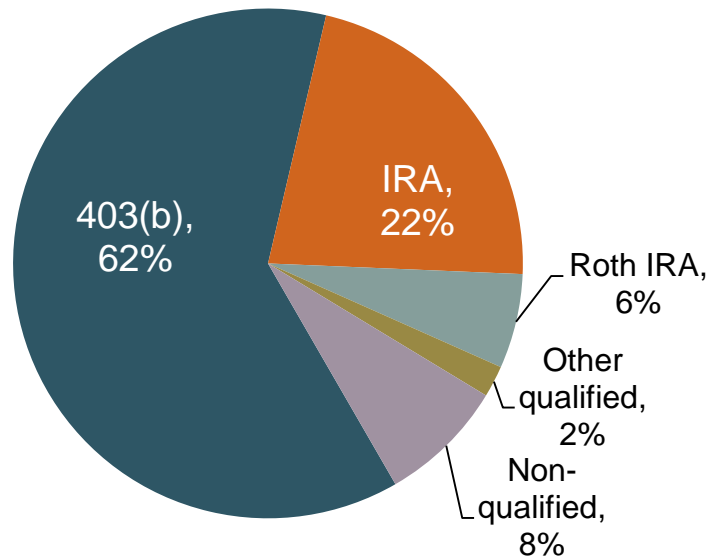
- Continue P&C and L&R systems modernization
- Further refine advanced planning capabilities & tools
- Enhanced customer experience
- Thoughtfully rationalize expense growth to drive ROE improvement

# Segment strategy and results



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

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



92% of Retirement assets under management are tax-qualified accounts with a retirement orientation; consistent strong persistency ~92%

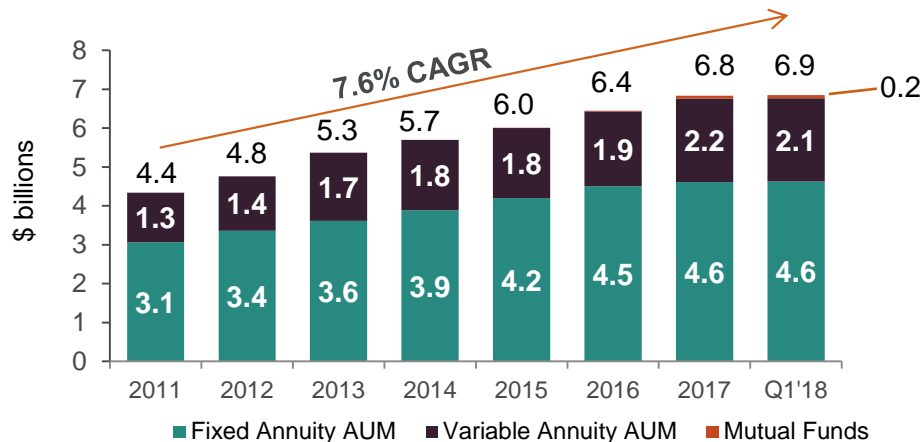
## Opportunity

- Educators face complicated retirement system offerings
  - State teacher retirement systems
  - Pension uncertainty
  - Tax-deferred options
- Educators want guidance to plan for the future
  - Workshops on Student Loan Solutions, Financial Wellness, DonorsChoose.org and retirement planning
  - Encourage redirecting savings to retirement planning
  - School payroll deduction

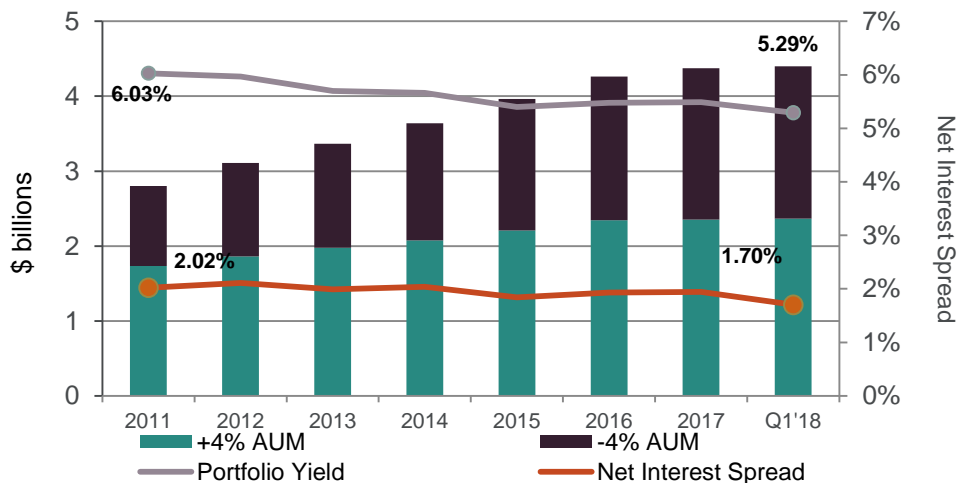
(1) Based on Assets Under Management as of March 31, 2018.

# Retirement segment: Strong earnings contributor; assets under management continue to grow

Retirement Assets Under Management



Fixed Annuity Spreads by Segment

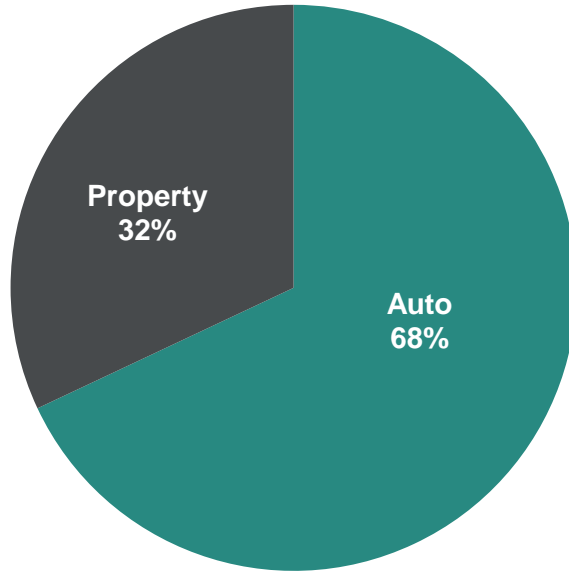


## Results

- Total retirement assets under management including fee based mutual fund products increased 7% year over year
  - YTD Annuity deposits of \$98.8 million; a 16% decrease year over year
  - Mutual fund deposits of \$14.1 million increased \$8.8 million year over year
- Ex-DAC operating earnings comparable to prior year at \$11.6 million
  - Higher AUM driven by strong deposits and higher variable annuity account values
  - Expense growth related to build out of DOL compliant products and other strategic initiatives
- Business is priced to generate a low double-digit ROE at targeted spreads of 200 to 250 bps
  - New business spreads continue to exceed targets

# P&C segment: Preferred book of educator risk with strong retention ratios

**P&C Net Written Premium  
(\$663 MM)<sup>(1)</sup>**



## Opportunity

- Preferred risk profile
  - Conservative by nature
  - Short/off-hour commutes
  - Financially responsible
- Reach new educators and cross-sell to our existing Life & Retirement customers

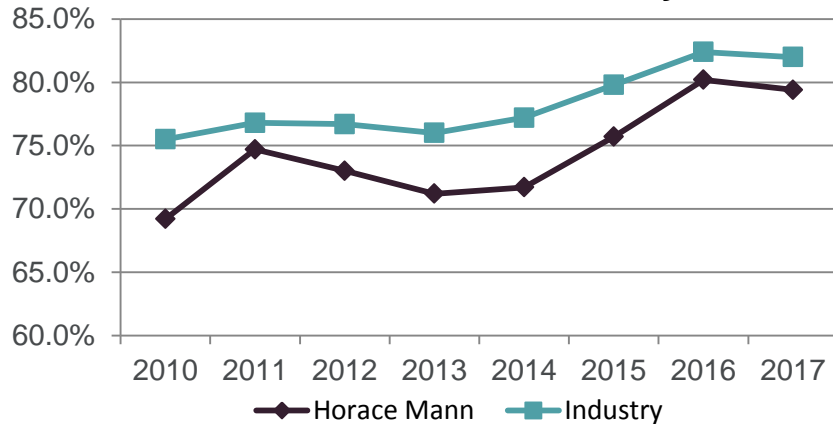
## Product

- Majority of P&C business is bundled Auto and Property
- Policy retention exceeds industry averages and improves with cross-sell efforts
  - 83% Auto
  - 88% Property

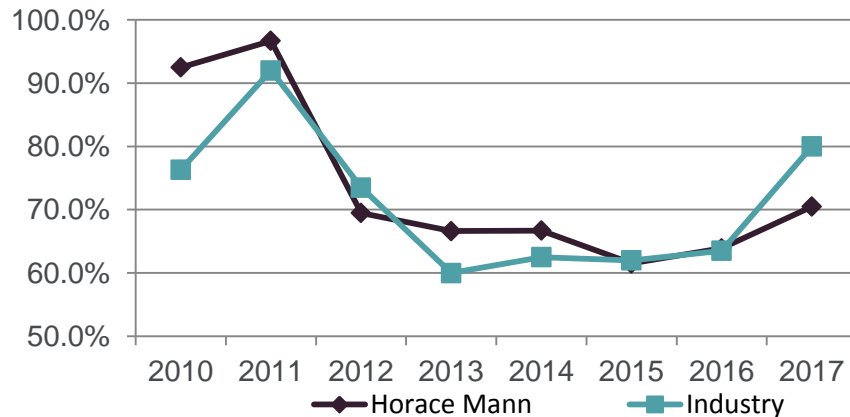
(1) Based on FY 2017

# P&C segment: 2018 Q1 results reflect continued auto margin expansion with elevated non-catastrophe property losses

## Auto Loss Ratio vs Industry<sup>(1)</sup>



## Property Loss Ratio vs Industry<sup>(1)</sup>



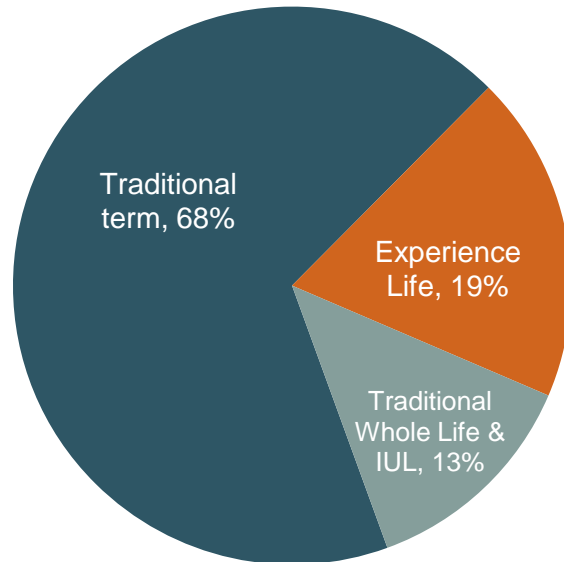
## Results

- 2018 Q1 combined ratio of 98.9 a decrease of 6.6 pts from prior year
  - Auto underlying loss ratio, a key driver of ROE, decreased to 75.5 compared to 76.7 in Q1'17
  - Despite elevated non-cat weather, property combined ratio remained profitable at 93.3, versus 102.5 in Q1'17
- 4.3% increase in net written premiums to \$159 million compared to a year ago
- Auto loss ratio continues to average nearly 4 points better than the industry
  - Profitability improvement initiatives on track
  - Underlying combined ratio marked improvement from PY
- Mid-90s combined ratio would generate low double-digit ROE at 1.5x underwriting leverage

(1) A.M. Best industry composite based on statutory incurred losses. 2017 YE Conning and Co. estimate

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

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



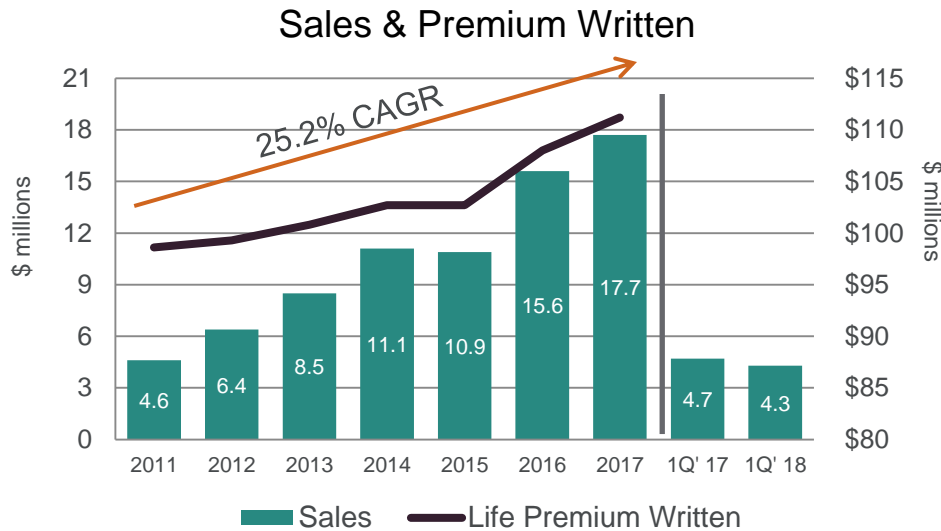
## Opportunity

- Many educators are uninsured or underinsured
- Tailored product suite to cross-sell to our existing P&C and Retirement customers

## Products

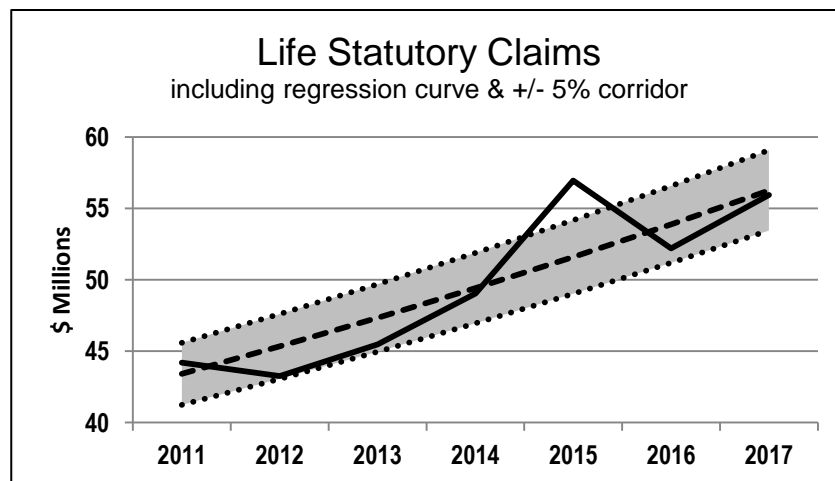
- Basic coverages appropriate for educator income levels
- Mature in-force book of whole and term life products
  - About 198,000 policies in force
  - Average individual life face amount of ~ \$103K
  - 95% retention ratio

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



## Results

- Strategic focus to grow this segment of profitable business
  - Life sales of \$4.3 million down slightly compared to prior year period
- Ex-DAC operating earnings up 3% year over year to \$3.9 million
  - Mortality in line with historical trends
- Business priced to generate a low double-digit ROE

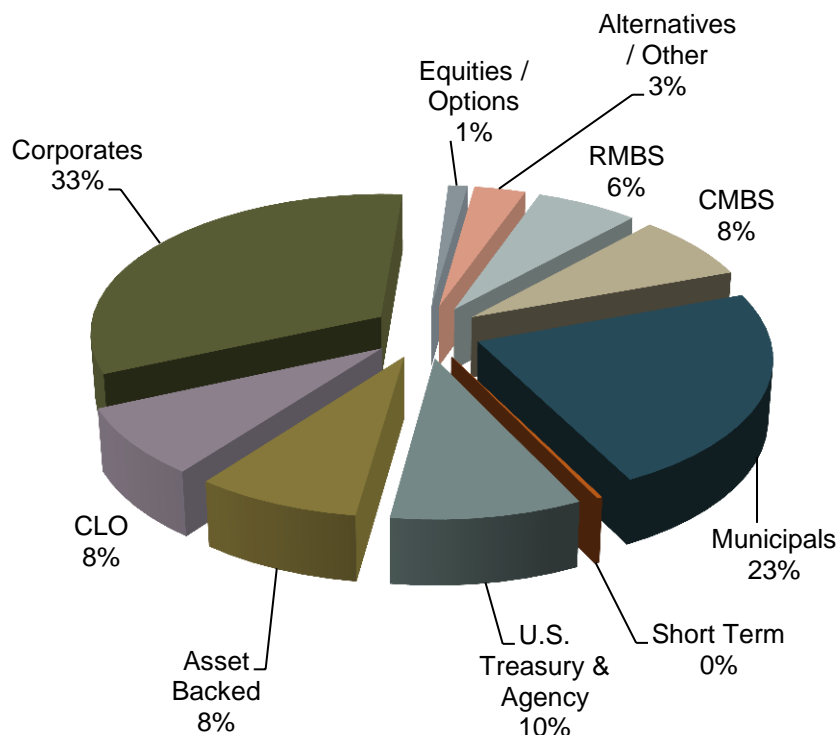




# Conservative and well diversified investment portfolio that is designed to support our product offerings

## Portfolio Composition<sup>(1)</sup>

\$8.1 billion FV



High-quality, well-diversified portfolio across fixed income sectors

- Weighted-average quality: A+
- Average duration 6.0

Focused on risk and asset liability management

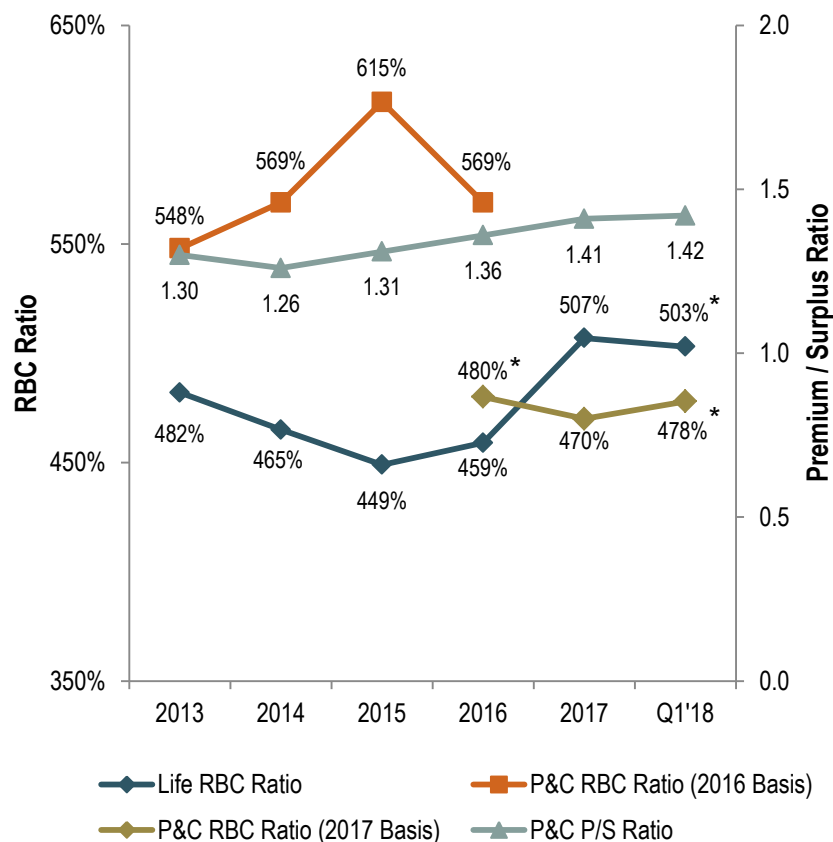
- \$7.1 billion MV portfolio supports long-dated Life & Retirement liabilities
- \$1.0 billion MV portfolio supports P&C
- \$261 million net unrealized gain; majority in Life & Retirement portfolios

New purchases focused on improving portfolio quality

- New money rate of ~3.8% YTD

# Capital ratios are strong and reflect 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 Life & Retirement product design
- Investment portfolio construction / historical loss experience

Q1 2018 debt-to-capital ratio<sup>(1)</sup> of 19.5%

(1) Excluding net unrealized investment gains/losses

\* Estimated

# Alignment of PDI and solutions orientation will accelerate efforts to profitably grow

## Product

### Robust/Complete Product Suite

- Full suite of Life and Retirement products:
  - Revamped and re-priced existing Life products
  - Introduced FIA and IUL products
  - New Retirement Product Suite
- Continuous improvement of P&C pricing segmentation
- Introduction of Student Loan Solutions
- Increased partnerships through Horace Mann General Agency

## Distribution

### Strengthening the model

- Enhanced agent quality standards and improved agency support
- Common repeatable sales process
- Development of complementary channels will allow customers to choose access points
  - Direct
  - Institutional
  - Captive Agents
- Enhanced digital capabilities

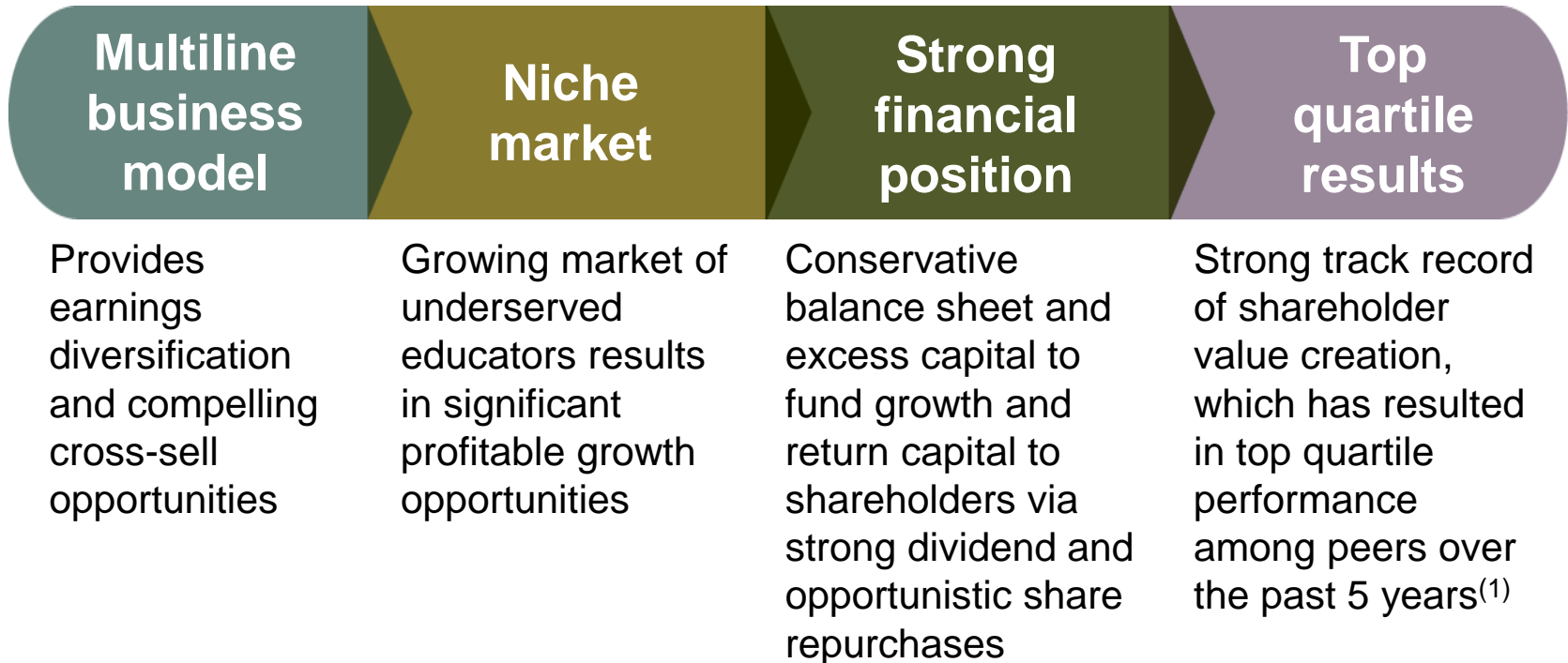
## Infrastructure

### Modernizing the experience

- Life & Retirement systems modernization nearing completion
- P&C modernization in progress
- Introduce advanced planning capabilities and standardized product selection tool
- Improving customer experience and Net Promoter Score
- Widening the pipes to support greater new business volumes

- **More educator households**
  - **Sales momentum across all business lines**
  - **Improve our already industry-leading cross-sell ratio**

# Unique value proposition results in a differentiated investment opportunity



(1) Book value per share excluding net unrealized investment gains/losses on fixed maturity and equity 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

# Appendix



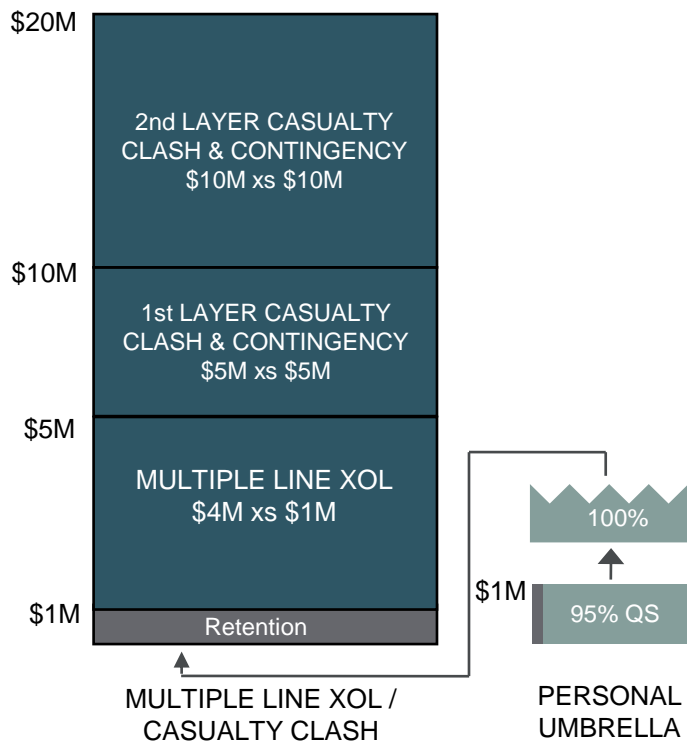
# Founded by Educators for Educators®

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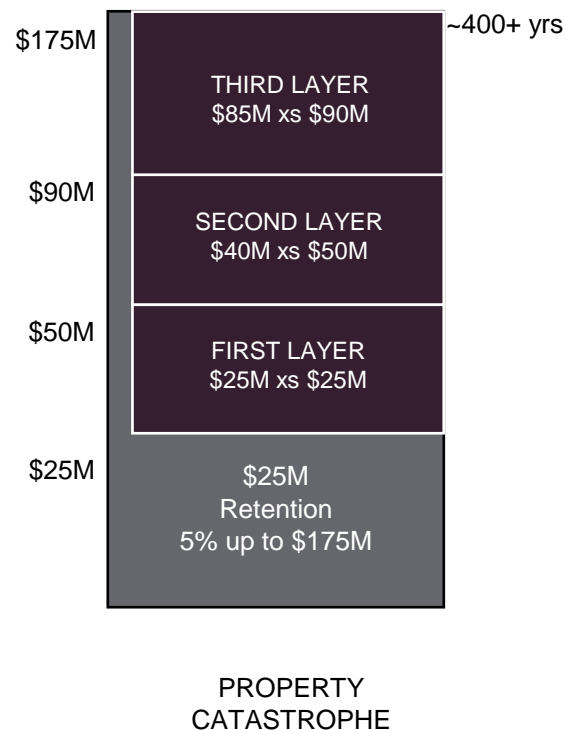
- |       |  |
|-------|--|
| 1945  | Founded by two teachers in Springfield, IL as the Illinois Education Association Mutual Insurance Company to provide automobile insurance to IEA members   |
| 1949  | Company began offering life insurance products to the educational community  |
| 1961  | Introduced 403(b) tax-qualified retirement annuities; the year Congress created this option for educators  |
| 1975  | Company acquired by INA Corporation  |
| 1989  | Company acquired from CIGNA through a management led LBO   |
| 1991  | Completed initial public offering; stock trades on NYSE under the symbol "HMN"   |
| 2000  | With less than 50% of new P&C business represented by educators, company refocuses on the educator market  |
| 2006  | Began transitioning employee agency force to new business model  |
| 2009  | Exclusive Agent (EA) contract introduced   |
| 2010  | Re-introduced State Teacher Retirement Seminars, and began strategic relationship with DonorsChoose.org  |
| 2015  | Introduction of Fixed Indexed Annuity and Indexed Universal Life round out product offerings   |
| Today | <p>Building on a solid foundation to accelerate our growth momentum and increase our penetration in the K-12 educator niche</p> <ul style="list-style-type: none"><li>• Largest national, multiline insurance company focused on serving the nation's K-12 educator market</li><li>• Current book ~ 80% educator</li><li>• Agency force transition largely complete; now focused on productivity improvement initiatives</li><li>• Life &amp; Retirement product line enhancements and infrastructure improvements</li><li>• Enhanced P&amp;C pricing segmentation and underwriting and claims initiatives to further improve underwriting results</li></ul> |
-

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

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



Property<sup>(1)</sup>



# 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



# Highly rated by all rating agencies

Educator 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	A3 (3/10/17)	Positive
A.M. Best	A (5/16/17)	Stable
Fitch	A (7/27/17)	Stable

## Recent Ratings Upgrades

- In Q4 2016, Moody's upgraded our P&C outlook to Positive from Stable
- In Q1 2016, AM Best upgraded our P&C rating to "A" from "A-"
- In Q2 2015, Moody's upgraded our Life outlook to Positive from Stable

# Consolidated GAAP Income Statement

(\$ Millions, except EPS and BV / Share)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Q1 2018</u>
<b>Written premium and contract deposits</b>	\$1,167.7	\$1,256.5	\$1,262.5	\$1,227.1	\$284.0
<b>Earned premium and contract charges</b>	\$715.8	\$731.9	\$759.1	\$794.7	\$203.0
<b>Investment income</b>	329.8	332.6	361.2	373.6	91.9
<b>Other income</b>	4.2	3.2	4.5	6.6	2.3
<b>Benefits, claims and settlement expenses</b>	644.5	679.2	733.1	780.9	193.6
<b>Total other expenses and taxes</b>	308.0	303.6	310.2	321.9	82.1
<b>Net income before net realized investment gains / losses and DTL re-measurement</b>	\$97.3	\$84.9	\$81.5	\$72.1	\$21.5
<b>Core earnings per diluted share</b>	\$2.30	\$2.00	\$1.97	\$1.74	\$0.51
<b>Core ROE (ex. net unrealized investment gains/losses and DTL re-measurement)</b>	9.7%	7.9%	7.4%	6.4%	6.7%
<b>DTL re-measurement and net realized investment gains (losses) after tax</b>	6.9	8.6	2.3	97.3	(1.3)
<b>Net income</b>	\$104.2	\$93.5	\$83.8	\$169.4	\$20.2
<b>BV/Share (ex. net unrealized investment gains/losses)</b>	\$25.38	\$26.86	\$27.79	\$29.51	\$30.00

# Consolidated GAAP Balance Sheet

(\$ in Millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>1Q 2018</u>
<b>Assets</b>					
Investments	\$7,403.5	\$7,648.0	\$7,999.3	\$8,352.3	\$8,224.7
Cash	11.7	15.5	16.7	7.6	24.0
Separate Account Assets	1,813.6	1,800.7	1,923.9	2,152.0	2,139.6
DAC	215.1	253.2	267.6	257.8	280.2
Goodwill	47.4	47.4	47.4	47.4	47.4
Other Assets	277.2	292.2	321.9	381.2	352.7
<b>Total Assets</b>	<u>\$9,768.5</u>	<u>\$10,057.0</u>	<u>\$10,576.8</u>	<u>\$11,198.3</u>	<u>\$11,068.6</u>
<b>Liabilities</b>					
Policy Liabilities & Other Policyholder Funds	\$5,958.2	\$6,376.1	\$6,733.1	\$6,906.3	\$6,931.9
Separate Acct. Liabilities	1,813.6	1,800.7	1,923.9	2,152.0	2,139.6
Long Term Debt	199.9	247.0	247.2	297.5	297.5
Short Term Debt	38.0	0.0	0.0	0.0	0.0
Other Liabilities	422.3	368.5	378.6	340.9	294.9
<b>Total Liabilities</b>	<u>8,432.0</u>	<u>8,792.3</u>	<u>9,282.8</u>	<u>9,696.7</u>	<u>9,663.9</u>
<b>Shareholders' Equity</b>	<u>1,336.5</u>	<u>1,264.7</u>	<u>1,294.0</u>	<u>1,501.6</u>	<u>1,404.7</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$9,768.5</u>	<u>\$10,057.0</u>	<u>\$10,576.8</u>	<u>\$11,198.3</u>	<u>\$11,068.6</u>

# Horace Mann at a glance

<b>Exchange ticker symbol</b>	NYSE:HMN
<b>Share Price</b>	\$42.75 <sup>(1)</sup>
<b>Shares Outstanding</b>	40.9 million <sup>(1)(2)</sup>
<b>Market Capitalization</b>	\$1.7 billion <sup>(1)</sup>
<b>Annualized Dividend Per Share</b>	\$1.14 <sup>(1)</sup>
<b>Dividend Yield Per Share</b>	2.6% <sup>(1)</sup>
<b>Average Daily Volume</b>	159K shares (52-week average daily volume as of 3/31/18)
<b>Book Value Per Share</b>	\$30.00 <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 3/31/2018

(2) 41.7 million weighted average diluted shares for Q1'18

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

## Contact

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