



Unum Group (UNM)

Updated April 20th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	26.4%	Market Cap:	\$3.1 B
Fair Value Price:	\$39	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	04/24/20
% Fair Value:	39%	5 Year Valuation Multiple Estimate:	20.7%	Dividend Payment Date:	05/14/20
Dividend Yield:	7.4%	5 Year Price Target	\$43	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	9.6%

Overview & Current Events

Headquartered in Chattanooga, TN, Unum Group is an insurance holding company providing a broad portfolio of financial protection benefits and services. The company operates through its Unum US, Unum UK, Unum Poland and Colonial Life businesses, providing disability, life, accident, critical illness, dental and vision benefits to millions of customers. Last year the \$3 billion company generated \$12 billion in revenue and paid out \$7.5 billion in benefits.

On February 4th, 2020 Unum reported Q4 and full year results for the period ending December 31st, 2020. For the quarter Unum generated \$3.03 billion in revenue, a 5.3% increase compared to Q4 2018, as premium income and net investment income rose by 3.9% and 1.3% respectively. Results were also helped by a net realized investment gain compared to a loss in the year ago period. Net income equaled \$296.2 million (\$1.44 per share) compared to \$249.1 million (\$1.15 per share) previously. On an adjusted basis, excluding investment gains and early debt retirement, net income equaled \$290.7 million (\$1.41 per share) compared to \$281.7 (\$1.30 per share) in the year ago quarter.

For the year Unum generated \$12.0 billion in revenue, representing a 3.5% increase compared to 2018, as a small decline in net investment income was offset by a 4.2% increase in premium income. Net income equaled \$1.10 billion (\$5.24 per share) compared to \$523.4 million (\$2.38 per share) in 2018. However, these results include investment losses, early debt retirement and charges related to the company's long-term care segment. On an adjusted basis, Unum generated \$1.141 billion in net income in 2019 (\$5.44 per share) compared to \$1.145 billion (\$5.20 per share) in 2018. Interestingly, despite net income being down slightly, earnings-per-share grew 4.6% as a result of a lower share count. Book value per share equaled \$49.10 at the end of 2019 compared to \$40.19 in 2018.

Unum also expected 4%-7% growth in operating profit per share for 2020, but that was before the COVID-19 crisis.

On April 13th, 2020 Unum declared a \$0.285 quarterly dividend, the fourth straight payment at this rate, representing a 9.6% year-over-year increase and marking the company's 12th straight year of higher payouts.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.71	\$2.96	\$3.17	\$3.23	\$3.59	\$3.64	\$3.93	\$4.29	\$5.20	\$5.44	\$4.90	\$5.41
DPS	\$0.35	\$0.40	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.26
Shares¹	316.6	297.7	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	200.0	180.0

Over the past decade Unum has been able to grow its earnings-per-share by an average compound growth rate of 7.8% per annum. More impressive, is the idea that earnings-per-share grew every single year during this period. Results were helped by an average business growth rate, around ~3% annually, aided by a significant share repurchase program, retiring nearly 5% of the share count each year. Moving forward, this program will continue to be an important factor considering the security's persistently low valuation. Notably, 2018 benefited from a much lower tax rate.

Unum can continue to grow via reasonable improvement in premium and investment income, expense management and a meaningful share repurchase program. With that being said, there are headwinds at this time including

¹ In millions.

Disclosure: This analyst is long the security discussed in this research report.



Unum Group (UNM)

Updated April 20th, 2020 by Eli Inkrot

exceptionally low interest rates, demand uncertainty related to the coronavirus outbreak and concerns regarding the company's long-term care policies. To this point, the company took a -\$593 million charge related to an increase in long-term care reserves in 2018 and the fear is that additional reserve builds will be required in the future.

Management previously guided for 4% to 7% bottom-line improvement for 2020, but we have taken a much more cautious approach – expecting a -10% decline – given the events that have transpired recently. Furthermore, while Unum has put together a solid growth record, this has been dependent on share repurchases to a large extent. Thinking about the security collectively, we are forecasting 2% annual growth over the intermediate term.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.3	8.2	6.6	9.0	10.3	9.4	8.7	11.4	8.0	5.9	3.1	8.0
Avg. Yld.	1.6%	1.6%	2.2%	1.9%	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	7.4%	3.9%

During the past decade shares of Unum have traded hands with an average valuation between 8- and 9-times earnings, with a range from 5 to 12. We are using 8 times earnings as a starting fair value estimate. Given the precipitous decline in shares in the last couple of months, this would imply the potential for a significant valuation tailwind. The historically high 7%+ dividend yield helps as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13%	14%	15%	17%	17%	19%	20%	20%	19%	20%	23%	23%

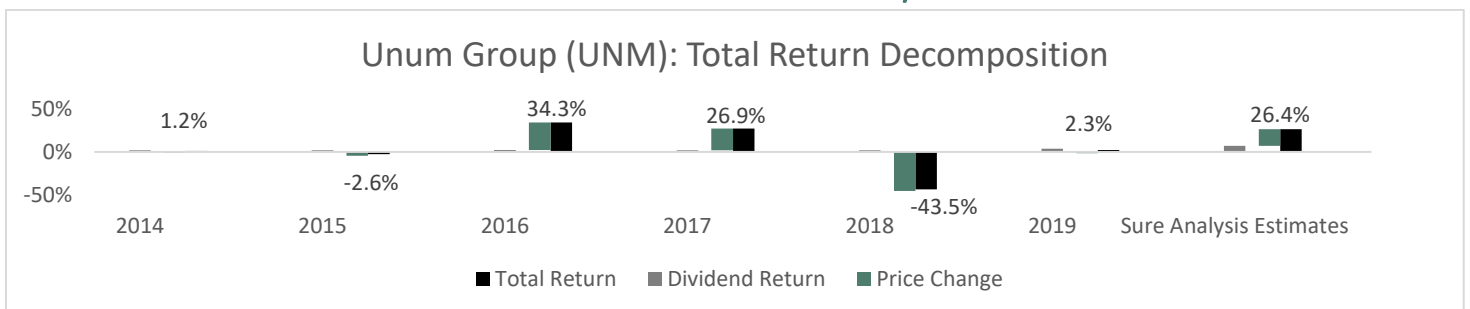
Unum has demonstrated a strong operating history in good times or bad for decades now. During the last recession the company posted earnings-per-share of \$2.19, \$2.51, \$2.57 and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

With that being said, it's hard to gain a competitive advantage within the industry as insurance products are commodity-like in nature. Still, we are encouraged by the solid results of the company in all operating environments, the conservative dividend payout ratio and the focus on share repurchases. Moreover, we prefer the slow and steady long-term growth of the business instead of chasing short-term results.

Final Thoughts & Recommendation

Unum has put together a solid operating history, led by a steady underlying business supported by a meaningful share repurchase program. Today, with shares down -50% in the last couple of months, shares appear exceptionally attractive, trading near ~3 times expected earnings. We are forecasting 26.4% annual total return potential, driven by a 7.4% starting dividend yield, 2% growth rate and significant valuation tailwind. This could be too optimistic if short-term concerns become long-term in nature, but we are encouraged on a number of fronts and rate shares as a buy.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst is long the security discussed in this research report.



Unum Group (UNM)

Updated April 20th, 2020 by Eli Inkrot

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10193	10278	10515	10369	10525	10731	11047	11287	11599	11999
SG&A Exp.	776	808	787	790	821	835	839	852	886	898
D&A Exp.	75	81	84	85	88	100	102	103	101	110
Net Profit	879	284	894	847	402	867	931	994	523	1100
Net Margin	8.6%	2.8%	8.5%	8.2%	3.8%	8.1%	8.4%	8.8%	4.5%	9.2%
Free Cash Flow	1197	1096	1274	926	1109	1192	1037	1059	1392	1591
Income Tax	441	49	355	373	140	371	416	410	104	282

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	57308	59555	62236	59404	62450	60564	61942	64013	61876	67013
Cash & Equivalents	54	117	77	94	103	113	100	77	94	84
Accounts Receivable	1666	6527	6475	6454	6541	6324	6470	6545	6278	6384
Goodwill & Int. Ass.	201	232	225	220	214	255	367	367	447	440
Total Liabilities	48363	51386	53624	50745	53928	51900	52974	54438	53254	57048
Long-Term Debt	2856	2883	3211	2612	2781	2801	2999	2938	2971	3327
Shareholder's Equity	8944	8170	8613	8659	8522	8664	8968	9575	8622	9965
D/E Ratio	0.32	0.35	0.37	0.30	0.33	0.32	0.33	0.31	0.34	0.33

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.6%	0.5%	1.5%	1.4%	0.7%	1.4%	1.5%	1.6%	0.8%	1.7%
Return on Equity	10.1%	3.3%	10.7%	9.8%	4.7%	10.1%	10.6%	10.7%	5.8%	11.8%
ROIC	7.7%	2.5%	7.8%	7.3%	3.6%	7.6%	7.9%	8.1%	4.3%	8.8%
Shares Out.	327.2	303.6	281.8	265.9	256.7	247.9	236.0	227.3	220.1	209.9
Revenue/Share	31.15	33.86	37.32	38.99	41.01	43.30	46.81	49.65	52.71	57.18
FCF/Share	3.66	3.61	4.52	3.48	4.32	4.81	4.39	4.66	6.33	7.58

Note: All relevant figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.