



Unum Group (UNM)

Updated August 6th, 2021, by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$26 | 5 Year CAGR Estimate: | 10.5% | Market Cap: | \$5 B |
| Fair Value Price: | \$34 | 5 Year Growth Estimate: | 2.0% | Ex-Dividend Date: | 07/29/21 |
| % Fair Value: | 79% | 5 Year Valuation Multiple Estimate: | 4.9% | Dividend Payment Date: | 08/20/21 |
| Dividend Yield: | 4.5% | 5 Year Price Target | \$37 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Last Dividend Increase: | 5.3% |

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. In 2020 the \$5 billion company generated \$13.2 billion in revenue.

On July 16th, 2021, Unum declared a \$0.30 dividend, a 5.3% increase, after making eight straight \$0.285 payments.

On August 3rd, 2021, Unum reported Q2 2021 results for the period ending June 30th, 2021. For the quarter Unum generated revenue of \$2.993 billion compared to \$3.021 billion in Q2 2020. A small increase in premium income was offset by a decline in realized investment gains. Reported net income equaled \$182.9 million or \$0.89 per share compared to \$265.5 million or \$1.30 per share in the year ago period. On an adjusted basis, earnings-per-share equaled \$1.39 compared to \$1.23 in Q2 2020.

Unum's book value equaled \$53.57 compared to \$51.90 in the year ago period.

Unum also updated its 2021 outlook, now anticipating a -1% to -3% decline in after-tax adjusted operating income, reflecting an improved view from the previous expectation of a -5% to -6% decline.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.96 | \$3.17 | \$3.23 | \$3.59 | \$3.64 | \$3.93 | \$4.29 | \$5.20 | \$5.44 | \$4.93 | \$4.80 | \$5.30 |
| DPS | \$0.40 | \$0.47 | \$0.55 | \$0.62 | \$0.70 | \$0.77 | \$0.86 | \$0.98 | \$1.09 | \$1.14 | \$1.20 | \$1.32 |
| Shares¹ | 297.7 | 269.8 | 259.5 | 251.4 | 240.9 | 229.8 | 222.6 | 214.6 | 202.9 | 203.7 | 205 | 185 |

In the 2010 through 2019 stretch Unum grew 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. Of course, 2020 was a down year, breaking the company's streak.

Unum can get back to growth via reasonable improvement in premium and investment income, expense management and a meaningful share repurchase program over time. With that being said, there are headwinds including exceptionally low interest rates, demand uncertainty related to the COVID-19 pandemic 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 Maine Bureau of Insurance concluded Unum America's long-term care reserves were deficient by \$2.1 billion as of December 31st, 2018. In December of 2020 Unum entered into a reinsurance agreement with Global Atlantic for its Closed Individual Disability Block.

While Unum has put together a solid growth record, this has been dependent on share repurchases to a large extent. We are forecasting 2% annual growth coming off a lower earnings estimate for 2021.

¹ In millions.

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



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Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 8.2 | 6.6 | 9.0 | 10.3 | 9.4 | 8.7 | 11.4 | 8.0 | 5.9 | 4.0 | 5.5 | 7.0 |
| Avg. Yld. | 1.6% | 2.2% | 1.9% | 1.8% | 2.0% | 2.3% | 1.8% | 2.4% | 3.4% | 5.8% | 4.5% | 3.6% |

During the past decade shares of Unum have traded hands with an average valuation of about 8 times earnings, with a range from 5 to 12. We are using 7 times earnings as a starting fair value estimate, as interest rates are particularly low and ongoing required reserves serve as an overhang. Still, given the low multiple, this implies the potential for a valuation tailwind. The dividend yield of 4.5% helps as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 14% | 15% | 17% | 17% | 19% | 20% | 20% | 19% | 20% | 23% | 25% | 25% |

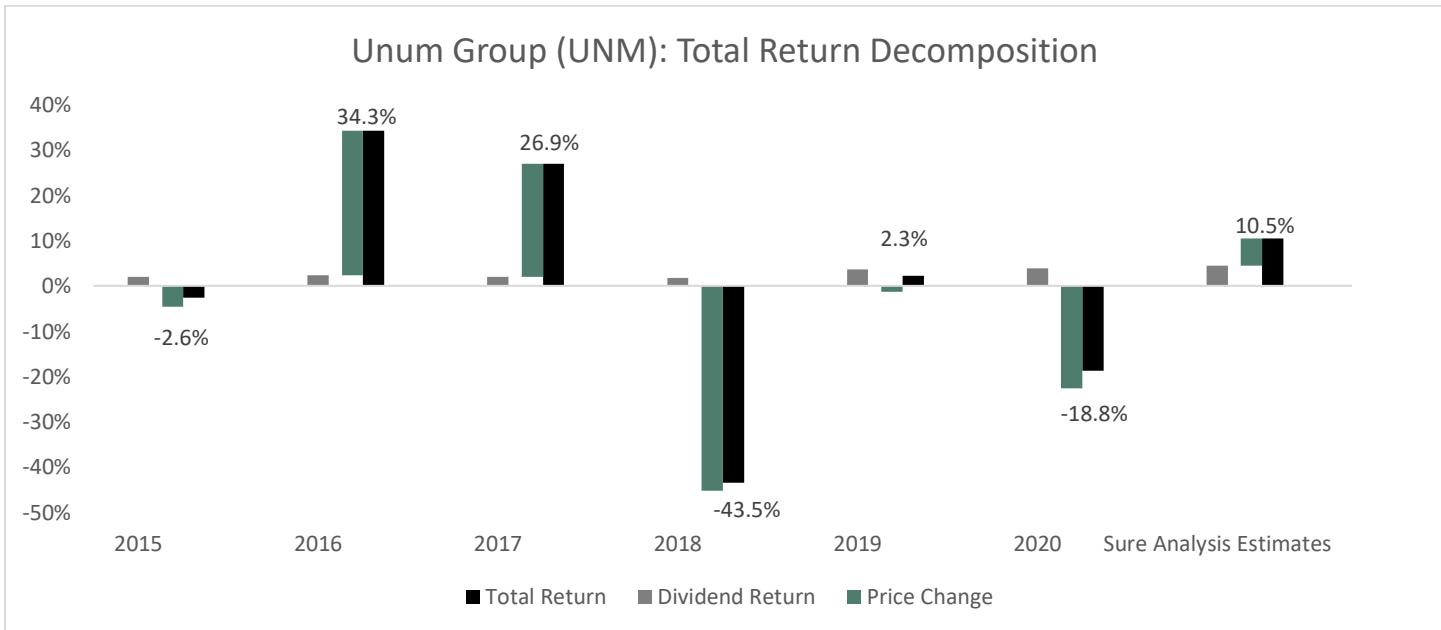
Unum has demonstrated a strong operating history in good times or bad for decades now. During the last recession the company posted earnings-per-share of \$2.19, \$2.51, \$2.57 and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

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, 2020 notwithstanding. Moreover, we prefer the slow and steady long-term growth of the business instead of chasing short-term results.

Final Thoughts & Recommendation

After being up 33% and 20% in our two previous reports, shares are down -12% in the last three months. Unum has put together a solid operating history, led by a steady underlying business supported by a meaningful share repurchase program. We are forecasting 10.5% annual total return potential, driven by a 4.5% starting dividend yield, 2% growth rate and the potential for a valuation tailwind. Due to the lower valuation, shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 10278 | 10515 | 10369 | 10525 | 10731 | 11047 | 11287 | 11599 | 11999 | 13160 |
| SG&A Exp. | 808 | 787 | 790 | 821 | 835 | 839 | 852 | 886 | 898 | 953 |
| D&A Exp. | 81 | 84 | 85 | 88 | 100 | 102 | 103 | 101 | 110 | 114 |
| Net Profit | 284 | 894 | 847 | 402 | 867 | 931 | 994 | 523 | 1100 | 793 |
| Net Margin | 2.8% | 8.5% | 8.2% | 3.8% | 8.1% | 8.4% | 8.8% | 4.5% | 9.2% | 6.0% |
| Free Cash Flow | 1096 | 1274 | 926 | 1109 | 1192 | 1037 | 1059 | 1392 | 1591 | 478 |
| Income Tax | 49 | 355 | 373 | 140 | 371 | 416 | 410 | 104 | 282 | 171 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 59555 | 62236 | 59404 | 62450 | 60564 | 61942 | 64013 | 61876 | 67013 | 70630 |
| Cash & Equivalents | 117 | 77 | 94 | 103 | 113 | 100 | 77 | 94 | 84 | 197 |
| Accounts Receivable | 6527 | 6475 | 6454 | 6541 | 6324 | 6470 | 6545 | 6278 | 6384 | 12190 |
| Goodwill & Int. Ass. | 232 | 225 | 220 | 214 | 255 | 367 | 367 | 447 | 440 | 437 |
| Total Liabilities | 51386 | 53624 | 50745 | 53928 | 51900 | 52974 | 54438 | 53254 | 57048 | 59750 |
| Long-Term Debt | 2883 | 3211 | 2612 | 2781 | 2801 | 2999 | 2938 | 2971 | 3327 | 3346 |
| Shareholder's Equity | 8170 | 8613 | 8659 | 8522 | 8664 | 8968 | 9575 | 8622 | 9965 | 10870 |
| D/E Ratio | 0.35 | 0.37 | 0.30 | 0.33 | 0.32 | 0.33 | 0.31 | 0.34 | 0.33 | 0.31 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.5% | 1.5% | 1.4% | 0.7% | 1.4% | 1.5% | 1.6% | 0.8% | 1.7% | 1.2% |
| Return on Equity | 3.3% | 10.7% | 9.8% | 4.7% | 10.1% | 10.6% | 10.7% | 5.8% | 11.8% | 7.6% |
| ROIC | 2.5% | 7.8% | 7.3% | 3.6% | 7.6% | 7.9% | 8.1% | 4.3% | 8.8% | 5.8% |
| Shares Out. | 297.7 | 269.8 | 259.5 | 251.4 | 240.9 | 229.8 | 222.6 | 214.6 | 202.9 | 203.8 |
| Revenue/Share | 33.86 | 37.32 | 38.99 | 41.01 | 43.30 | 46.81 | 49.65 | 52.71 | 57.18 | 64.6 |
| FCF/Share | 3.61 | 4.52 | 3.48 | 4.32 | 4.81 | 4.39 | 4.66 | 6.33 | 7.58 | 2.35 |

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

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