



Unum Group (UNM)

Updated February 2nd, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	11.1%	Market Cap:	\$5 B
Fair Value Price:	\$34	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	01/27/22
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.5%	Dividend Payment Date:	02/18/22
Dividend Yield:	4.7%	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. The \$5 billion company generated \$12 billion in revenue last year.

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

On February 1st, 2022, Unum reported Q4 and full year 2021 results for the period ending December 31st, 2021. For the quarter Unum generated revenue of \$2.979 billion compared to \$4.274 billion in Q4 2020. A small increase in premium income was more than offset by a significant reduction in investment gains. Reported net income equaled \$159.7 million or \$0.78 per share compared to \$135.4 million or \$0.66 per share in Q4 2020. On an adjusted basis, earnings-per-share equaled \$0.89 compared to \$1.15 previously.

For the year Unum generated \$12.014 billion in revenue, down from \$13.162 billion in 2020. Once again, a small increase in premium income was more than offset by a significant reduction in investment gains. Adjusted earnings-per-share equaled \$4.35 compared to \$4.93 in 2020.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.17	\$3.23	\$3.59	\$3.64	\$3.93	\$4.29	\$5.20	\$5.44	\$4.93	\$4.35	\$4.80	\$5.30
DPS	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.17	\$1.20	\$1.32
Shares¹	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	203.7	204.8	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 and 2021 were down years.

Unum can get back to growth via reasonable improvement in premium and investments, expense management and a meaningful share repurchase program over time. With that being said, there are headwinds including exceptionally low interest rates, 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% intermediate-term growth.

¹ In millions.

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



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	6.6	9.0	10.3	9.4	8.7	11.4	8.0	5.9	4.0	6.2	5.4	7.0
Avg. Yld.	2.2%	1.9%	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	5.8%	4.2%	4.7%	3.7%

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 4.7% helps as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	15%	17%	17%	19%	20%	20%	19%	20%	23%	27%	25%	25%

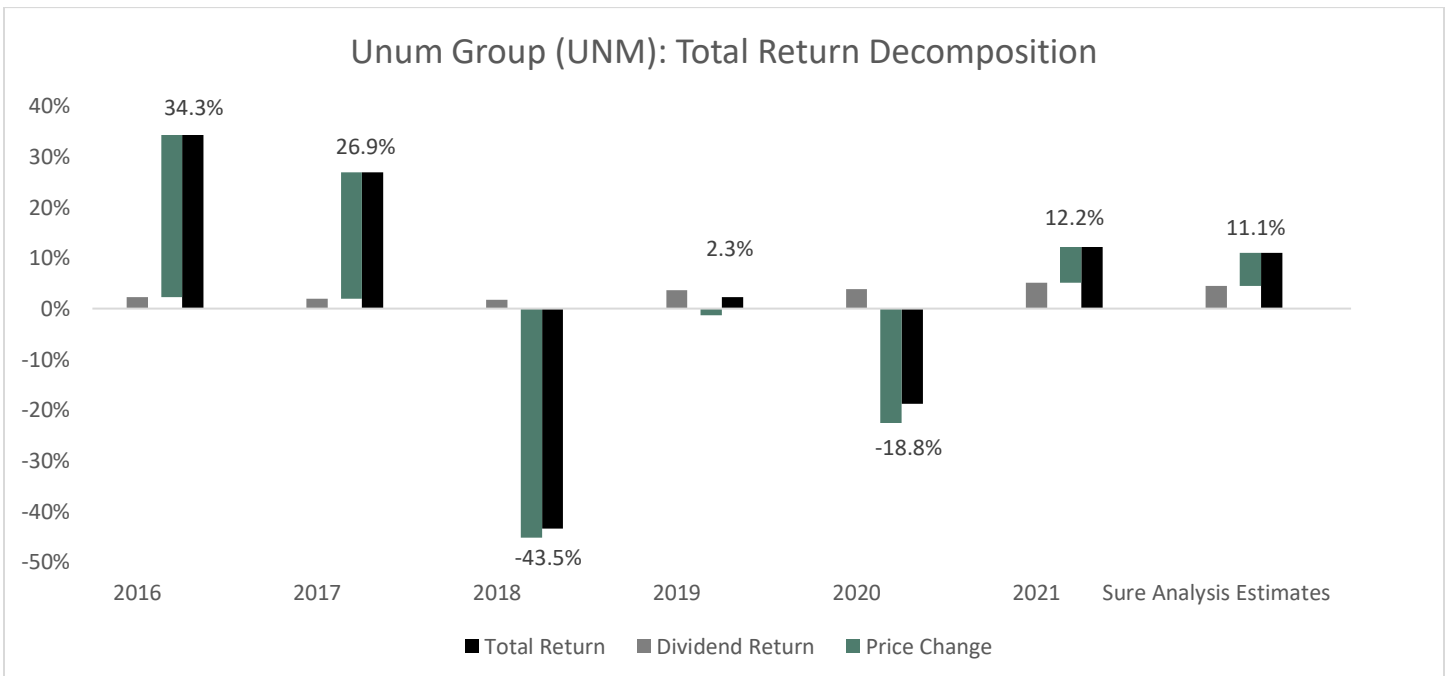
Unum has demonstrated a strong operating history in good times or bad for decades now. During the Great Recession the company posted earnings-per-share of \$2.19, \$2.51, \$2.57, and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

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 and 2021 notwithstanding. Moreover, we prefer the slow and steady long-term growth of the business instead of chasing short-term results.

Final Thoughts & Recommendation

Shares are up 7% in the last year. Unum has put together a solid operating history, led by a steady underlying business supported by a meaningful share repurchase program. We are forecasting 11.1% annual total return potential, driven by a 4.7% starting dividend yield, 2% growth rate and the potential for a valuation tailwind. 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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