



Unum Group (UNM)

Updated August 29th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	10.5%	Market Cap:	\$7.8 B
Fair Value Price:	\$49	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	10/27/22
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	11/18/22
Dividend Yield:	3.4%	5 Year Price Target	\$57	Years Of Dividend Growth:	14
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Headquartered in Chattanooga, TN, Unum Group is an insurance holding company that provides 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 \$7.8 billion company generated \$12 billion in revenue last year.

In early August, Unum reported (8/2/22) financial results for the second quarter of fiscal 2022. Unum grew its operating earnings-per-share 37% over last year's quarter, from \$1.39 to \$1.91, thanks to a great improvement in COVID-related mortality rates and strong premium growth. Thanks to its impressive performance in the first half of the year and sustained business tailwinds, management improved its guidance for the full-year earnings-per-share growth from 15%-20% to 40%-45%. It was the second consecutive quarter in which management raised its guidance significantly. Given the impressive new guidance, we have raised our annual forecast of earnings-per-share from \$4.80 to \$6.15. Unum also raised its quarterly dividend by 10%, from \$0.30 to \$0.33.

Adjusted book value per share improved from \$52.49 in last year's quarter to \$57.32.

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	\$6.15	\$7.13
DPS	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.17	\$1.32	\$1.53
Shares²	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	203.7	204.8	200	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 persistently cheap valuation of the stock. 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 said, there are headwinds including 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. Given also the high comparison base formed this year, we are forecasting 3% intermediate-term growth after improved guidance.

¹ Estimated date.

² 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	6.3	8.0
Avg. Yld.	2.2%	1.9%	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	5.8%	4.2%	3.4%	2.7%

During the past decade, shares of Unum have traded hands with an average price-to-earnings ratio of 8.0, with a range from 5 to 12. We assume a fair price-to-earnings ratio of 8.0 for the stock. The stock is currently trading at a price-to-earnings ratio of 6.3. If it trades at fair valuation level in five years, it will enjoy a 4.8% annualized gain in its returns.

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%	21%	21%

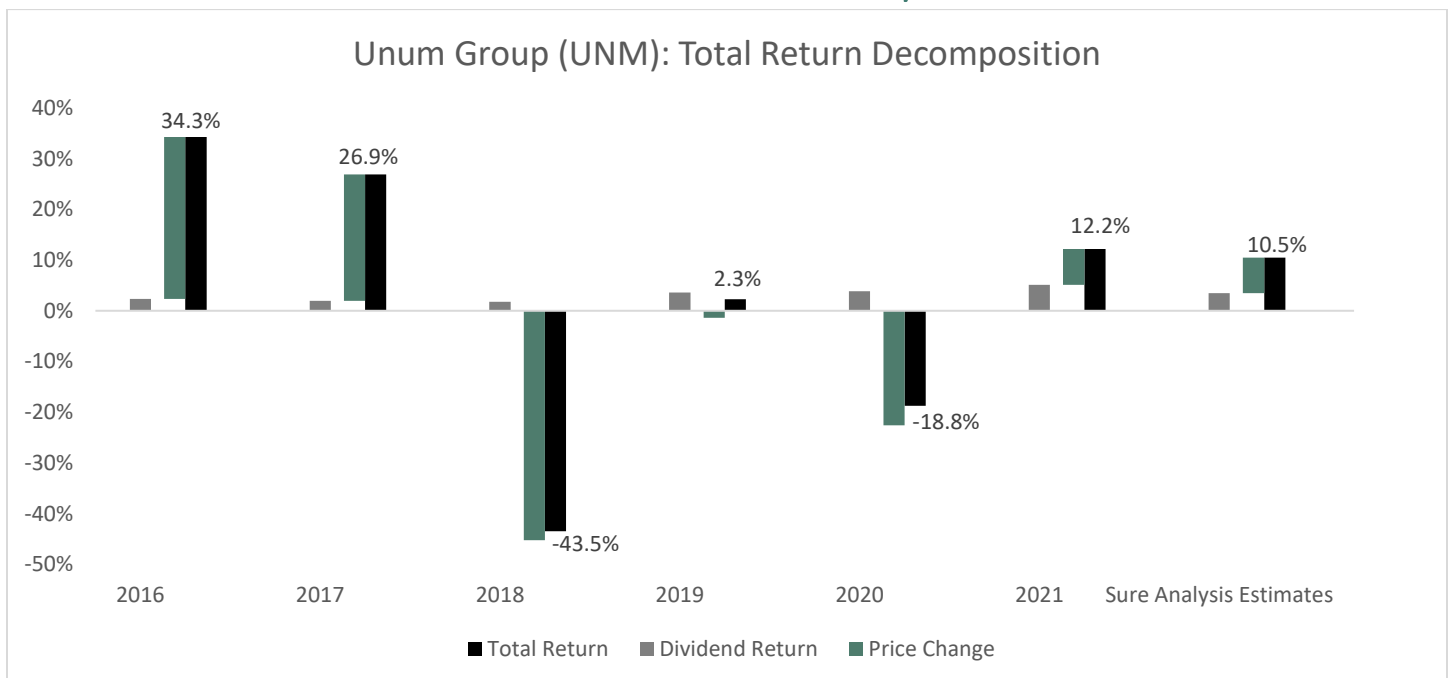
Unum has demonstrated a strong operating history in good times or bad for decades now. During the Great Recession, the company posted earnings-per-share of \$2.19, \$2.51, \$2.57, and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

With that 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

The stock of Unum has rallied 54% this year thanks to impressive business performance. Unum has put together a solid operating history, led by a steady underlying business supported by a meaningful share repurchase program. We expect 10.5% annual total return over the next five years thanks to a 3.4% dividend, 3.0% growth of earnings-per-share and a 4.8% potential valuation tailwind. The stock earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10515	10369	10525	10731	11047	11287	11599	11999	13160	12020
SG&A Exp.	787	790	821	835	839	852	886	898	953	975
D&A Exp.	84	85	88	100	102	103	101	110	114	120
Net Profit	894	847	402	867	931	994	523	1100	793	824
Net Margin	8.5%	8.2%	3.8%	8.1%	8.4%	8.8%	4.5%	9.2%	6.0%	6.9%
Free Cash Flow	1274	926	1109	1192	1037	1059	1392	1591	478	1277
Income Tax	355	373	140	371	416	410	104	282	171	239

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	62236	59404	62450	60564	61942	64013	61876	67013	70630	70120
Cash & Equivalents	77	94	103	113	100	77	94	84	197	75
Accounts Receivable	6475	6454	6541	6324	6470	6545	6278	6384	12190	12440
Goodwill & Int. Ass.	225	220	214	255	367	367	447	440	437	425
Total Liabilities	53624	50745	53928	51900	52974	54438	53254	57048	59750	58700
Long-Term Debt	3211	2612	2781	2801	2999	2938	2971	3327	3346	3442
Shareholder's Equity	8613	8659	8522	8664	8968	9575	8622	9965	10870	11420
LTD/E Ratio	0.37	0.30	0.33	0.32	0.33	0.31	0.34	0.33	0.31	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.5%	1.4%	0.7%	1.4%	1.5%	1.6%	0.8%	1.7%	1.2%	1.2%
Return on Equity	10.7%	9.8%	4.7%	10.1%	10.6%	10.7%	5.8%	11.8%	7.6%	7.4%
ROIC	7.8%	7.3%	3.6%	7.6%	7.9%	8.1%	4.3%	8.8%	5.8%	5.7%
Shares Out.	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	203.8	205
Revenue/Share	37.32	38.99	41.01	43.30	46.81	49.65	52.71	57.18	64.6	58.67
FCF/Share	4.52	3.48	4.32	4.81	4.39	4.66	6.33	7.58	2.35	6.24

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

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