



Unum Group (UNM)

Updated February 3rd, 2023, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|--------------------------------------|---------|
| Current Price: | \$41 | 5 Year CAGR Estimate: | 9.9% | Market Cap: | \$8.2 B |
| Fair Value Price: | \$51 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date¹: | 1/26/23 |
| % Fair Value: | 81% | 5 Year Valuation Multiple Estimate: | 4.3% | Dividend Payment Date: | 2/17/23 |
| Dividend Yield: | 3.2% | 5 Year Price Target | \$59 | 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 \$8.2 billion company generated \$12 billion in revenue last year.

In late January, Unum reported (1/31/23) financial results for the fourth quarter of fiscal 2022. It grew its operating earnings-per-share 61% over the prior year's quarter, from \$0.89 to \$1.43, thanks to strong premium growth in its core segments and favorable trends in the Group Disability category. Adjusted book value per share grew 11% over the prior year's quarter. Unum missed the analysts' consensus by \$0.04 and thus it missed the analysts' consensus for the first time after four consecutive quarters. On the other hand, the company has entered 2023 with strong business momentum and all-time high levels of capital. We thus expect 10-year high earnings-per-share of about \$6.40 this year.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$3.23 | \$3.59 | \$3.64 | \$3.93 | \$4.29 | \$5.20 | \$5.44 | \$4.93 | \$4.35 | \$6.21 | \$6.40 | \$7.42 |
| DPS | \$0.55 | \$0.62 | \$0.70 | \$0.77 | \$0.86 | \$0.98 | \$1.09 | \$1.14 | \$1.17 | \$1.26 | \$1.32 | \$1.53 |
| Shares² | 259.5 | 251.4 | 240.9 | 229.8 | 222.6 | 214.6 | 202.9 | 203.7 | 204.8 | 200.9 | 195 | 185 |

In the 2010 through 2019 stretch, Unum grew its earnings-per-share by an average compound growth rate of 7.8% per year. 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 but the number of COVID-related claims has greatly decreased and thus the worse seems to be behind the insurer on this front. In addition, employees realized their financial fragility during the pandemic and thus they have now appreciated the merits of the insurance products of Unum.

Unum has returned to growth more thanks to reasonable improvement in premium and investments, expense management, and a meaningful share repurchase program over time. With that said, there are 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% growth of earnings-per-share over the next five years.

¹ Estimated date.

² In millions.

Disclosure: The analyst does not own the security discussed in this research report.



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Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 9.0 | 10.3 | 9.4 | 8.7 | 11.4 | 8.0 | 5.9 | 4.0 | 6.2 | 5.7 | 6.4 | 7.9 |
| Avg. Yld. | 1.9% | 1.8% | 2.0% | 2.3% | 1.8% | 2.4% | 3.4% | 5.8% | 4.2% | 3.6% | 3.2% | 2.6% |

During the past decade, shares of Unum have traded hands with an average price-to-earnings ratio of 7.9, with a range from 5 to 12. We consider this price-to-earnings ratio fair for this stock. The stock is currently trading at a price-to-earnings ratio of 6.4. If it trades at fair valuation level in five years, it will enjoy a 4.3% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 17% | 17% | 19% | 20% | 20% | 19% | 20% | 23% | 27% | 20% | 21% | 21% |

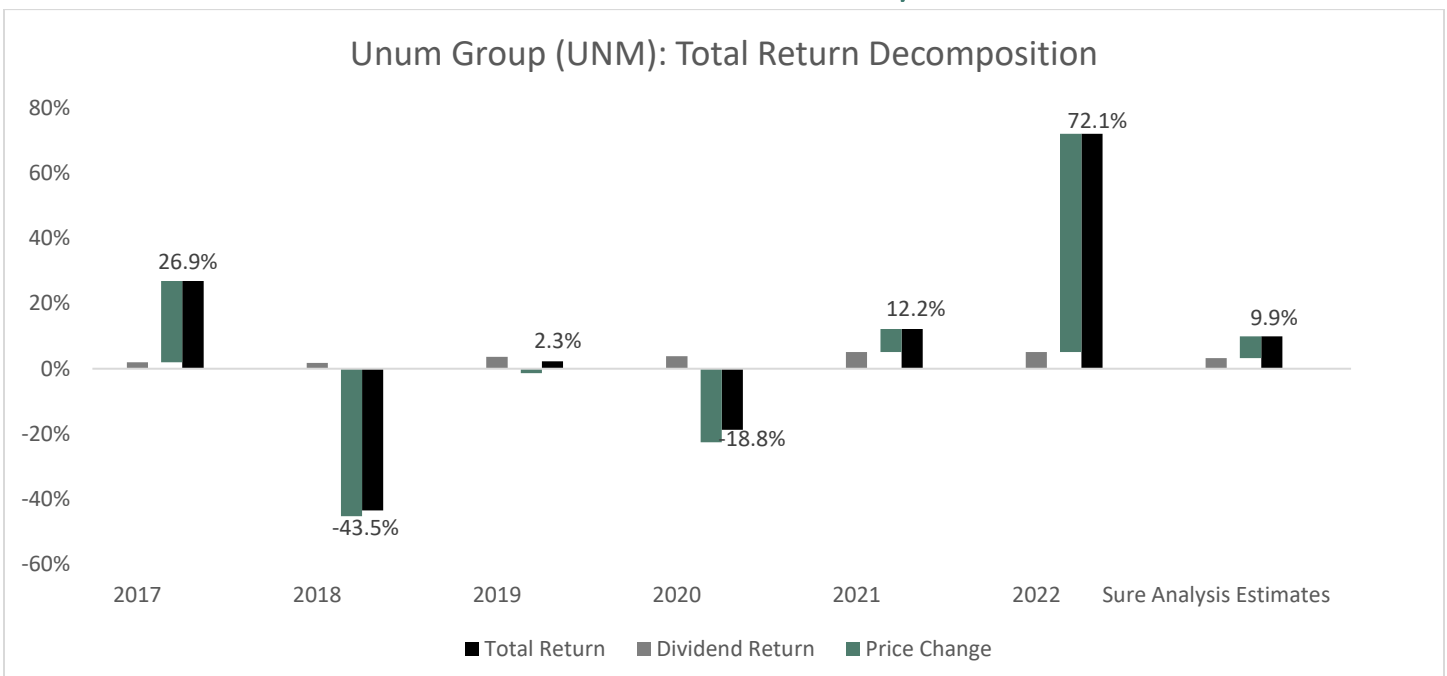
Unum has demonstrated a strong operating history in good times or bad for decades now. During the Great Recession, the company posted earnings-per-share of \$2.19, \$2.51, \$2.57, and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

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 59% over the last 12 months 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 a 9.9% annual total return over the next five years thanks to a 3.2% dividend, 3.0% growth of earnings-per-share and a 4.3% potential valuation tailwind. The stock earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 10369 | 10525 | 10731 | 11047 | 11287 | 11599 | 11999 | 13160 | 12020 | 11991 |
| SG&A Exp. | 790 | 821 | 835 | 839 | 852 | 886 | 898 | 953 | 975 | --- |
| D&A Exp. | 85 | 88 | 100 | 102 | 103 | 101 | 110 | 114 | 120 | --- |
| Net Profit | 847 | 402 | 867 | 931 | 994 | 523 | 1100 | 793 | 824 | 1314 |
| Net Margin | 8.2% | 3.8% | 8.1% | 8.4% | 8.8% | 4.5% | 9.2% | 6.0% | 6.9% | 11.0% |
| Free Cash Flow | 926 | 1109 | 1192 | 1037 | 1059 | 1392 | 1591 | 478 | 1277 | --- |
| Income Tax | 373 | 140 | 371 | 416 | 410 | 104 | 282 | 171 | 239 | 317 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 59404 | 62450 | 60564 | 61942 | 64013 | 61876 | 67013 | 70630 | 70120 | 61435 |
| Cash & Equivalents | 94 | 103 | 113 | 100 | 77 | 94 | 84 | 197 | 75 | 119 |
| Accounts Receivable | 6454 | 6541 | 6324 | 6470 | 6545 | 6278 | 6384 | 12190 | 12440 | 11701 |
| Goodwill & Int. Ass. | 220 | 214 | 255 | 367 | 367 | 447 | 440 | 437 | 425 | 348 |
| Total Liabilities | 50745 | 53928 | 51900 | 52974 | 54438 | 53254 | 57048 | 59750 | 58700 | 52237 |
| Long-Term Debt | 2612 | 2781 | 2801 | 2999 | 2938 | 2971 | 3327 | 3346 | 3442 | 3430 |
| Shareholder's Equity | 8659 | 8522 | 8664 | 8968 | 9575 | 8622 | 9965 | 10870 | 11420 | 9198 |
| LTD/E Ratio | 0.30 | 0.33 | 0.32 | 0.33 | 0.31 | 0.34 | 0.33 | 0.31 | 0.30 | 0.37 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 1.4% | 0.7% | 1.4% | 1.5% | 1.6% | 0.8% | 1.7% | 1.2% | 1.2% | 2.0% |
| Return on Equity | 9.8% | 4.7% | 10.1% | 10.6% | 10.7% | 5.8% | 11.8% | 7.6% | 7.4% | 12.8% |
| ROIC | 7.3% | 3.6% | 7.6% | 7.9% | 8.1% | 4.3% | 8.8% | 5.8% | 5.7% | 9.6% |
| Shares Out. | 259.5 | 251.4 | 240.9 | 229.8 | 222.6 | 214.6 | 202.9 | 203.8 | 205 | 202 |
| Revenue/Share | 38.99 | 41.01 | 43.30 | 46.81 | 49.65 | 52.71 | 57.18 | 64.6 | 58.67 | 59.33 |
| FCF/Share | 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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