



Horace Mann Educators Corporation (HMN)

Updated May 17th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$33.20	5 Year CAGR Estimate:	8.3%	Market Cap:	\$1.39 B
Fair Value Price:	\$25.80	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/14/2023 ¹
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	06/30/2023
Dividend Yield:	4.0%	5 Year Price Target	\$42	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Horace Mann Educators Corporation was founded in 1945 by two teachers from Springfield, Illinois, who recognized the need for quality and affordable auto insurance for teachers. Today, the company is the largest financial services provider that focuses on serving the education community and those who serve the community. The company's primary customers are educators, but it also serves individuals and organizations in the public sector. Horace Mann offers a range of financial and insurance products, including retirement annuities, life insurance, and property and casualty insurance. The company has a strong market presence and is considered a leader in the education insurance market. Overall, Horace Mann Educators Corporation has a long-standing reputation for serving the education community and has a significant market share in the K-12 education market.

On May 2nd, 2023, the company announced results for the first quarter 2023. HMN reported Q1 Non-GAAP EPS of \$0.30, beating the market estimates by \$0.09. The company reported revenues of \$353.9 million for the quarter, up 2.0% year-over-year. The management reaffirmed its full-year 2023 EPS guidance of \$2.00 to \$2.30 range as the momentum toward sustained double-digit ROEs resumes.

As the ability to reach educators improved, the sales momentum increased in the first quarter. Sales in the Worksite Division increased by 164% in the first quarter, or \$2.3 million, and worksite direct sales are already approaching pre-pandemic levels. The Life & Retirement business's offerings have continued to be well received by educators in the Retail Division. Despite ongoing external difficulties, annualized life sales increased by 22%, and retirement results remained strong. The Property & Casualty division is still on track to meet its longer-term profitability targets. First quarter net written premiums for Property & Casualty increased by 7% as rate and non-rate underwriting actions took hold, and retention remained constant with year-end. Auto sales increased for a second consecutive quarter, mainly in states where the management is optimistic about future prices.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.66	\$2.47	\$2.20	\$2.02	\$4.08	\$0.44	\$4.40	\$3.17	\$3.39	-\$0.06	\$2.15	\$3.46
DPS	\$0.78	\$0.92	\$1.00	\$1.06	\$1.10	\$1.14	\$1.15	\$1.20	\$1.24	\$1.28	\$1.32	\$1.77
Shares	41.6	42.2	42.4	41.5	41.6	41.9	41.9	42.0	42.2	41.8	41.8	41.9

The number of K-12 educators in the country currently exceeds 7.5 million, and according to HMN's most recent earnings presentation, that number is expected to increase by about 4% over the coming years. The company's acquisitions are anticipated to significantly increase its revenue by entering the education market and taking advantage of cross-selling opportunities. Additionally, throughout 2023 and 2024, the management expects that the growth rate of all written premiums will accelerate with increased earned premiums.

Despite its remarkable financial performance, its combined ratio in the property and casualty segment, which compares operational costs and net earned premiums, may be in jeopardy after being lower than the industry average for the previous ten years. In addition, the business experienced significant losses in 2022, and HMN has recorded a negative

¹ The ex-div and dividend payment dates are estimated based on historical data.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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EPS of -\$0.06 for the first time in nine years. Lastly, the company might continue experiencing some pressure for at least a year or two due to inflation.

However, we have matched the management's estimates for an EPS of \$2.15 in 2023 and a projected annual EPS growth of 10.0%, leading to HMN's EPS of \$3.46 by 2028. In addition, Horace Mann's DPS had a nine-year and five-year CAGR of 5.7% and 7.9%, respectively, and has consistently increased the dividend payments for the last 13 years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	9.6	12.1	15.4	17.3	9.9	96.7	9.5	11.9	11.6	---	15.4	12.0
Avg. Yld.	3.0%	3.1%	3.0%	3.0%	2.7%	2.7%	2.8%	3.2%	3.1%	3.3%	4.0%	4.3%

Horace Mann trades at a forward P/E of 15.4, lower than its nine-year and five-year average P/E of 21.6 and 27.9, respectively. Considering the insurer's resiliency, we have assumed a stable P/E of 12.0 to value the company in 2028 in line with its normalized historical averages, suggesting a target price of \$42 and a 26.5% upside from current levels. HMN has the possibility of re-rating in the foreseeable future once the stock proves it can deliver on its growth targets and has a clear path to double-digit ROE figures.

Safety, Quality, Competitive Advantage, & Recession Resiliency

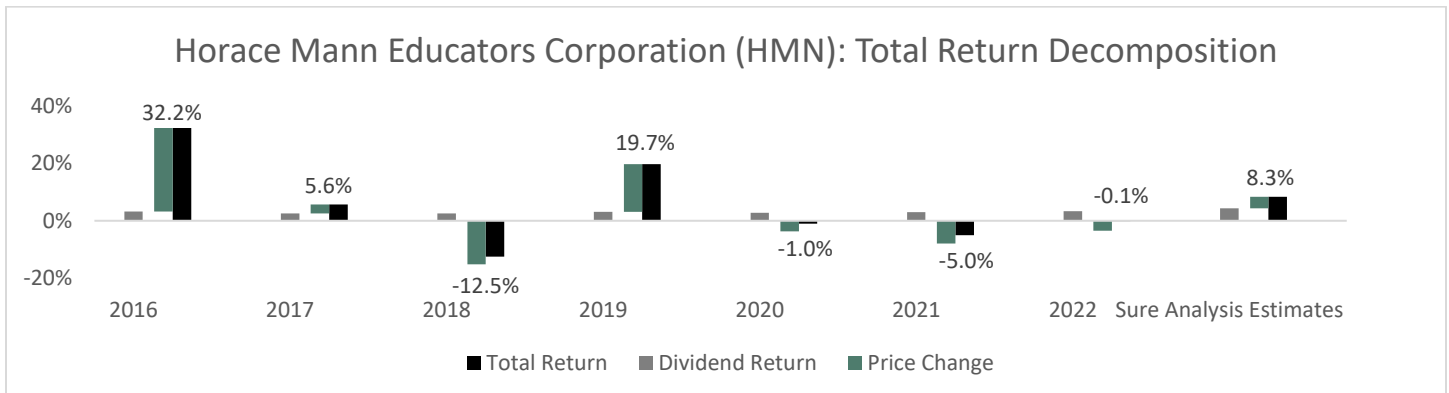
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	37%	45%	52%	27%	259%	26%	38%	37%	---	61%	76%

Horace Mann is a substantial market presence and a leader in the education insurance market. Overall, Horace Mann Educators Corporation has a long-standing reputation for serving the education community and has a significant market share in the K-12 education market. Another key competitive advantage is their extensive knowledge and experience in serving the education community. In addition, they have a strong reputation for providing customized and comprehensive coverage to their clients. During the 2008 recession, Horace Mann showed resilience and remained profitable, thanks to their conservative investment strategy and diversified product offerings.

Final Thoughts & Recommendation

In the past, HMN has enjoyed a favorable financial grade and provided investors with great results. Yet, the current situation of skyrocketing inflation and disasters that cause deaths and injuries has resulted in a rise in claims that insurance companies must pay. Thus, the hold rating is premised upon the 8.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 4.0% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,031	1,061	1,080	1,129	1,172	1,176	1,405	1,290	1,251	1,342
D&A Exp.					7	7	16	23	18	28
Net Profit	111	104	93	84	169	18	184	133	143	(3)
Net Margin	10.8%	9.8%	8.7%	7.4%	14.5%	1.6%	13.1%	10.3%	11.4%	-0.2%
Free Cash Flow					257	201	128	260	205	172
Income Tax	43	42	36	30	(81)	1	52	26	32	(9)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,827	9,769	10,057	10,577	11,198	11,032	12,479	13,472	14,384	13,447
Cash & Equivalents	18	12	16	17	8	12	26	22	133	42
Acc. Receivable									153	506
Goodwill & Int.	47	47	47	47	47	47	226	202	189	240
Total Liabilities	7,727	8,432	8,792	9,283	9,697	9,741	10,911	11,682	12,577	12,359
Long-Term Debt	238	238	247	247	297	298	433	437	503	498
Total Equity	1,099	1,336	1,265	1,294	1,502	1,291	1,567	1,790	1,807	1,088
LTD/E Ratio	0.22	0.18	0.20	0.19	0.20	0.23	0.28	0.24	0.28	0.46

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	1.1%	0.9%	0.8%	1.6%	0.2%	1.6%	1.0%	1.0%	0.0%
Return on Equity	9.5%	8.6%	7.2%	6.5%	12.1%	1.3%	12.9%	7.9%	7.9%	-0.2%
ROIC	7.9%	7.2%	6.1%	5.5%	10.1%	1.1%	10.3%	6.3%	6.3%	-0.1%
Shares Out.	41.6	42.2	42.4	41.5	41.6	41.9	41.9	42.0	42.2	41.8
Revenue/Share	24.77	25.12	25.47	27.22	28.19	28.08	33.53	30.70	29.65	32.11
FCF/Share					6.17	4.80	3.05	6.19	4.86	4.10

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

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