



Unum Group (UNM)

Updated February 1st, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	11.7%	Market Cap:	\$9.3 B
Fair Value Price:	\$65	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	1/25/24
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.2%	Dividend Payment Date:	2/16/24
Dividend Yield:	3.0%	5 Year Price Target	\$75	Years Of Dividend Growth:	15
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 \$9.3 billion company generated \$10 billion in revenue last year.

In late January, Unum reported (1/30/24) financial results for the fourth quarter of fiscal 2023. It grew its operating earnings-per-share 25% over the prior year's quarter, from \$1.43 to \$1.79, thanks to strong growth of sales and premiums in its core segments and favorable trends in the Group Disability category. Adjusted book value per share grew 13%. Thanks to sustained business momentum, Unum provided guidance for 5%-7% growth of premiums and 7%-9% growth of earnings-per-share in 2024. We have assumed 7% growth in order to be on the safe side, but the insurer has good chances of exceeding our estimate. It has beaten the analysts' estimates in 7 of the last 9 quarters.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.59	\$3.64	\$3.93	\$4.29	\$5.20	\$5.44	\$4.93	\$4.35	\$6.21	\$7.66	\$8.20	\$9.51
DPS	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.17	\$1.26	\$1.39	\$1.46	\$1.78
Shares¹	251.4	240.9	229.8	222.6	214.6	202.9	203.7	204.8	200.9	195.5	190	180

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 collapsed 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 mode thanks to an 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 In millions.

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



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.3	9.4	8.7	11.4	8.0	5.9	4.0	6.2	5.7	5.9	5.9	7.9
Avg. Yld.	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	5.8%	4.2%	3.6%	3.1%	3.0%	2.4%

During the past decade, shares of Unum have traded hands with an average price-to-earnings ratio of 7.9, with a range from 4 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 5.9. If it trades at fair valuation level in five years, it will enjoy a 6.2% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17%	19%	20%	20%	19%	20%	23%	27%	20%	18%	18%	19%

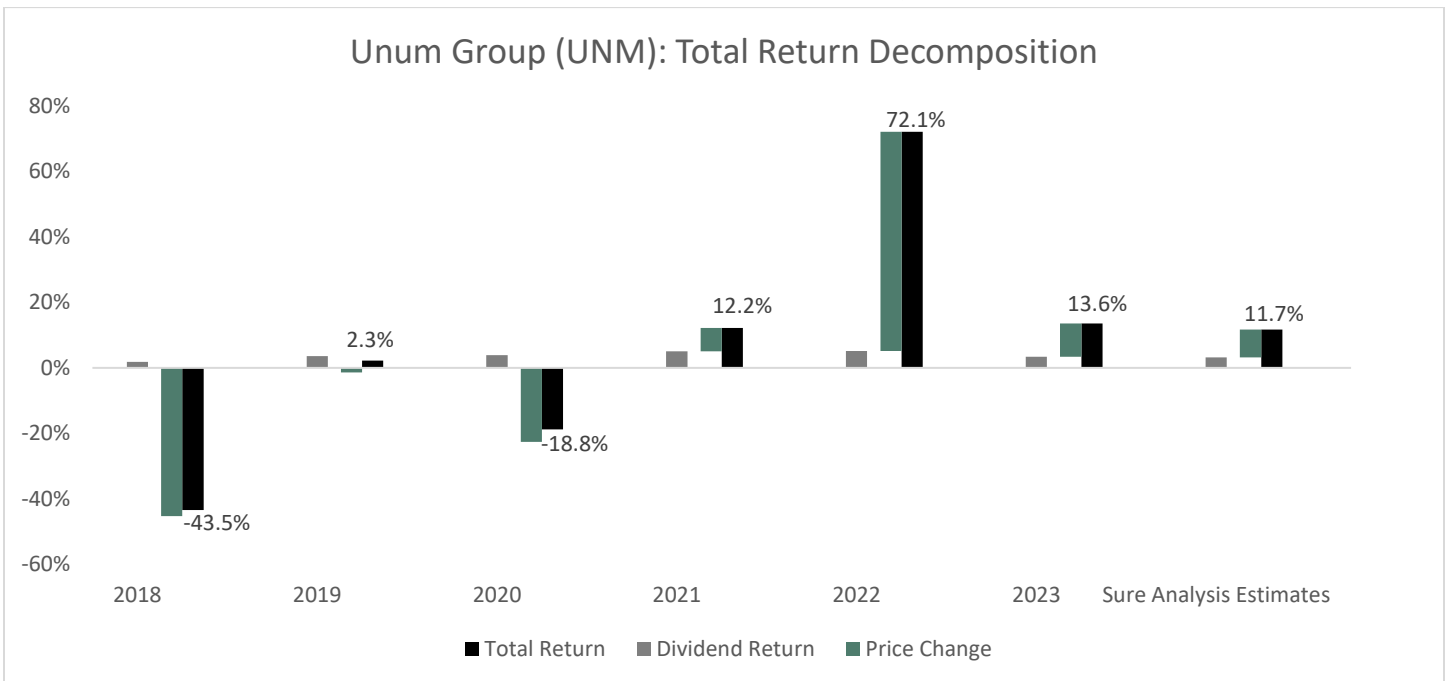
Unum has demonstrated a strong operating history in good times or bad for decades now. During the Great Recession, the company posted earnings-per-share of \$2.19, \$2.51, \$2.57, and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

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 more than doubled off its bottom in late 2021 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 an 11.7% annual total return over the next five years thanks to a 3.0% dividend, 3.0% growth of earnings-per-share and a 6.2% potential valuation tailwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10525	10731	11047	11287	11599	11999	13160	12020	11991	12386
SG&A Exp.	821	835	839	852	886	898	953	975	1090	---
D&A Exp.	88	100	102	103	101	110	114	120	111	---
Net Profit	402	867	931	994	523	1100	793	824	1314	1284
Net Margin	3.8%	8.1%	8.4%	8.8%	4.5%	9.2%	6.0%	6.9%	11.0%	10.4%
Free Cash Flow	1109	1192	1037	1059	1392	1591	478	1277	1317	---
Income Tax	140	371	416	410	104	282	171	239	317	356

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	62450	60564	61942	64013	61876	67013	70630	70120	61435	63255
Cash & Equivalents	103	113	100	77	94	84	197	75	119	146
Accounts Receivable	6541	6324	6470	6545	6278	6384	12190	12440	11701	10652
Goodwill & Int. Ass.	214	255	367	367	447	440	437	425	348	350
Total Liabilities	53928	51900	52974	54438	53254	57048	59750	58700	52237	53604
Long-Term Debt	2781	2801	2999	2938	2971	3327	3346	3442	3430	3430
Shareholder's Equity	8522	8664	8968	9575	8622	9965	10870	11420	9198	9651
LTD/E Ratio	0.33	0.32	0.33	0.31	0.34	0.33	0.31	0.30	0.37	0.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	1.4%	1.5%	1.6%	0.8%	1.7%	1.2%	1.2%	2.0%	2.1%
Return on Equity	4.7%	10.1%	10.6%	10.7%	5.8%	11.8%	7.6%	7.4%	12.8%	13.6%
ROIC	3.6%	7.6%	7.9%	8.1%	4.3%	8.8%	5.8%	5.7%	9.6%	10.0%
Shares Out.	251.4	240.9	229.8	222.6	214.6	202.9	203.8	205	202.1	197.6
Revenue/Share	41.01	43.30	46.81	49.65	52.71	57.18	64.6	58.67	58.79	62.68
FCF/Share	4.32	4.81	4.39	4.66	6.33	7.58	2.35	6.24	6.51	---

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

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