



# Principal Financial Group (PFG)

Updated November 5<sup>th</sup>, 2024 by Jonathan Weber

## Key Metrics

|                             |      |                                            |       |                                  |          |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$83 | <b>5 Year CAGR Estimate:</b>               | 7.1%  | <b>Market Cap:</b>               | \$19B    |
| <b>Fair Value Price:</b>    | \$78 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 12/02/24 |
| <b>% Fair Value:</b>        | 106% | <b>5 Year Valuation Multiple Estimate:</b> | -1.2% | <b>Dividend Payment Date:</b>    | 12/18/24 |
| <b>Dividend Yield:</b>      | 3.5% | <b>5 Year Price Target</b>                 | \$100 | <b>Years Of Dividend Growth:</b> | 21       |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Hold     |

## Overview & Current Events

Principal Financial Group is a financial corporation that operates several businesses including insurance, primarily life insurance, and investment management, retirement solutions and asset management. Principal Financial Group was founded in 1879, and is headquartered in Des Moines, IA.

Principal Financial Group reported its third quarter earnings results on October 25. Principal Financial Group saw its assets under management increase to \$741 billion, which does not include additional assets that are solely under administration. AuM increased year-over-year due to the equity market performance. Principal Financial's successful management of the assets of its customers continued, as 68% of AuM outperformed their peer average over the last five years, which should help attract new client money for Principal Financial in the long term. The company saw its Retirement and Income Solutions business experience a 9% revenue increase over the last year.

Principal Financial Group generated earnings-per-share of \$2.05 during the third quarter, which beat the consensus estimate by \$0.04. Earnings-per-share were up 12% compared to the previous year's quarter on an adjusted basis. The last two years were slightly weaker than record year 2021, as profits pulled back at a low single digit rate, but it is expected that 2024 will be a new record year for the company, as Principal Financial Group expects its earnings-per-share to grow by around 10% this year.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$4.41 | \$4.26 | \$4.55 | \$5.04 | \$5.53 | \$5.58 | \$4.94 | \$6.77 | \$6.66 | \$6.55 | <b>\$7.10</b> | <b>\$9.06</b> |
| <b>DPS</b>                | \$1.28 | \$1.50 | \$1.61 | \$1.87 | \$2.13 | \$2.18 | \$2.24 | \$2.44 | \$2.56 | \$2.68 | <b>\$2.92</b> | <b>\$3.91</b> |
| <b>Shares<sup>1</sup></b> | 299    | 298    | 288    | 289    | 285    | 281    | 277    | 269    | 249    | 241    | <b>235</b>    | <b>210</b>    |

Principal Financial Group recorded a solid average annual earnings-per-share growth rate of 4% to 5% between 2014 and 2023. Growth was a bit uneven, though, as there were some years where the company's profits declined.

The company's asset management business, where Principal Global Investors and Retirement & Income Solutions are the main components, has benefitted from solid assets under management (AuM) growth in the past. A rising number of new customers also helps drive AuM, in addition to market appreciation in normal times. While market downturns can result in temporary assets under management declines, we believe that assets under management should continue to grow in the long term, even with some ups and downs in between. The company's asset management business is attractive for investors, as Principal's actively-managed funds, ETFs, and other vehicles performed better than the median of their asset class in most cases in the past. As Principal has produced above-average returns for its customers, new customers are attracted to letting Principal manage their wealth, which serves as a competitive advantage versus other asset management companies with a weaker track record. With its insurance business, Principal Financial Group has been able to grow its premiums and fees in the past, and a growing float that can be invested should result in rising investment income going forward. Principal Financial Group has also boosts its earnings-per-share growth by repurchasing shares. Between these factors, we believe a mid-single-digit earnings-per-share growth rate is realistic.

<sup>1</sup> In Millions

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## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 11.2 | 11.9 | 10.1 | 12.8 | 8.0  | 10.0 | 9.7  | 10.6 | 12.6 | 12.1 | 11.7 | 11.0 |
| Avg. Yld. | 2.6% | 3.0% | 3.5% | 2.9% | 4.9% | 3.9% | 4.7% | 3.4% | 3.0% | 3.4% | 3.5% | 3.9% |

Principal Financial Group trades at around 12 times 2024’s earnings-per-share estimate right now, which is on the higher end compared to how the company’s shares were valued over the last decade. We believe that this is slightly above fair value and that Principal Financial Group’s shares have some downside potential from the current level. The dividend yield of 3.5% provides solid income for investors.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2029  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 29.0% | 35.2% | 35.4% | 37.1% | 38.5% | 39.1% | 45.3% | 36.0% | 38.4% | 40.9% | 41.1% | 43.1% |

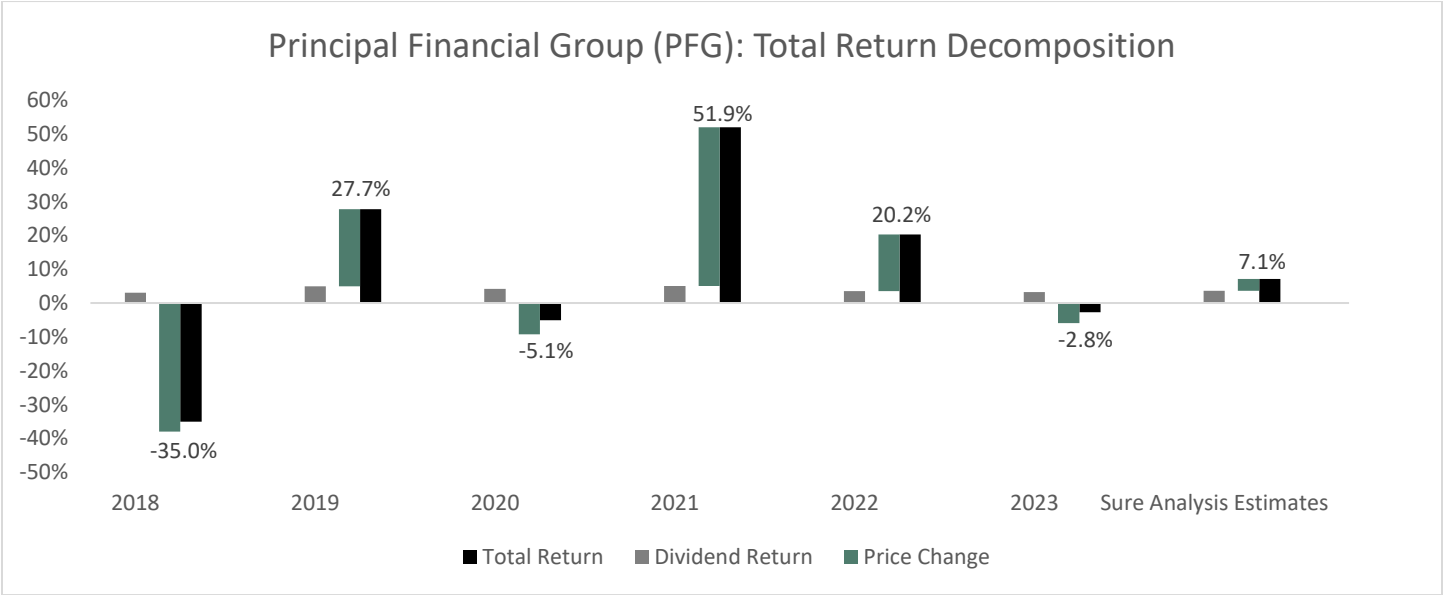
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company’s dividend payout ratio. The dividend payout ratio of around 40% makes us believe that the dividend is reasonably safe.

The strong performance and ratings of Principal Financial Group’s actively managed funds, ETFs, and other products is a competitive advantage, as this increases the likelihood of customers choosing Principal to manage their assets. Principal Financial Group’s stock was extremely volatile during the Great Recession, but its actual underlying performance was not impacted much. Operating earnings declined by just 10% from 2007 to 2008 and started to rise again soon. This compares very favorably to the much weaker performance of many other financial companies during that time.

## Final Thoughts & Recommendation

Principal Financial Group has generated solid earnings-per-share growth and dividend growth throughout the last decade. Relative to its peers from the financial industry, Principal Financial Group has been reasonably resilient to recessions and market downturns, although the company is not immune to such macro problems. Based on current estimates, the total return outlook over the coming years is good but not great, which is why we rate Principal Financial Group a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year           | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue        | 10,478 | 11,964 | 12,394 | 14,093 | 14,237 | 16,222 | 14,742 | 14,428 | 17,536 | 13,666 |
| D&A Exp.       | 170    | 193    | 187    | 196    | 205    | 227    | 252    | 275    | 296    | 273    |
| Net Profit     | 1,144  | 1,234  | 1,317  | 2,310  | 1,547  | 1,394  | 1,396  | 1,580  | 4,757  | 623    |
| Net Margin     | 10.9%  | 10.3%  | 10.6%  | 16.4%  | 10.9%  | 8.6%   | 9.5%   | 11.0%  | 27.1%  | 4.6%   |
| Free Cash Flow | 2,967  | 4,241  | 3,703  | 4,023  | 5,064  | 5,361  | 3,601  | 3,125  | 3,057  | 3,690  |
| Income Tax     | 319    | 178    | 230    | (72)   | 231    | 249    | 265    | 284    | 1,190  | 69     |

## Balance Sheet Metrics

| Year                 | 2014   | 2015  | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|----------------------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (\$B)   | 219    | 219   | 228    | 254    | 243    | 276    | 297    | 305    | 292    | 305    |
| Cash & Equivalents   | 1,864  | 2,565 | 2,720  | 2,471  | 2,978  | 2,516  | 2,850  | 2,332  | 4,848  | 4,708  |
| Accounts Receivable  | 1,213  | 1,429 | 1,362  | 1,470  | 1,413  | 1,740  | 1,724  | 1,842  | 26,313 | 24,611 |
| Goodwill & Int. Ass. | 2,331  | 2,368 | 2,346  | 2,384  | 2,415  | 3,481  | 3,434  | 3,228  | 3,132  | 3,078  |
| Total Liab. (\$B)    | 209    | 209   | 218    | 241    | 232    | 261    | 280    | 289    | 281    | 293    |
| Long-Term Debt       | 2,559  | 3,446 | 3,177  | 3,218  | 3,303  | 3,828  | 4,364  | 4,360  | 4,078  | 3,992  |
| Shareholder's Equity | 10,184 | 9,312 | 10,227 | 12,849 | 11,390 | 14,618 | 16,559 | 16,069 | 10,002 | 10,916 |
| LTD/E Ratio          | 0.25   | 0.37  | 0.31   | 0.25   | 0.29   | 0.26   | 0.26   | 0.27   | 0.41   | 0.37   |

## Profitability & Per Share Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.5%  | 0.6%  | 0.6%  | 1.0%  | 0.6%  | 0.5%  | 0.5%  | 0.5%  | 1.6%  | 0.2%  |
| Return on Equity | 11.3% | 12.5% | 13.3% | 19.7% | 12.4% | 10.4% | 8.8%  | 9.5%  | 35.6% | 5.8%  |
| ROIC             | 8.9%  | 9.6%  | 9.9%  | 15.5% | 9.9%  | 8.2%  | 7.0%  | 7.5%  | 27.0% | 4.2%  |
| Shares Out.      | 299   | 298   | 288   | 289   | 285   | 281   | 277   | 269   | 249   | 241   |
| Revenue/Share    | 35.08 | 40.15 | 42.34 | 48.08 | 49.30 | 57.73 | 53.30 | 52.87 | 68.69 | 55.87 |
| FCF/Share        | 9.93  | 14.23 | 12.65 | 13.73 | 17.54 | 19.08 | 13.02 | 11.45 | 11.97 | 15.09 |

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

### Disclaimer

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