

Principal Financial(PFG)

\$47.05 (As of 06/05/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Principal Financial's focus on fee-based revenue sources should help it earn steadily and limits its exposure to interest rate. It continues to benefit from strength and leadership in retirement and long-term savings, group benefits and protection in the United States, retirement and long-term savings in Latin America and Asia plus global asset management. The inorganic growth story is impressive with buyouts fortifying its global footprint and adding fee-based businesses. Its shares have underperformed the industry year to date. Nevertheless, it boasts a solid capital position on which it deploys capital effectively through share buybacks and dividend payment. However, increase in expenses weighs on its margins. Dilution from acquisition is another potential headwind for Principal Financial.

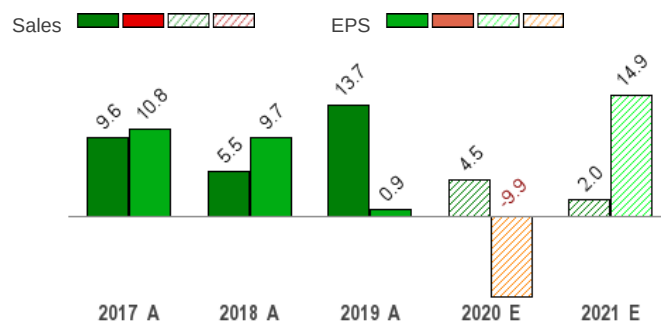
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.79 - \$23.31
20 Day Average Volume (sh)	1,560,973
Market Cap	\$12.9 B
YTD Price Change	-14.5%
Beta	1.61
Dividend / Div Yld	\$2.24 / 4.8%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 34% (167 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.4%
Last Sales Surprise	17.7%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	07/27/2020
Earnings ESP	4.8%
P/E TTM	8.9
P/E F1	9.4
PEG F1	2.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,378 E	3,945 E	4,263 E	4,052 E	17,359 E
2020	4,430 A	3,812 E	4,143 E	3,930 E	17,015 E
2019	3,659 A	3,977 A		4,138 A	16,275 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.29 E	\$1.39 E	\$1.45 E	\$1.42 E	\$5.78 E
2020	\$1.15 A	\$1.25 E	\$1.28 E	\$1.34 E	\$5.03 E
2019	\$1.43 A	\$1.52 A	\$1.23 A	\$1.41 A	\$5.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

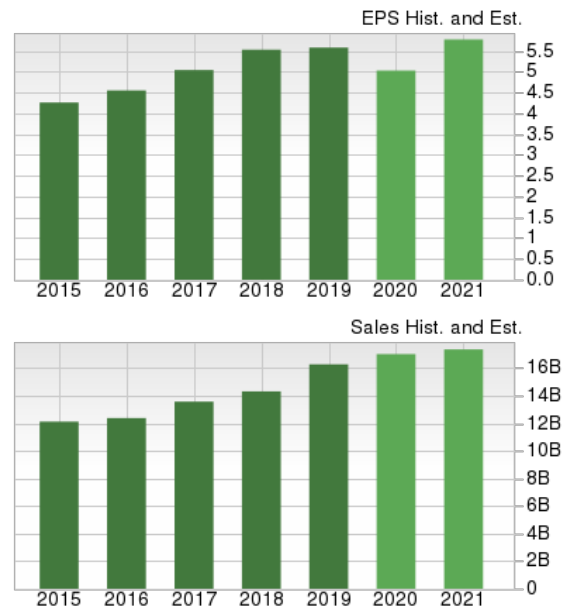
Overview

Ranked among the Fortune 500 companies, Des Moines, IA-based Principal Financial Group Inc. is a leader in global investment management offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through our diverse family of financial services companies. The company was founded in 1879.

The global asset management businesses provide long-term investment strategies to institutional, retirement, high net worth and retail clients by offering a range of capabilities including equity, fixed income, real estate and other alternative investments, as well as fund offerings. In the United States., the company primarily focuses on small and medium-sized businesses by offering a broad array of retirement and employee benefit solutions and individual insurance solutions. Principal Financial reports through four segments.

Retirement and Income Solution (RIS) (54.5% of 2019 revenues) provides pension plan products and services. It now offers a comprehensive portfolio of products and services for retirement savings and retirement income. The company organized Retirement and Income Solutions operations into two business groupings: Retirement and Income Solutions — Fee and Retirement and Income Solutions — Spread. **US Insurance Solution (USIS) (27.1%)** began selling individual life insurance products and now expanded offering to include group insurance products. The company organized this operation into two divisions: Specialty Benefits insurance and Individual Life insurance. **Principal International (PI) (9.3%)** focuses on locations with growing middle classes, favorable demographics and increasing long-term savings, ideally with defined contribution retirement markets. It has operations in Latin America and Asia. **Principal Global Investors (PGI) segment (9.1%)** manages assets for sophisticated investors around the world using a multi-boutique strategy that provides diverse investment capabilities including equity, fixed income, real estate and other alternative investments.

The **Corporate** segment consists of the assets and activities that have not been allocated to any other segments.



Reasons To Buy:

- ▲ Shares of Principal Financial have lost 14.4% year to date compared with the industry's fall of 2%. Nevertheless, its solid fundamentals are likely help the stock regain its momentum going forward.
- ▲ Principal Financial continues to benefit from its strength and leadership in retirement and long-term savings, group benefits and protection in the United States, retirement and long-term savings in Latin America and Asia plus global asset management, which help it deliver solid operating earnings. Continued growth in fee, spread and risk businesses boost the company's long-term prospects. However, with the pandemic affecting employment and contributions to employee benefit plans among otherz, the company estimates growth in group benefits premiums and retirement recurring deposits to be adversely impacted in the rest of 2020, thus weighing on earnings.
- ▲ Principal Financial's AUM is driven by three asset management and asset accumulation segments. However, AUM as of Mar 31, 2020 was \$631.1 billion, down 6.6% year over year, attributable to unfavorable market performance and foreign exchange rates. Nonetheless, despite adverse conditions, net cash inflow was \$3 billion in the first quarter of 2020. Further, Principal International generated \$300 million of net cash flow, marking the 46th consecutive positive quarter, driven by positive flows in Brazil, Mexico and Hong Kong. We continue to believe that AUM growth will be supported by the company's extensive distribution footprint, best-in-class solutions, strategic buyouts and operational discipline. Additionally
- ▲ Investment results at Principal Financial improved in the last five years with the metric rising nearly 31%. The rally continued in the first quarter of 2020 with the metric rising 2.4% from the year-ago period. Though rising investment income positions the company well for growth, it expects sales across many businesses to be dampened by to the low interest rate environment.
- ▲ In order to grow inorganically, management utilizes a significant portion of its operating earnings for mergers and acquisitions and intends to continue to do so. Acquisitions, such as MetLife's Afore business, Internos (known as Principal Real Estate Europe presently), and RobustWealth have helped the company add to its fee-based businesses and expand its global footprint. Its buyout of Wells Fargo Institutional Retirement and Trust businesses on Jul 1, 2019 is expected to generate \$425 million of run-rate revenues, once fully integrated in 2022.
- ▲ Principal Financial boasts a strong capital position, with sufficient cash generation capabilities and liquidity. Though its debt has been rising over the last few years, the same declined 1.7% sequentially at first quarter 2020 end. Also, the company had \$3 billion in cash and liquid assets as well as access to \$800 million of revolving credit facilities available for liquidity purposes at first-quarter 2020 end. Along with over \$1.7 billion of excess and available capital, the company also had access to a contingent capital facility, allowing it to borrow up to \$1 billion, from which Principal Financial aims at least \$800 million to be able to meet the next 12 months of obligations. The company noted average debt service coverage ratio of 2.6. The next debt maturity of \$300 million is scheduled in 2022.
- ▲ Principal Financial's capital deployment (paid back \$372 million of capital in the first quarter 2020) through share buybacks and dividend payment look impressive, making it an attractive pick for yield-seeking investors. The 1.8% hike in dividend in January 2020 marked the 13th straight year dividend increases by the company. The company also boasts a solid dividend yield of 4.8%, higher than the industry average of 3.2%. Though the company had \$850 million remaining under its share repurchase authorization, it refrained from share buybacks due to the pandemic. The company estimates capital deployments in 2020 to be in the range of \$800 million to \$1 billion, below the \$1.2 billion to \$1.7 billion targeted range.

Focus on fee-based revenue sources, improving assets under management, spread and risk businesses have been helping Principal Financial earn steadily, besides limiting exposure to low interest rate.

Reasons To Sell:

- ▼ Principal Financial's expenses have been increasing since 2013, due to rise in benefits, claims and settlement expenses as well as operating expenses. In the first quarter of 2020, expenses increased 31% year over year. An increase in expenses weighs on its margins. Net margin contracted 120 basis points through 2013-2019 period. It further contracted 310 basis points in the first quarter of 2020.
 - ▼ Principal Financial has been growing inorganically through acquisitions, which increase its debt obligation risks associated with successful integration. In addition, lower-than-expected earnings accretion from the acquisitions might weigh on overall results. Given RobustWealth's acquisition (in Jul 2018), the company expects the transaction to be slightly dilutive for the next several quarters as it continues to expand its investment in the business.
 - ▼ Return on equity, a profitability measure, reflecting how effectively the company is utilizing its shareholders fund is lower than the industry average. The company's return of equity is 10.5% lower than the industry average of 11.1% as well as year ago number of 13.3%.
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Increasing operating expenses, rise in benefits, claims and settlement expenses as well as operating coupled with higher leverage inducing increase in interest expenses weigh on margin expansion.

Last Earnings Report

Principal Financial Q1 Earnings Miss, Revenues Beat

Principal Financial's first-quarter 2020 operating net income of \$1.15 per share missed the Zacks Consensus Estimate by 3.4%. Also, the bottom line declined 19.6% year over year.

Principal Financial witnessed higher revenues across most of its business lines, offset by higher expenses and lower assets under management (AUM).

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	17.70%
EPS Surprise	-3.36%
Quarterly EPS	1.15
Annual EPS (TTM)	5.31

Behind the Headlines

Operating revenues rose 21.1% year over year to \$4.4 billion. Higher premiums and other considerations plus net investment income drove this upside. Moreover, the top line beat the Zacks Consensus Estimate by 17.7%.

Total expenses increased 31.2% year over year to \$4.2 billion due to higher benefits, claims and settlement expenses as well as operating expenses. Principal Financial's AUM as of Mar 31, 2020 amounted to \$631.1 billion, down 6.6% year over year.

Segment Update

Retirement and Income Solution: Revenues surged nearly 37.7% year over year to about \$2.6 billion on the back of higher premiums and other considerations, fees and other revenues and net investment income.

Pre-tax operating earnings decreased 14.8% year over year to \$205.1 million on account of weak performance at Retirement and Income Solution — Fee business.

Principal Global Investors: Revenues of \$390.8 million were up 15.3% from the prior-year quarter driven by higher fees and other revenues.

Operating earnings increased 10.9% year over year to \$111.7 million on the back of higher operating revenues less pass-through expenses partially offset by higher variable expenses.

Principal International: Revenues fell 21% year over year to \$300.5 million in the quarter due to lower premiums and other considerations, fees and other revenues and net investment income.

Operating earnings decreased 72.3% year over year to \$30.8 million due to unfavorable encaje performance in the current quarter relative to favorable encaje performance in the year-ago quarter as well as foreign currency translation headwinds.

U.S. Insurance Solution: Revenues grew 5.2% year over year to \$1.1 billion driven by higher premiums and other considerations, fees and other revenues.

Operating earnings of \$129.5 million increased 17% year over year, mainly due to strong performance at Specialty Benefits Insurance business.

Corporate: Operating loss of \$91.1 million was wider than \$84.4 million loss incurred a year ago. This downside was due to higher operating expenses.

Financial Update

As of Mar 31, 2020, cash and cash equivalents were \$3.5 billion, up 54.1% year over year.

At first-quarter end, debt was \$3.7 billion, up 12.4% year over year.

As of Mar 31, 2020, book value per share (excluding AOCI other than foreign currency translation adjustment) was \$43.45, up 1.7% year over year.

Dividend and Share Repurchase Update

The company paid out \$153.6 million in dividends and deployed \$217.8 million to buy back 4.1 million shares in the quarter under review.

The board of directors approved second-quarter dividend of 56 cents per share, up 3% year over year.

Recent News

Principal Financial Issues Share Buyback Program – Feb 25, 2020

Principal Financial unveiled a repurchase program to buy back shares of upto \$900 million of its outstanding common stock. The company had \$168 million remaining under its current buyback program as of Dec 31, 2019. Such shareholder-friendly moves indicate its long-term commitment of returning value to shareholders, which indicates the financial strength of its business.

Valuation

Principal Financial shares are down 14.5% in the year-to-date period and 14% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 2% and 14.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4% and 7.2%, respectively.

The S&P 500 index is down 1% in the year-to-date period but up 10.5% in the past year.

The stock is currently trading at 8.79x forward 12-month earnings, which compares to 14.48x for the Zacks sub-industry, 17.76x for the Zacks sector and 23.07x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.69x and as low as 4.1x, with a 5-year median of 9.94x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$49 price target reflects 9.15x forward 12-month earnings.

The table below shows summary valuation data for PFG

Valuation Multiples - PFG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.79	14.48	17.76	23.07
	5-Year High	13.69	14.48	17.76	23.07
	5-Year Low	4.1	9.75	11.58	15.23
	5-Year Median	9.94	12.35	13.98	17.49
P/S F12M	Current	0.75	3.65	6	3.59
	5-Year High	1.53	3.65	6.65	3.59
	5-Year Low	0.38	2.30	4.95	2.53
	5-Year Median	1.11	2.98	6.06	3.02
P/B TTM	Current	0.99	2.06	2.49	4.36
	5-Year High	1.79	2.2	2.91	4.56
	5-Year Low	0.46	0.96	1.71	2.83
	5-Year Median	1.33	1.7	2.53	3.65

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameriprise Financial, Inc. (AMP)	Neutral	2
Ares Management L.P. (ARES)	Neutral	3
Grupo Aval Acciones y Valores S.A. (AVAL)	Neutral	3
Franklin Resources, Inc. (BEN)	Neutral	3
BlackRock, Inc. (BLK)	Neutral	3
Blackstone Group IncThe (BX)	Neutral	3
Invesco Ltd. (IVZ)	Neutral	3
T. Rowe Price Group, Inc. (TROW)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	PFG	X Industry	S&P 500	AMP	ARES	BLK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	A	F	D
Market Cap	12.89 B	804.73 M	23.09 B	19.03 B	5.25 B	85.85 B
# of Analysts	4	3	14	3	5	6
Dividend Yield	4.76%	2.51%	1.82%	2.67%	4.03%	2.61%
Value Score	A	-	-	A	D	D
Cash/Price	0.39	0.20	0.06	0.52	0.34	0.05
EV/EBITDA	5.44	6.85	13.17	4.22	6.72	15.97
PEG Ratio	2.11	1.67	3.13	NA	4.56	2.13
Price/Book (P/B)	0.99	1.28	3.15	2.86	3.13	2.60
Price/Cash Flow (P/CF)	6.03	8.97	12.43	8.58	19.56	17.57
P/E (F1)	9.69	11.44	22.80	9.36	23.95	21.27
Price/Sales (P/S)	0.76	1.96	2.52	1.48	4.03	5.76
Earnings Yield	10.69%	8.58%	4.19%	10.68%	4.19%	4.70%
Debt/Equity	0.28	0.25	0.76	0.56	0.75	0.63
Cash Flow (\$/share)	7.81	1.75	7.01	18.13	2.03	31.67
Growth Score	C	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	6.99%	6.99%	10.87%	16.99%	14.72%	10.46%
Proj. EPS Growth (F1/F0)	-9.90%	-10.97%	-10.79%	3.21%	-0.84%	-8.12%
Curr. Cash Flow Growth	4.20%	-3.43%	5.48%	-1.33%	-37.87%	6.72%
Hist. Cash Flow Growth (3-5 yrs)	3.17%	3.83%	8.55%	4.37%	-3.84%	6.05%
Current Ratio	0.08	2.31	1.29	0.86	0.23	4.08
Debt/Capital	23.16%	27.02%	44.75%	35.72%	38.79%	40.11%
Net Margin	7.36%	8.87%	10.59%	27.50%	5.60%	28.38%
Return on Equity	10.51%	12.55%	16.26%	38.86%	15.52%	13.62%
Sales/Assets	0.06	0.37	0.55	0.09	0.11	0.09
Proj. Sales Growth (F1/F0)	4.89%	0.00%	-2.61%	-8.65%	12.70%	-0.12%
Momentum Score	B	-	-	D	A	A
Daily Price Chg	5.40%	1.71%	2.89%	1.60%	0.41%	1.89%
1 Week Price Chg	4.58%	3.31%	4.60%	5.75%	7.70%	2.99%
4 Week Price Chg	29.65%	15.21%	15.60%	27.80%	13.28%	11.89%
12 Week Price Chg	51.87%	16.58%	29.34%	68.33%	41.64%	44.10%
52 Week Price Chg	-14.67%	-11.71%	2.76%	3.89%	54.20%	26.71%
20 Day Average Volume	1,560,973	115,994	2,537,324	987,469	961,907	2,547,036
(F1) EPS Est 1 week change	0.50%	0.00%	0.00%	0.00%	0.00%	0.91%
(F1) EPS Est 4 week change	0.50%	0.68%	-0.08%	5.84%	3.76%	2.82%
(F1) EPS Est 12 week change	-17.00%	-22.13%	-16.19%	-9.03%	-13.12%	-16.88%
(Q1) EPS Est Mthly Chg	1.63%	0.74%	0.00%	-4.08%	0.41%	2.49%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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