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Jan 23, 2020

Principal Financial(PFG)

$55.61 (As of 01/22/20)

Price Target (6-12 Months): **$58.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/27/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: D | Momentum: D	

Summary

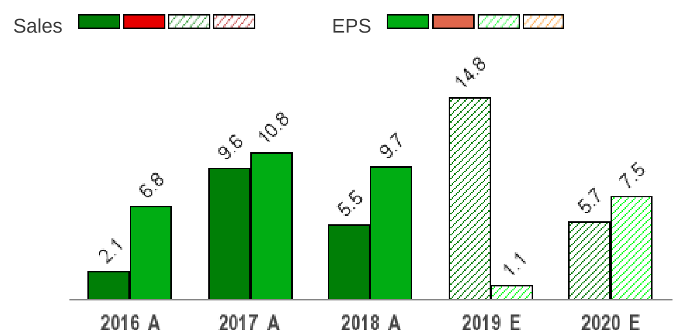
Shares of Principal Financial have outperformed the industry in the past year. Focus on fee-based revenue sources helps it earn steadily, limits its exposure to the interest rate. Principal Financial continues to benefit from strength and leadership in retirement and long-term savings, group benefits and protection in the United States, retirement and long-term savings in Latin America and Asia plus global asset management. The inorganic growth story of Principal Financial is impressive with buyouts fortifying the global footprint and adding fee-based businesses. The company's assets of under management have also seen a consistent rise. However, higher debt level and leverage ratios inducing an increase in interest and dilution from acquisition are headwinds for Principal Financial. Also, elevated expenses continue to weigh on margin expansion.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$60.79 - $46.56**
20 Day Average Volume (sh)	**996,523**
Market Cap	**$15.4 B**
YTD Price Change	**1.1%**
Beta	**1.50**
Dividend / Div Yld	**$2.20 / 4.0%**
Industry	**Financial - Investment Management**
Zacks Industry Rank	**Top 7% (18 out of 255)**
Last EPS Surprise	**-15.8%**
Last Sales Surprise	**NA**
EPS F1 Est- 4 week change	**1.8%**
Expected Report Date	**01/28/2020**
Earnings ESP	**0.8%**
P/E TTM	**10.5**
P/E F1	**9.3**
PEG F1	**2.0**
P/S TTM	**1.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	3,799 E	4,133 E	4,480 E	4,320 E	17,356 E
2019	3,659 A	3,977 A		4,113 E	16,425 E
2018	2,909 A	3,168 A	4,354 A	3,883 A	14,313 A

EPS Estimates

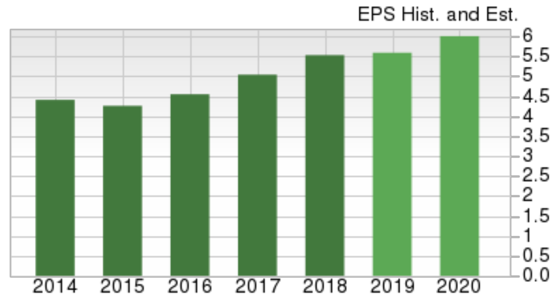
	Q1	Q2	Q3	Q4	Annual*
2020	$1.40 E	$1.51 E	$1.53 E	$1.54 E	$6.01 E
2019	$1.43 A	$1.52 A	$1.23 A	$1.42 E	$5.59 E
2018	$1.40 A	$1.35 A	$1.67 A	$1.11 A	$5.53 A

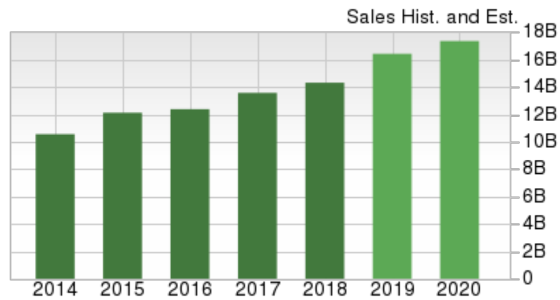
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

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) **(50% of 2018 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) **(29%)** 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%)** 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 **(12%)** 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:

> 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.

- Shares of Principal Financial have gained 13.7% in the past year, outperforming its industry's rally of 10.3%. Solid fundamentals would likely help the stock continue with its rally 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, thus helping it deliver solid operating earnings. Continued growth in fee, spread and risk businesses boosts the company's prospects over the long term.

- Principal Financial's AUM shows a steadily increasing trend, driven by better results at three asset management and asset accumulation segments. 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.

- Investment results at Principal Financial have improved in the last five years with the metric rising nearly 3%. The rally continued in the first nine months of 2019 with the metric rising 10.5% from the year ago period. Rising investment income positions the company well for growth.

- 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. It is expected to be slightly accretive to earnings in 2020 while doubling the size of the U.S. retirement businesses. All these prudent transactions bode well for the company's long-term growth.

- Principal Financial's capital deployment through share buybacks and dividend payment look impressive, making it an attractive pick for yield-seeking investors. With its 12th straight dividend increase, the company again hiked its dividend by 8% year over year. The company also boasts a solid dividend yield of 4%, higher than the industry average of 3%. In the first nine months, the company had deployed more than $1.8 billion of capital in total with Wells Fargo Institutional Retirement & Trust (IRT) acquisition accounting for $1.2 billion, while $627 million was returned to shareholders through common stock dividends and share buybacks. The 2020 guidelines assume $1.2 billion to $1.7 billion of external capital deployments including common stock dividends, strategic acquisitions, and share repurchases.

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 nine months of 2019, total expenses increased 21.6%. An increase in expenses weighs on its margins.

- Principal Financial has been witnessing mounting debt levels and high leverage ratios. In the last couple of years, the company witnessed its debt inch up nearly 2%, thereby inducing higher interest expense. In the first nine months of 2019, the long term debt increased 16% from the year-ago period. Nonetheless, the company should strive to service its debt uninterruptedly else credit worthiness might be dented.

Increasing opearting 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.

- 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.

Last Earnings Report

Principal Financial Q3 Earnings Miss, Revenues Beat

Quarter Ending	09/2019
Report Date	Oct 24, 2019
Sales Surprise	NA
EPS Surprise	-15.75%
Quarterly EPS	1.23
Annual EPS (TTM)	5.29

Principal Financial Group, Inc.'s third-quarter 2019 operating net income of $1.23 per share missed the Zacks Consensus Estimate by 15.8%. Also, the bottom line decreased 26.3% year over year.

Results reflected soft performance at Retirement and Income Solutions, Principal Global Investors and U.S. Insurance Solutions segments. Nonetheless, Principal Financial recorded growth in assets under management (AUM). The company's investment performance also remained solid. Moreover, the company displayed a balanced approach to capital management.

Behind the Headlines

Operating revenues rose 3.6% year over year to nearly $4.5 billion. Higher premiums and other considerations plus net investment income drove this upside. The top line beat the Zacks Consensus Estimate by 16.4%.

Total expenses increased 8.8% year over year to $4.1 billion due to higher benefits, claims and settlement expenses as well as operating expenses.

Principal Financial's AUM as of Sep 30, 2019 was a record $703 billion, up 5.3% year over year.

Segment Update

Retirement and Income Solution: Revenues increased 5.7% year over year to about $2.6 billion.

Pre-tax operating earnings decreased 36.4% to $169.7 million on account of soft performance at Retirement and Income Solution-Fee as well as Spread business

Principal Global Investors: Revenues of $369.9 million plunged 41.5% from the prior-year quarter.

Operating earnings declined 43.3% to $123 million.

Principal International: Revenues increased 40.8% year over year to $404.6 million in the quarter.

Operating earnings increased nearly three times to $108.9 million.

U.S. Insurance Solution: Revenues grew 15.4% year over year to $1.2 billion.

Operating earnings of $120.1 million decreased 4.5% year over year due to soft performance at Individual Life Insurance business.

Corporate: Operating loss of $102.1 million was wider than $52.9 million loss incurred a year ago. This downside was due to higher expenses.

Financial Update

As of Sep 30, 2019, cash and cash equivalents were $3.2 billion, up 3.9% year over year.

At third-quarter end, debt was $3.96 billion, up 20.7%.

As of Sep 30, 2019, book value per share (excluding AOCI other than foreign currency translation adjustment) was $43.68, up 4.2% year over year.

Capital Deployment

Principal Financial paid $153 million in dividends, bought back shares worth $44 million and deployed $5 million in mergers and acquisitions in the third quarter.

The board of directors approved fourth-quarter dividend of 55 cents per share, up 2% year over year.

Recent News

Principal Declares 2020 Outlook and Long-term Guidance – Dec 11, 2019

Principal Financial declared business unit outlook metrics and capital deployment plans for 2020 and updated its long-term guidance.

The long-term targets of the company are 9-12% annual growth in non-GAAP operating earnings and non-GAAP operating earnings per share, 15-17% long-term targeted return on equity, excluding accumulated other comprehensive income (AOCI) other than foreign currency translation, and targeted free cash flow of 70-80% of net income each year, in excess of capital used to fund organic growth.

The outlook for 2020 covers certain assumptions, including S&P 500 daily average in 2020 between 3,240 and 3,260, assuming 6% price appreciation from levels as of Nov 29, 2019, 10-year treasury rate of approximately 1.75-2.25% at year-end 2020, weighted average diluted shares outstanding ranging from 275-280 million and 10-year treasury rate approximately 1.75-2.25% at year-end 2020.

Principal Financial Launches Principal SimpleInvest – Oct 29, 2019

Principal Financial recently introduced a new digital advice program known as Principal SimpleInvest. It is aimed to aid the retirement savers with access to personalized investment advice and professional guidance.

Valuation

Principal Financial shares are up 13.7% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 10.3% and up 12%, respectively.

The S&P 500 index is up nearly 25.1% in the past year.

The stock is currently trading at 9.2X forward 12-month earnings, which compares to 12.58X for the Zacks sub-industry, 14.63X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.69X and as low as 6.94X, with a 5-year median of 10.36X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our $58 price target reflects 9.60X 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	9.2	12.58	14.63	19.13
	5-Year High	13.69	14.39	16.21	19.34
	5-Year Low	6.94	9.85	12.01	15.17
	5-Year Median	10.36	12.5	13.98	17.44
P/S F12M	Current	0.87	3.57	6.53	3.56
	5-Year High	1.53	3.66	6.61	3.56
	5-Year Low	0.74	2.32	5.2	2.54
	5-Year Median	1.19	3.01	6.04	3
P/B TTM	Current	1.04	2.13	2.84	4.54
	5-Year High	1.79	2.22	2.89	4.55
	5-Year Low	0.98	0.97	1.83	2.85
	5-Year Median	1.38	1.7	2.51	3.61

As of 01/22/2020

Industry Analysis **Zacks Industry Rank:** Top 7% (18 out of 255)

Top Peers

Invesco Ltd. **(IVZ)**	Outperform
T. Rowe Price Group, Inc. **(TROW)**	Outperform
Ameriprise Financial, Inc. **(AMP)**	Neutral
Ares Management L.P. **(ARES)**	Neutral
Grupo Aval Acciones y Valores S.A. **(AVAL)**	Neutral
Franklin Resources, Inc. **(BEN)**	Neutral
BlackRock, Inc. **(BLK)**	Neutral
Blackstone Group Inc/The **(BX)**	Neutral

Industry Comparison Industry: Financial - Investment Management

Industry Peers

	PFG Neutral	X Industry	S&P 500	AMP Neutral	ARES Neutral	BLK Neutral
VGM Score	B	-	-	A	F	D
Market Cap	15.44 B	861.08 M	24.65 B	22.40 B	4.31 B	82.88 B
# of Analysts	5	3	13	2	5	6
Dividend Yield	3.96%	2.19%	1.77%	2.27%	3.41%	2.46%
Value Score	A	-	-	A	D	D
Cash/Price	0.36	0.17	0.04	0.24	0.17	0.06
EV/EBITDA	5.92	9.23	13.98	6.05	9.73	17.83
PEG Ratio	1.98	1.51	2.05	NA	1.40	1.55
Price/Book (P/B)	1.04	1.73	3.38	3.73	2.79	2.55
Price/Cash Flow (P/CF)	7.44	10.54	13.60	9.92	10.24	18.09
P/E (F1)	9.12	10.86	19.07	9.47	19.77	17.02
Price/Sales (P/S)	0.97	2.52	2.69	1.74	2.74	5.70
Earnings Yield	10.81%	8.94%	5.24%	10.56%	5.06%	5.87%
Debt/Equity	0.25	0.25	0.72	0.80	0.35	0.76
Cash Flow ($/share)	7.47	1.94	6.94	17.26	3.67	29.67
Growth Score	D	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	6.84%	5.83%	10.60%	15.48%	12.10%	9.78%
Proj. EPS Growth (F1/F0)	7.44%	11.56%	7.53%	11.77%	24.67%	10.75%
Curr. Cash Flow Growth	8.96%	8.89%	13.90%	11.52%	-16.25%	0.00%
Hist. Cash Flow Growth (3-5 yrs)	8.22%	5.16%	9.00%	7.20%	-2.72%	4.68%
Current Ratio	0.10	2.20	1.22	0.83	0.12	2.33
Debt/Capital	21.75%	23.45%	42.99%	44.31%	22.82%	44.43%
Net Margin	8.34%	11.59%	11.21%	15.31%	7.76%	30.79%
Return on Equity	11.19%	12.39%	17.16%	37.50%	18.98%	14.05%
Sales/Assets	0.06	0.38	0.55	0.09	0.15	0.09
Proj. Sales Growth (F1/F0)	5.67%	6.51%	4.08%	6.17%	23.44%	11.54%
Momentum Score	D	-	-	D	C	C
Daily Price Chg	-0.01%	0.35%	-0.04%	0.52%	1.76%	1.46%
1 Week Price Chg	2.48%	1.28%	2.29%	1.93%	2.95%	4.50%
4 Week Price Chg	1.63%	2.41%	2.05%	2.04%	8.12%	7.45%
12 Week Price Chg	2.37%	5.91%	6.92%	12.59%	26.37%	14.97%
52 Week Price Chg	13.68%	5.72%	21.50%	44.04%	82.56%	31.43%
20 Day Average Volume	996,523	88,470	1,518,423	580,048	376,670	497,264
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.43%
(F1) EPS Est 4 week change	1.75%	0.39%	0.00%	0.79%	1.06%	3.13%
(F1) EPS Est 12 week change	-1.74%	0.77%	-0.23%	0.79%	1.60%	3.28%
(Q1) EPS Est Mthly Chg	0.48%	0.47%	0.00%	0.47%	0.78%	1.75%

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	D
Momentum Score	D
VGM Score	B

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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