

Principal Financial(PFG)

\$51.73 (As of 02/24/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Principal Financial Group's earnings of \$1.41 per share matched the Zacks Consensus Estimate and grew 27% year over year. Focus on fee-based revenue sources helps it earn steadily and limits its exposure to 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 its global footprint and adding fee-based businesses. Its shares have underperformed the industry in the past year. However, high debt level, leverage ratios induces increase in interest and dilution from acquisition are headwinds for Principal Financial. High costs continue to weigh on margin.

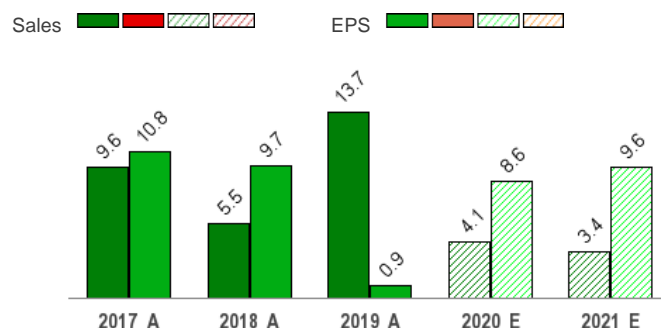
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.79 - \$48.84
20 Day Average Volume (sh)	1,061,648
Market Cap	\$14.2 B
YTD Price Change	-6.0%
Beta	1.48
Dividend / Div Yld	\$2.24 / 4.3%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 7% (19 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	8.5
PEG F1	1.9
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,009 E	4,350 E	4,693 E	4,474 E	17,527 E
2020	3,872 E	4,200 E	4,547 E	4,325 E	16,944 E
2019	3,659 A	3,977 A		4,138 A	16,275 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.52 E	\$1.70 E	\$1.71 E	\$1.67 E	\$6.64 E
2020	\$1.39 E	\$1.53 E	\$1.57 E	\$1.59 E	\$6.06 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 02/24/2020. The reports text is as of 02/25/2020.

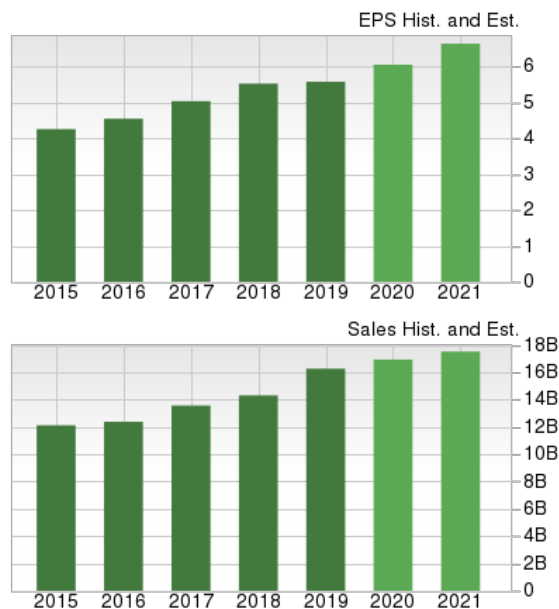
Overview

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 2.6% in the past year against the industry's increase of 0.9%. 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, 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 2019 with the metric rising 10.2% 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.
- ▲ 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 4.3%, higher than the industry average of 3.2%.

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 2019, total expenses increased 16.7%. 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 2019, long-term debt increased 14.6% from the year-ago period. Nonetheless, the company should strive to service its debt uninterruptedly else credit worthiness might be dented.
- ▼ 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.

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 Q4 Earnings In Line With Estimates

Principal Financial Group, Inc.'s fourth-quarter 2019 operating net income of \$1.41 per share matched the Zacks Consensus Estimate and grew 27% year over year.

Results reflected improved performance at Retirement and Income Solution-Fee business, Principal Global Investors and U.S. Insurance Solutions segments. Also, Principal Financial recorded growth in assets under management (AUM). The company's investment performance also remained solid.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	0.61%
EPS Surprise	0.00%
Quarterly EPS	1.41
Annual EPS (TTM)	5.59

Behind the Headlines

Operating revenues rose 6.6% year over year to nearly \$4.1 billion. Higher fees and other revenues plus net investment income drove this upside. The top line beat the Zacks Consensus Estimate by 0.6%.

Total expenses increased 4.2% year over year to \$3.7 billion due to higher operating expenses.

Principal Financial's AUM as of Dec 31, 2019 was a record \$735 billion, up 17.3% year over year.

Segment Update

Retirement and Income Solution: Revenues increased 5.3% year over year to about \$2.3 billion.

Pre-tax operating earnings increased 12.8% to \$207.5 million on account of improved performance at Retirement and Income Solution-Fee business.

Principal Global Investors: Revenues of \$437.4 million plunged 23.1% from the prior-year quarter.

Operating earnings increased 40.6% to \$144 million.

Principal International: Revenues increased 4.4% year over year to \$326.5 million in the quarter.

Operating earnings increased 34.1% to \$77.5 million.

U.S. Insurance Solution: Revenues grew 6.3% year over year to \$1.1 billion.

Operating earnings of \$144.5 million increased 27.9% year over year due to improved performance at Individual Life Insurance and Specialty Benefits Insurance business.

Corporate: Operating loss of \$95.7 million was wider than \$78.2 million loss incurred a year ago. This downside was due to higher expenses.

Financial Update

As of Dec 31, 2019, cash and cash equivalents were \$2.5 billion, down 15.5% year over year.

At fourth-quarter end, debt was \$3.7 billion, up 14.5%.

As of Dec 31, 2019, book value per share (excluding AOCI other than foreign currency translation adjustment) was \$44.25, up 5.8% year over year.

Capital Deployment

Principal Financial paid out \$152.4 million in dividends and bought back shares worth \$83.5 million in the fourth quarter.

The board of directors approved fourth-quarter dividend of 55 cents per share, up 1.8% year over year.

Recent News

AM Best Boosts Ratings of Principal Financial and Its Subsidiaries – Feb 11, 2020

Principal Financial's Long-Term Issuer Credit Ratings (Long-Term ICR) has been enhanced to "aa" from "aa-" by AM Best. Also, the rating giant affirmed the Financial Strength Rating of A+ (Superior) of Principal Life Insurance Company and Principal National Life Insurance Company. The perspective of the Long-Term ICRs has been amended to stable from positive while that of the FSR remains stable.

Concurrently, AM Best upgraded the Long-Term ICRs to "a" from "a-" of Principal Financial Services, Inc. and PFG, as well as PFG's Long-Term Issue Credit Ratings (Long-Term IR). The outlook of these ratings has been updated to stable.

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.

Valuation

Principal Financial shares are down nearly 5.6% in the year-to-date period and 2.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 2.8% and down 2.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.9% and 4.8%, respectively.

The S&P 500 index is up nearly 0.01% in the year-to-date period and 14.6% in the past year.

The stock is currently trading at 8.4x forward 12-month earnings, which compares to 12.1x for the Zacks sub-industry, 14.4x for the Zacks sector and 18.4x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.7x and as low as 6.9x, with a 5-year median of 10.2x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$54 price target reflects 8.8x 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	8.42	12.13	14.45	18.44
	5-Year High	13.69	14.39	16.21	19.34
	5-Year Low	6.94	9.85	12.01	15.18
	5-Year Median	10.25	12.43	14.15	17.47
P/S F12M	Current	0.83	3.57	6.55	3.39
	5-Year High	1.53	3.66	6.65	3.43
	5-Year Low	0.74	2.32	5.39	2.54
	5-Year Median	1.17	3.01	6.04	3
P/B TTM	Current	0.98	2.09	2.75	4.66
	5-Year High	1.79	2.23	2.89	4.9
	5-Year Low	0.98	0.97	1.83	2.85
	5-Year Median	1.37	1.8	2.52	3.62

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 7% (19 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	A	-	-	A	F	D
Market Cap	14.21 B	879.25 M	23.50 B	21.52 B	4.48 B	81.51 B
# of Analysts	4	3	13	3	5	6
Dividend Yield	4.25%	2.34%	1.83%	2.36%	3.28%	2.50%
Value Score	B	-	-	A	D	C
Cash/Price	0.21	0.16	0.04	0.17	0.16	0.05
EV/EBITDA	6.44	9.38	13.56	6.23	10.09	17.59
PEG Ratio	1.86	1.12	2.02	NA	1.44	1.52
Price/Book (P/B)	0.98	1.60	3.20	3.76	2.89	2.51
Price/Cash Flow (P/CF)	6.63	11.00	13.05	9.09	10.63	17.79
P/E (F1)	8.54	10.47	18.56	9.00	20.33	16.63
Price/Sales (P/S)	0.88	2.64	2.60	1.66	2.53	5.61
Earnings Yield	11.71%	9.43%	5.38%	11.11%	4.92%	6.02%
Debt/Equity	0.25	0.25	0.70	0.82	0.35	0.76
Cash Flow (\$/share)	7.81	1.66	7.03	18.10	3.67	29.67
Growth Score	B	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	7.12%	6.34%	10.85%	16.07%	13.19%	9.78%
Proj. EPS Growth (F1/F0)	8.56%	12.16%	6.90%	13.46%	14.85%	11.51%
Curr. Cash Flow Growth	4.20%	-3.54%	6.78%	-1.50%	-16.25%	0.00%
Hist. Cash Flow Growth (3-5 yrs)	3.17%	3.75%	8.38%	4.34%	-2.72%	4.68%
Current Ratio	0.07	2.14	1.22	0.67	0.12	2.33
Debt/Capital	21.40%	22.94%	42.37%	45.20%	22.82%	44.43%
Net Margin	8.59%	11.59%	11.57%	14.60%	8.43%	30.79%
Return on Equity	11.12%	13.96%	16.80%	37.39%	16.29%	14.05%
Sales/Assets	0.06	0.37	0.55	0.09	0.16	0.09
Proj. Sales Growth (F1/F0)	4.45%	5.28%	4.03%	0.46%	11.70%	11.54%
Momentum Score	B	-	-	A	C	A
Daily Price Chg	-4.93%	-1.68%	-2.98%	-6.25%	-2.38%	-5.21%
1 Week Price Chg	-3.46%	-0.15%	-0.94%	-1.90%	-0.15%	-1.58%
4 Week Price Chg	-2.23%	0.75%	-0.94%	1.27%	8.39%	0.80%
12 Week Price Chg	-3.94%	2.07%	1.75%	1.17%	19.85%	7.82%
52 Week Price Chg	-2.56%	0.95%	10.97%	24.66%	63.80%	20.29%
20 Day Average Volume	1,061,648	81,429	2,001,782	617,311	593,758	573,259
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.69%	0.00%	-0.05%	1.11%	0.42%	0.68%
(F1) EPS Est 12 week change	0.29%	2.02%	-0.21%	1.91%	2.02%	4.43%
(Q1) EPS Est Mthly Chg	-0.30%	0.00%	-0.49%	1.24%	0.00%	0.10%

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	B
Growth Score	B
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.

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