

Unum Group (UNM)

\$17.48 (As of 03/11/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/27/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Unum Group's operating results across its entities are impressive. Sustained increase in premiums is fueled by high persistency levels in core business lines and strong sales volume along with solid benefits experience. Its buyouts have led to inorganic growth. Continued rollout of dental product and geographic expansion are paying off as acquired dental insurance businesses are growing in the United States and United Kingdom. Sound capital generation and financial flexibility aid active capital deployment. However, shares of Unum Group have underperformed its industry in the past year. Persistent soft results at Closed Block and Corporate segment are concerns for the company. High costs weigh on margin. Its earnings of \$1.41 per share beat the Zacks Consensus Estimate by 2.2% and improved 8.5% year over year on the back of higher revenues.

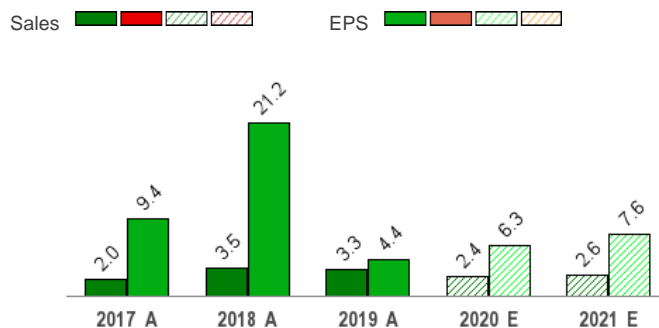
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.00 - \$15.13
20 Day Average Volume (sh)	2,715,146
Market Cap	\$3.5 B
YTD Price Change	-40.1%
Beta	1.56
Dividend / Div Yld	\$1.14 / 6.5%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 12% (31 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/05/2020
Earnings ESP	-1.6%
P/E TTM	3.2
P/E F1	3.0
PEG F1	0.3
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,153 E	3,159 E	3,152 E	3,170 E	12,629 E
2020	3,069 E	3,076 E	3,072 E	3,087 E	12,309 E
2019	2,987 A	3,024 A	2,986 A	3,025 A	12,022 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.50 E	\$1.55 E	\$1.56 E	\$1.60 E	\$6.21 E
2020	\$1.39 E	\$1.43 E	\$1.46 E	\$1.49 E	\$5.77 E
2019	\$1.31 A	\$1.36 A	\$1.36 A	\$1.41 A	\$5.43 A

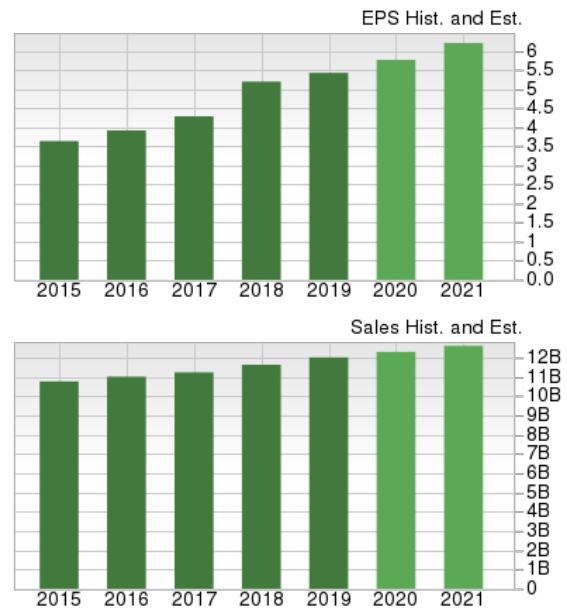
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

Overview

Headquartered in Chattanooga, TN, Unum Group (UNM) was created following the Jun 1999 merger of Provident Companies, Inc. and Unum Corporation. Along with disability insurance, the company provides long-term care insurance, life insurance, employer- and employee-paid group benefits and related services. Since Jan 2003, UnumProvident has been classifying its operations into five segments: Income Protection, Life and Accident, Colonial, Corporate, and Other. Effective Jul 1, 2005, the company modified its reporting segments to separate its United States business from its United Kingdom subsidiary, Unum Limited. The company's business operations are now segmented as follows:

- **Unum U.S. (64.24% of 2019 premium)** – This segment provides U.S. group income protection insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business comprising individual income protection (recently issued, group and individual long-term care, and brokerage voluntary workplace benefits products).
- **Closed Block (11.03%)** – This closed block segment accounted for policies written prior to its restructuring which occurred from 1994 to 1998. Originally, the individual disability insurance policies had been designed to be distributed to individuals in a non-workplace setting. However, the company gradually changed its distribution focus for individual disability insurance to workplace distribution as opposed to individual setting distribution. A minimal amount of new business continued to be sold subsequent to these changes, but the company stopped selling new policies in this segment at the beginning of 2004.
- **Colonial Life (18%)** – This segment provides life, cancer, critical illness, accident and sickness, and income protection insurance.
- **Unum International (earlier known as Unum U.K.) (6.73%)** – This segment provides group income protection and group life products.



Reasons To Buy:

- ▲ Shares of Unum Group have lost 51.7% in a year's time compared to the industry's decline of 28%. Nevertheless, its solid fundamentals, robust capital position and segmental performances should drive the stock.
- ▲ Unum is ranked as the leading disability income writer and the second-largest writer of voluntary business in the United States. The company reported favorable operating results across majority of its insurance entities. Over the past few years, Unum's conservative pricing and reservation practices have contributed to its overall profitability. In 2019, operating income per share increased approximately 4.6%. The results were mainly driven by a sustained solid operational performance, favorable benefits experience as well as solid top-line growth in the core businesses. Unum Group affirmed after-tax operating income growth per share between 4% and 7% in 2020.
- ▲ Two of the largest operating segments of Unum — Unum U.S. and Colonial Life — have been reporting operating income growth consistently over the past few years. Unum U.S. continues to benefit from disciplined sales trends, strong persistency in group lines and growth of new product lines like dental and vision, and the trend continued in the year 2019. Colonial Life sales increased 0.8% in 2019. The company should continue to see sustained persistency across all Unum US business lines. Investors should note that better performance in this segment is likely to drive positive premium growth, which might substantially add to the company's overall performance.
- ▲ Operating income in the Colonial Life Segment has risen over the last few years, banking on improving premium income and favorable risk results. The momentum continued through 2019. Operating income rose 2.8% year over year. Premiums grew (driven by growth in the in-force block from prior-period sales surge) with strong persistency and improvement in sales. The introduction of dental products along with the favorable trends in the core commercial market helped the company maintain sales growth. In 2018, Colonial Life launched Colonial Life Dental and Vision to consolidate employee benefit package. Management remains focused on moving on to a mix of businesses with higher growth and stable margins.
- ▲ Unum Group has consistently enhanced shareholders' value through dividend hikes and share buybacks. Its continuous efforts to reduce share count are expected to bolster earnings going forward. Moreover, the board approved a quarterly dividend hike of 9.6% in July 2019, marking the 11th consecutive year of dividend hike. Dividend yield of the company stands at 6.5%, higher than the industry's average of 3.2%. This further reflects the company's strong liquidity position and this initiative not only retains investors' confidence in the stock but also attracts new ones.
- ▲ Unum Group boasts a solid capital position. Sustained solid operating results have been fueling a solid level of statutory earnings and capital, cushioning financial flexibility. Strong statutory earnings might provide an impetus to strong dividend capacity. The risk-based capital ratio was 365% as of Dec 31, 2019.

Unum's conservative pricing and reservation practices should help its segments continue to deliver strong operational results. Unum expects operating earnings to grow between 4% and 7% in 2019.

Reasons To Sell:

- ▼ Performances at the Closed Block and Corporate segment have also been disappointing over the past few quarters. The Corporate segment has been suffering losses for the past few quarters and a turnaround is not expected in the near term.
- ▼ Unum Group has been witnessing a rise in total benefits and expenses for the past few years inducing margin contraction. Total benefits and expenses have escalated 15.6% in the last four years inducing margin 440 basis points contraction over the last four years. Although total benefits and expenses were down 3.2% in 2019, rising expenses are a persistent concern for Unum Group. The company should grow its revenue higher than the magnitude of expense increase; else margin will continue to drain.
- ▼ A still low interest rate environment continues to weigh on the company's operations. Coupled with a stricter credit spread, this has been creating pressure on profit margins by impacting net investment income yields. In 2017 and 2018, net investment income of the company declined 4% and 6%, respectively. In 2019, the metric again slipped 0.7% year over year. Also, a higher-debt level has been inducing an increase in interest expense.

Soft performances at the Closed Block and Corporate segment over the past few quarters and rise in total benefits and expenses for the past few years inducing margin contraction remain concerns.

Last Earnings Report

Unum's Q4 Earnings Surpass Estimates, Increase Y/Y

Unum Group's fourth-quarter 2019 operating net income of \$1.41 per share beat the Zacks Consensus Estimate by 2.2%. Moreover, the figure improved 8.5% year over year on the back of higher revenues.

Operational Update

Total operating revenues of Unum Group were nearly \$3 billion, up 3.5% year over year on higher premium income, net investment income and net realized investment gain. The top line also beat the Zacks Consensus Estimate by 0.5%.

Total benefits and expenses rose 3.3% year over year to \$2.7 billion due to higher benefits, amortization of deferred acquisition costs and other expenses.

Quarterly Segment Update

Unum U.S.: Premium income was \$1.5 billion, up 5.1% year over year. Adjusted operating income was up 5.8% year over year to \$263.1 million.

Unum International: Premium income grew 8.7% year over year to \$165.6 million. Adjusted operating income was \$23.9 million, down 21.4% year over year.

Unum UK line of business reported adjusted operating income of £17.4 million in local currency, down 21.6%. Premium income was £113.9 million, up 8.6%, driven by higher overall persistency, sales growth and the impact of premium rate increases on the group long-term disability product line.

Benefit ratio of 77.3% was down 270 basis points (bps) due to an unfavorable claims experience in both the group long-term disability and group life product lines. However, the same was offset by lower inflation-linked increases in benefits.

Colonial Life: Premium income inched up 3.6% year over year to \$424.9 million, driven by growth in the prior-year period sales. Sales increased 2.6% to \$209.7 million. Adjusted operating income rose 2.7% to \$87.7 million. Benefit ratio contracted 10 bps year over year to 51.5%.

Closed Block: Premium income decreased 4.5% year over year, primarily due to policy terminations and maturities. Adjusted operating income was \$46.1 million, up 32.5% year over year.

Corporate: The segment incurred an operating loss of \$50.5 million, wider than the operating loss of \$48.2 million in the year-earlier quarter.

Capital Management

As of Dec 31, 2019, the weighted average risk-based capital ratio for Unum Group's traditional U.S. insurance companies was approximately 365%.

Unum Group exited the quarter with cash and marketable securities worth \$863 million.

Book value per share was up 22.2% year over year to \$49.10 as of Dec 31, 2019.

The company bought back 3.3 million shares for \$100.1 million in the fourth quarter.

2019 Update

Operating income for the year came in at \$5.44 per share, up 4.6% year over year. Revenues for the year totaled \$11.99 billion, up 3.5% year over year.

2020 Guidance

Unum Group affirmed after-tax operating income growth per share between 4% and 7%.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.49%
EPS Surprise	2.17%
Quarterly EPS	1.41
Annual EPS (TTM)	5.44

Valuation

Unum Group shares are down nearly 40.1% in the year-to-date period and 51.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 30.2% and 21.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28% and 14.8%, respectively.

The S&P 500 index are down nearly 14.9% in the year-to-date period and 2.8% in the past year.

The stock is currently trading at 0.4x trailing 12-month book value, which compares to 0.8x for the Zacks sub-industry, 2.2x for the Zacks sector and 3.7x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.4x and as low as 0.3x, with a 5-year median of 0.9x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 0.4x trailing 12-month book value.

The table below shows summary valuation data for UNM

Valuation Multiples - UNM					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.36	0.79	2.2	3.69
	5-Year High	1.37	1.6	2.89	4.56
	5-Year Low	0.35	0.79	1.83	2.85
	5-Year Median	0.93	1.37	2.52	3.63
P/S F12M	Current	0.29	0.98	5.99	2.91
	5-Year High	1.13	1.54	6.64	3.44
	5-Year Low	0.28	0.98	5.39	2.54
	5-Year Median	0.73	1.31	6.04	3
P/E F12M	Current	2.99	7.19	11.79	15.85
	5-Year High	13.24	13.13	16.21	19.34
	5-Year Low	2.93	7.19	11.79	15.18
	5-Year Median	8.65	10.35	13.97	17.42

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 253)



Top Peers

AMERISAFE, Inc. (AMSF)	Outperform
Aflac Incorporated (AFL)	Neutral
Assurant, Inc. (AIZ)	Neutral
Arthur J. Gallagher & Co. (AJG)	Neutral
Brown & Brown, Inc. (BRO)	Neutral
CNO Financial Group, Inc. (CNO)	Neutral
Employers Holdings Inc (EIG)	Neutral
Principal Financial Group, Inc. (PFG)	Neutral

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	UNM Neutral	X Industry	S&P 500	AFL Neutral	AMSF Outperform	EIG Neutral
VGM Score	A	-	-	D	F	D
Market Cap	3.55 B	1.04 B	19.20 B	26.69 B	1.18 B	1.16 B
# of Analysts	11	3	13	8	3	2
Dividend Yield	6.52%	1.21%	2.31%	3.03%	1.64%	2.70%
Value Score	A	-	-	B	F	C
Cash/Price	0.33	0.17	0.05	0.17	0.08	0.12
EV/EBITDA	3.05	4.70	11.76	4.76	8.61	4.64
PEG Ratio	0.30	1.40	1.73	2.45	NA	NA
Price/Book (P/B)	0.36	0.94	2.64	0.94	2.74	1.01
Price/Cash Flow (P/CF)	2.88	7.58	10.55	5.90	11.94	9.27
P/E (F1)	2.71	16.81	15.66	8.31	19.78	16.81
Price/Sales (P/S)	0.30	1.34	2.06	1.20	3.18	1.47
Earnings Yield	33.01%	5.95%	6.38%	12.05%	5.05%	5.95%
Debt/Equity	0.29	0.00	0.70	0.23	0.00	0.00
Cash Flow (\$/share)	6.06	4.55	7.01	6.26	5.11	3.99
Growth Score	B	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	10.89%	10.16%	10.85%	9.43%	2.32%	19.42%
Proj. EPS Growth (F1/F0)	6.28%	0.66%	6.02%	0.14%	-32.97%	-31.25%
Curr. Cash Flow Growth	0.34%	4.72%	6.09%	2.80%	14.28%	-16.17%
Hist. Cash Flow Growth (3-5 yrs)	4.61%	8.80%	8.52%	10.44%	7.17%	14.95%
Current Ratio	0.16	0.36	1.24	0.06	0.36	0.38
Debt/Capital	22.70%	0.11%	42.57%	18.49%	0.00%	0.00%
Net Margin	9.17%	11.99%	11.69%	14.81%	25.03%	19.83%
Return on Equity	11.97%	10.48%	16.74%	11.76%	20.01%	9.20%
Sales/Assets	0.18	0.22	0.54	0.15	0.24	0.20
Proj. Sales Growth (F1/F0)	2.39%	-2.07%	3.55%	-2.07%	-3.54%	-6.29%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	-5.15%	-3.21%	-5.37%	-5.81%	-4.25%	-2.17%
1 Week Price Chg	-11.41%	0.59%	-0.67%	-4.83%	4.89%	3.94%
4 Week Price Chg	-42.10%	-14.38%	-20.57%	-29.50%	-11.93%	-16.84%
12 Week Price Chg	-40.99%	-11.54%	-17.57%	-30.18%	-8.63%	-14.45%
52 Week Price Chg	-51.65%	-9.91%	-8.21%	-25.21%	0.96%	-9.91%
20 Day Average Volume	2,715,146	148,967	2,882,511	4,881,505	116,204	181,729
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.14%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.23%	-0.14%	3.93%	-5.38%
(F1) EPS Est 12 week change	-0.64%	0.01%	-0.60%	0.01%	3.93%	-5.38%
(Q1) EPS Est Mthly Chg	-0.07%	-0.07%	-0.52%	-0.13%	3.74%	-0.92%

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	B
Momentum Score	A
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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