

Unum Group (UNM)

\$17.56 (As of 07/15/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/25/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

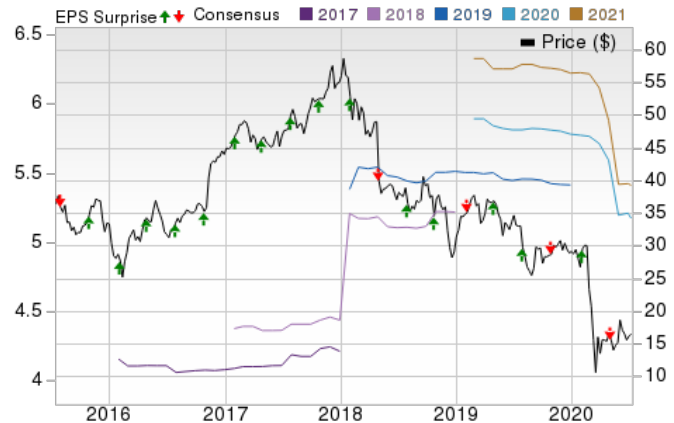
Growth: D

Momentum: F

Summary

Unum's conservative pricing and reservation practices have contributed to its overall profitability. Sustained increase in premiums was fueled by high persistency levels in core business lines and strong sales volume along with solid benefits experience. Continued rollout of dental products and geographic expansion have been paying off as acquired dental insurance businesses are growing in the United States and the U.K. Its shares have underperformed its industry in the past year. Nevertheless, we believe that strong operating results have led to a solid level of statutory earnings and capital, boosting financial flexibility. It has also consistently enhanced shareholders' value via dividends and buybacks. However, persistent soft results at the Closed Block and Corporate segment are concerns for the company. High costs weigh on margin.

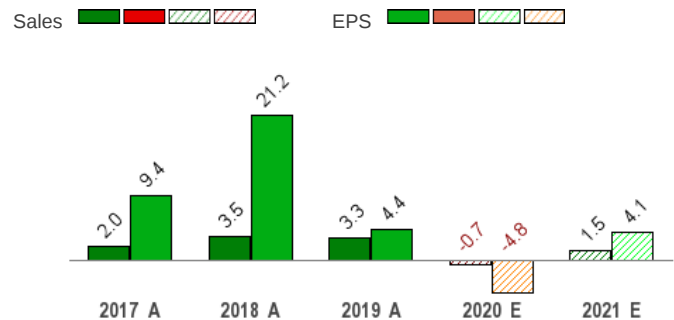
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.35 - \$9.58
20 Day Average Volume (sh)	3,262,310
Market Cap	\$3.6 B
YTD Price Change	-39.8%
Beta	1.70
Dividend / Div Yld	\$1.14 / 6.5%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Bottom 24% (192 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.2%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	07/28/2020
Earnings ESP	-4.0%
P/E TTM	3.2
P/E F1	3.4
PEG F1	0.4
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,042 E	3,027 E	3,020 E	3,038 E	12,116 E
2020	3,015 A	2,948 E	2,975 E	2,986 E	11,934 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	\$1.32 E	\$1.34 E	\$1.33 E	\$1.35 E	\$5.38 E
2020	\$1.35 A	\$1.19 E	\$1.32 E	\$1.31 E	\$5.17 E
2019	\$1.31 A	\$1.36 A	\$1.36 A	\$1.41 A	\$5.43 A

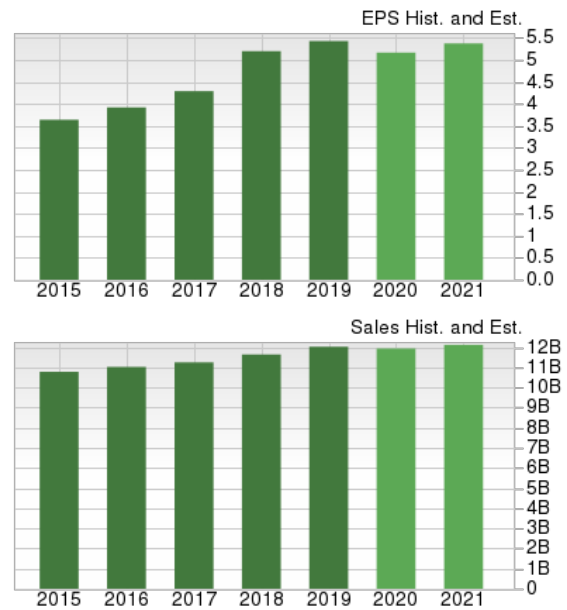
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

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 46.2% in a year's time compared with the industry's decline of 33.6%. 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 the first quarter of 2020, operating income per share increased approximately 3.1%. 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 withdrew its financial guidance for the remainder of 2020 due to the uncertain economic environment caused by the COVID-19 pandemic.
- ▲ 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. 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. However, in the first quarter of 2020, Colonial Life's adjusted operating income reduced 4.8% to \$81.1 million. Premiums grew 3.7% to \$434.7 million in the first quarter of 2020, driven by growth in in-force block resulting from prior-period sales growth, offset partially by lower persistency. Sales decreased 8.7% to \$99.3 million in the first quarter of 2020. 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 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. Risk-based capital ratio was 365% as of Mar 31, 2020.

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:

- ▼ Unum Group has been witnessing a rise in total benefits and expenses for the past few years inducing margin contraction. Total benefits and expenses escalated 2.8% in the last four years (2015 - 2019). Total benefits and expenses rose 1.3% year over year to \$2.7 billion due to higher benefits and change in reserves for future benefits, interest and debt expense, amortization of deferred acquisition costs and other expenses. 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. The first quarter of 2020 too, witnessed net investment income dropped 1.6% year over year to \$585 million.
- ▼ Unum Group's debt levels have been increasing in the past few years. As of Mar 31, 2020, the company's long-term debt came in at \$2.9 billion, which increased 0.07% from the 2019-end level. However, as of Mar 31, 2020, the company's total debt/total capital ratio was 25, which remained almost flat with the 2019-end level. Also, long-term debt to capital of 22.9% compared unfavorably with the industry's measure of 19%. The company's times interest earned of 4.5 as on Mar 31, 2020 was poor when compared with the 2019-end figure of 8.8, implying that its earnings are not sufficient to cover interest obligations. Further, times interest earned of 7.8 compared unfavorably with the industry's measure of 16.5.
- ▼ 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.

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 Q1 Earnings & Revenues Miss Estimates, Rise Y/Y

Unum Group's first-quarter 2020 operating net income of \$1.35 per share missed the Zacks Consensus Estimate by 2.2%. However, the figure improved 3.1% year over year.

The quarter witnessed strong results at Unum U.S. However, Unum International, Colonial Life and Closed Block reported soft numbers.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	-1.38%
EPS Surprise	-2.17%
Quarterly EPS	1.35
Annual EPS (TTM)	5.48

Operational Update

Total operating revenues of Unum Group were nearly \$3 billion, up 0.9% year over year on higher premium income. The top line however missed the Zacks Consensus Estimate by 1.4%.

Total benefits and expenses rose 1.3% year over year to \$2.7 billion due to higher benefits and change in reserves for future benefits, interest and debt expense, amortization of deferred acquisition costs and other expenses.

Quarterly Segment Update

Unum U.S.: Premium income was \$1.5 billion, up 1.7% year over year. Adjusted operating income was up 3.8% year over year to \$261.8 million, driven by strong life and accidental death and dismemberment line of business and supplemental and voluntary line of business, partially offset by soft results at the group disability line of business.

Unum International: Premium income grew 6.9% year over year to \$164.6 million. Adjusted operating income was \$19.4 million, down 33.3% year over year.

Unum UK line reported adjusted operating income of £13.7 million in local currency, down 36.6%. Premium income was £113.8 million, up 8.4%, driven by sales growth, higher overall persistency, and the impact of rate increases in the group long-term disability product line.

Benefit ratio of 80.5 deteriorated 1030 basis points year over year due to higher claims incidence in the group critical illness product line and lower claim resolutions in the group long-term disability product line due to disruption in claims processes related to COVID-19. The deterioration also was due to higher inflation-linked increases in benefits related to group products. Sales increased 12.2% year over year.

Persistency improved in group long-term disability product line and group life product line but deteriorated in supplemental product line.

Colonial Life: Premium income increased 3.7% year over year to \$434.7 million, driven by growth in in-force block resulting from prior period sales growth, offset partially by lower persistency. Sales decreased 8.7% to \$99.3 million. Adjusted operating income decreased 4.8% to \$81.1 million.

Benefit ratio improved 50 bps year over year to 76.8%.

Closed Block: Premium income decreased 7.2% year over year, primarily attributable to a one-time reinsurance cost related to a small block of policies and continued policy terminations and maturities in the individual disability line of business, partially offset by premium rate increases on certain in-force business in the long-term care line of business. Adjusted operating income was \$29.7 million, down 4.2% year over year.

Corporate: The segment incurred an operating loss of \$45.9 million, wider than operating loss of \$45.4 million in the year-earlier quarter.

Capital Management

As of Mar 31, 2020, the weighted average risk-based capital ratio for Unum Group's traditional U.S. insurance companies was approximately 365%. Adjusted operating statutory income was \$326.1 million for the first quarter of 2020. Unum Group exited the quarter with cash and marketable securities worth \$1.025 billion. Book value per share increased about 13% year over year to \$48.21 as of Mar 31, 2020. State of Maine regulator required additional statutory funding for long-term care to be phased over seven years. Initial year-end 2020 funding is estimated in the range of \$200 million to \$250 million.

Capital Deployment Outlook

Unum Group has suspended its current share repurchase authorization and decided not to buy back shares in 2020. However, the company intends to continue to pay out dividend at the current rate.

Guidance Update

Unum Group withdrew its financial guidance for the remainder of 2020 due to the uncertain economic environment caused by the COVID-19 pandemic.

Recent News

Unum Receives Rating Action – May 27, 2020

Unum Group's outlook has been revised to negative from stable and affirmed the Long-Term Issuer Credit Ratings (Long-Term ICR) of "bbb" and the Long-Term Issue Credit Ratings (Long-Term IR) by AM Best. Concurrently, AM Best has revised the outlooks to negative from stable and affirmed the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term ICR of "a" of the core U.S. life/health insurance subsidiaries of Unum Group.

Valuation

Unum Group shares are down 39.8% in the year-to-date period and 46.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 29.9% and 19.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.6% and 14.5%, respectively.

The S&P 500 index is down 0.5% in the year-to-date period and up 7.9% in the past year.

The stock is currently trading at 0.36x trailing 12-month book value, which compares to 0.87x for the Zacks sub-industry, 2.4x for the Zacks sector and 4.38x for the S&P 500 index.

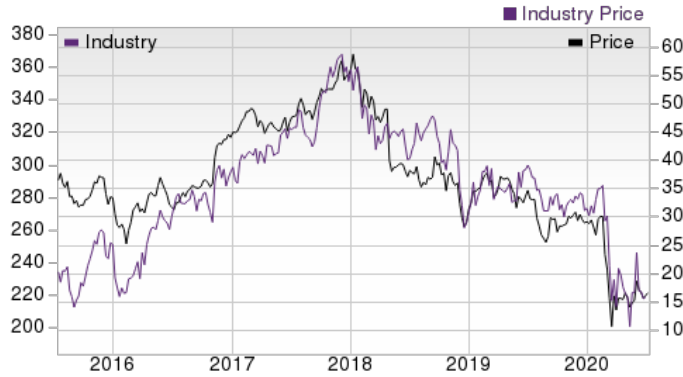
Over the past five years, the stock has traded as high as 1.37x and as low as 0.21x, with a 5-year median of 0.91x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 0.36x book value.

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	0.87	2.4	4.38
	5-Year High	1.37	1.6	2.91	4.56
	5-Year Low	0.21	0.57	1.71	2.83
	5-Year Median	0.91	1.35	2.53	3.7
P/S F12M	Current	0.3	1	6.04	3.55
	5-Year High	1.13	1.54	6.66	3.55
	5-Year Low	0.17	0.9	4.96	2.53
	5-Year Median	0.72	1.31	6.06	3.02
P/E F12M	Current	3.31	7.56	16.21	22.72
	5-Year High	13.24	13.13	16.21	22.72
	5-Year Low	1.78	6.7	11.59	15.25
	5-Year Median	8.16	10.35	14.16	17.52

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
Assurant, Inc. (AIZ)	Neutral	4
Arthur J. GallagherCo. (AJG)	Neutral	3
AMERISAFE, Inc. (AMSF)	Neutral	4
BrownBrown, Inc. (BRO)	Neutral	3
CNO Financial Group, Inc. (CNO)	Neutral	3
Employers Holdings Inc (EIG)	Neutral	3
Trupanion, Inc. (TRUP)	Neutral	3

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	UNM	X Industry	S&P 500	AFL	EIG	TRUP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	D	B
Market Cap	3.57 B	1.08 B	22.66 B	26.03 B	935.65 M	1.71 B
# of Analysts	12	3	14	7	2	3
Dividend Yield	6.49%	0.85%	1.83%	3.09%	3.23%	0.00%
Value Score	A	-	-	A	B	F
Cash/Price	0.51	0.20	0.07	0.17	0.20	0.06
EV/EBITDA	2.85	4.81	12.99	4.81	3.46	305.51
PEG Ratio	0.38	2.56	2.97	2.56	NA	NA
Price/Book (P/B)	0.36	0.89	3.12	0.99	0.89	12.46
Price/Cash Flow (P/CF)	2.90	7.76	12.14	5.79	7.76	444.09
P/E (F1)	3.39	14.67	22.04	8.40	26.93	NA
Price/Sales (P/S)	0.30	1.19	2.38	1.19	1.19	4.18
Earnings Yield	29.44%	4.77%	4.32%	11.91%	3.71%	-0.08%
Debt/Equity	0.30	0.00	0.76	0.26	0.00	0.22
Cash Flow (\$/share)	6.06	3.99	6.94	6.26	3.99	0.11
Growth Score	D	-	-	C	F	A
Hist. EPS Growth (3-5 yrs)	11.11%	10.45%	10.85%	9.79%	14.40%	NA
Proj. EPS Growth (F1/F0)	-4.85%	-4.54%	-9.64%	-2.67%	-64.06%	20.00%
Curr. Cash Flow Growth	0.34%	0.34%	5.51%	2.80%	-16.17%	6.64%
Hist. Cash Flow Growth (3-5 yrs)	4.61%	8.80%	8.55%	10.44%	14.95%	17.75%
Current Ratio	0.18	0.39	1.30	0.05	0.39	1.69
Debt/Capital	22.92%	0.07%	44.46%	20.38%	0.00%	17.91%
Net Margin	8.25%	8.25%	10.59%	13.49%	8.99%	-0.40%
Return on Equity	11.68%	7.47%	15.75%	11.84%	7.47%	-1.23%
Sales/Assets	0.18	0.20	0.54	0.14	0.20	1.63
Proj. Sales Growth (F1/F0)	-0.73%	-0.73%	-2.52%	-3.57%	-16.94%	23.62%
Momentum Score	F	-	-	D	D	B
Daily Price Chg	3.97%	1.45%	1.91%	1.77%	2.96%	1.44%
1 Week Price Chg	2.17%	0.53%	-0.41%	-1.11%	1.05%	10.45%
4 Week Price Chg	3.17%	3.47%	1.88%	-1.39%	4.95%	28.21%
12 Week Price Chg	20.03%	3.34%	16.37%	2.28%	-2.06%	61.61%
52 Week Price Chg	-46.25%	-23.75%	-4.22%	-34.80%	-29.15%	49.43%
20 Day Average Volume	3,262,310	159,688	2,266,132	3,447,846	225,887	361,440
(F1) EPS Est 1 week change	-0.29%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.85%	-0.40%	0.00%	-0.40%	0.00%	0.00%
(F1) EPS Est 12 week change	-8.17%	-1.95%	-5.76%	-1.95%	-34.29%	7.69%
(Q1) EPS Est Mthly Chg	-0.32%	-0.45%	0.00%	-0.58%	0.00%	NA

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	F
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.

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