

Unum Group (UNM)

\$17.16 (As of 07/30/20)

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:A

Value: A

Growth: D

Momentum: A

Summary

Unum's second-quarter bottom-line beat estimates. 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 has 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. Nonetheless, solid level of statutory earnings and capital, boosting financial flexibility bodes well. 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.

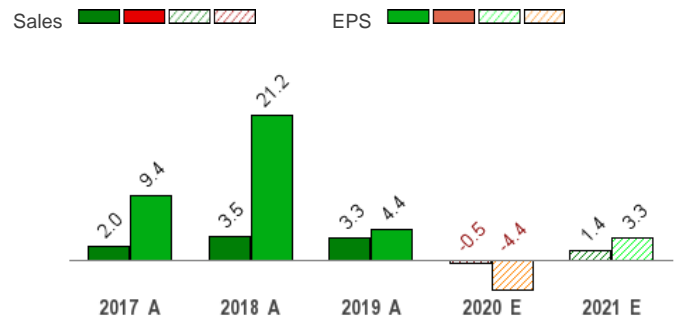
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.97 - \$9.58
20 Day Average Volume (sh)	2,441,763
Market Cap	\$3.5 B
YTD Price Change	-41.2%
Beta	1.70
Dividend / Div Yld	\$1.14 / 6.6%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 45% (114 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	11/03/2020
Earnings ESP	0.5%
P/E TTM	3.2
P/E F1	3.3
PEG F1	0.4
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,046 E	3,030 E	3,022 E	3,039 E	12,138 E
2020	3,015 A	2,987 A	2,989 E	2,992 E	11,966 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	\$5.36 E
2020	\$1.35 A	\$1.23 A	\$1.32 E	\$1.31 E	\$5.19 E
2019	\$1.31 A	\$1.36 A	\$1.36 A	\$1.41 A	\$5.43 A

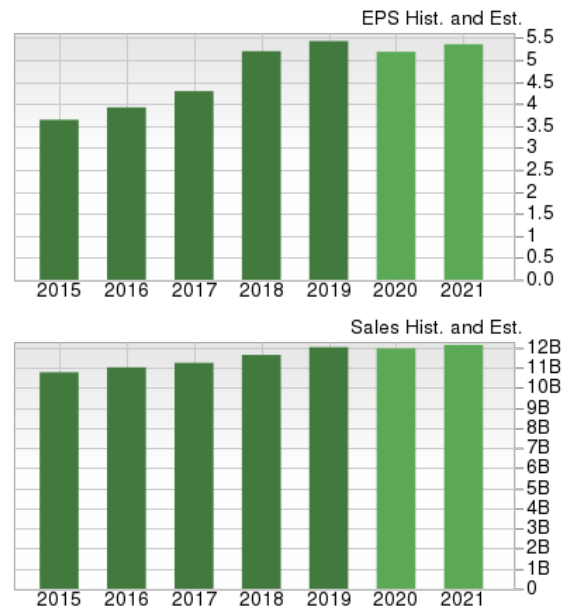
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

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 42.8% in a year's time compared with the industry's decline of 30.7%. 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 driven by a sustained solid operational performance, favorable benefits experience as well as solid top-line growth in the core businesses. Over the past few years, Unum's conservative pricing and reservation practices have contributed to its overall profitability. However, given a challenging operating backdrop due to the pandemic, the bottom line in the second quarter declined 9.6%. Unum Group estimates premium income of core business segments to be flat to up slightly in 2020 after increasing just over 2% in the first half of 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. Though operating income declined in the second quarter, the company should continue to see sustained persistency across all Unum US business lines. 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. Both adjusted operating income and premiums grew in the second quarter of 2020, driven by growth in in-force block as a result of prior period sales growth and stable persistency. Sales however decreased in the second quarter of 2020. 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 6.6%, higher than the industry average of 3.2%, making it an attractive pick for yield-seeking investors.
- ▲ 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 370% as of Jun 30, 2020, above the targeted level of 350%.

Unum's conservative pricing and reservation practices should help its segments continue to deliver strong operational results. Growth of product lines and improving premium income are tailwinds.

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% year over year in the first half of 2020 due to higher interest and debt expense 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 half of 2020 witnessed net investment income drop 5.4% year over year.
- ▼ Unum Group's debt level has been increasing in the past few years. As of Jun 30, 2020, the company's long-term debt was \$3.8 billion, up 14% from the 2019-end level. However, as of Jun 30, 2020, the company's total debt/total equity ratio was 35.9, which deteriorated 250 bps from 2019-end level and compared unfavorably with the industry's measure of 26.3%. The company's times interest earned of 7.5 at second quarter end was poor when compared with the 8.8 at 2019 end and industry's measure of 16.5, implying that its earnings are not sufficient to cover interest obligations.
- ▼ 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 Group Q2 Earnings and Revenues Beat Estimates

Unum Group's second-quarter 2020 operating net income of \$1.23 per share beat the Zacks Consensus Estimate by 3.4%. The bottom line decreased 9.6% year over year.

The company witnessed high mortality in group life, voluntary life, and long-term care due to the pandemic.

Operational Update

Total operating revenues of Unum Group were nearly \$3 billion, up about 1% year over year on 1.1% higher premium. The top line beat the Zacks Consensus Estimate by 1.2%.

Net investment income dropped 8.9% to \$569 million.

Total benefits and expenses increased 0.7% year over year to \$2.7 billion. Rise in interest and debt expense and other expenses resulted in an overall increase in costs.

Quarterly Segment Update

Unum U.S.: Premium income was \$1.5 billion, up 1.2% year over year.

Adjusted operating income was down 8.8% year over year to \$231.9 million, attributable to lower group disability line of business and group life and accidental death and dismemberment line of business. However, better result at supplemental and voluntary line of business limited the downside.

Unum International: Premium income declined 0.9% year over year to \$157.1 million. Adjusted operating income was \$15.1 million, down 50.8% year over year.

Unum UK line of business' premium income was £111.7 million, up 1.9%, driven by sales growth and the impact of rate increases in the group long-term disability product line. Adjusted operating income, in local currency, of £10.1 million was down 55.5%.

Benefit ratio was 82.5%, down 310 basis points (bps), reflecting lower inflation-linked experience in benefits related to group products and lower claim reserve discount rate to recognize the impact on future portfolio yields from higher-than-normal level of bond calls experienced in the year-ago quarter. However, partially lower claim resolutions due to disruption in claims processes and higher claims incidence in the group life product line were partial offsets.

Persistency decreased in group long-term disability, group life business and supplemental line of business.

Colonial Life: Premium income increased 4.2% year over year to \$438.6 million driven by growth in the in-force block resulting from prior period sales growth and stable persistency. Sales decreased 43% to \$72.3 million. Adjusted operating income increased 7.7% to \$90.9 million.

Benefit ratio improved 70 bps year over year to 50.7%.

Closed Block: Premium income decreased 3.4% year over year primarily due to 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 \$36.7 million, up 8.9% year over year.

Corporate: The segment incurred an operating loss of \$58.1 million, wider than operating loss of \$43.8 million in the year-earlier quarter.

Capital Management

As of Jun 30, 2020, the weighted average risk-based capital ratio for Unum Group's traditional U.S. insurance companies was approximately 37%. Unum Group exited the quarter with cash and marketable securities worth \$1.6 billion.

Book value per share of Unum Group improved 15% year over year to \$51.90 as of Jun 30, 2020.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	1.15%
EPS Surprise	3.36%
Quarterly EPS	1.23
Annual EPS (TTM)	5.35

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 41.4% in the year-to-date period and 42.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.3% and 18.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 30.7% and 11.6%, respectively.

The S&P 500 index are up 1% in the year-to-date period and 10.4% in the past year.

The stock is currently trading at 0.36x trailing 12-month book value, which compares to 0.85x for the Zacks sub-industry, 2.39x for the Zacks sector and 4.46x 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 0.9x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 0.38x 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	0.85	2.39	4.46
	5-Year High	1.37	1.6	2.91	4.56
	5-Year Low	0.21	0.57	1.72	2.83
	5-Year Median	0.9	1.34	2.53	3.72
P/S F12M	Current	0.29	0.98	6.04	3.59
	5-Year High	1.13	1.54	6.66	3.59
	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	3.24	7.32	16.35	22.69
	5-Year High	13.24	13.13	16.35	22.69
	5-Year Low	1.78	6.7	11.59	15.29
	5-Year Median	8.06	10.35	14.21	17.55

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Employers Holdings Inc (EIG)	Outperform	1
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	2
CNO Financial Group, Inc. (CNO)	Neutral	3
Trupanion, Inc. (TRUP)	Neutral	4

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	UNM	X Industry	S&P 500	AFL	EIG	TRUP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	4
VGM Score	A	-	-	A	D	B
Market Cap	3.49 B	1.09 B	22.57 B	25.32 B	948.97 M	1.77 B
# of Analysts	12	3	14	6	2	3
Dividend Yield	6.64%	0.84%	1.83%	3.17%	3.08%	0.00%
Value Score	A	-	-	A	B	F
Cash/Price	0.47	0.18	0.07	0.16	0.18	0.06
EV/EBITDA	3.09	4.86	12.96	4.86	3.52	317.73
PEG Ratio	0.37	0.99	3.04	1.60	NA	NA
Price/Book (P/B)	0.33	0.83	3.13	0.86	0.83	12.94
Price/Cash Flow (P/CF)	2.83	8.12	12.61	5.64	8.12	461.09
P/E (F1)	3.30	13.67	22.06	7.98	19.35	NA
Price/Sales (P/S)	0.29	1.20	2.42	1.17	1.20	4.34
Earnings Yield	30.24%	5.15%	4.31%	12.52%	5.15%	-0.08%
Debt/Equity	0.32	0.00	0.75	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%	9.57%	10.85%	9.79%	9.35%	NA
Proj. EPS Growth (F1/F0)	-4.48%	-4.18%	-7.75%	-0.45%	-47.66%	20.00%
Curr. Cash Flow Growth	0.34%	0.34%	5.39%	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	0.19	0.40	1.31	0.07	0.41	1.69
Debt/Capital	24.32%	0.07%	44.32%	20.90%	0.00%	17.91%
Net Margin	8.12%	8.12%	10.44%	13.50%	11.30%	-0.40%
Return on Equity	10.99%	7.12%	14.73%	11.98%	7.12%	-1.23%
Sales/Assets	0.18	0.20	0.52	0.14	0.20	1.63
Proj. Sales Growth (F1/F0)	-0.46%	-0.46%	-1.95%	-3.57%	-12.06%	23.62%
Momentum Score	A	-	-	A	A	C
Daily Price Chg	-5.66%	-0.62%	-0.92%	-3.32%	-2.73%	-0.12%
1 Week Price Chg	3.66%	2.71%	0.37%	1.52%	10.26%	6.57%
4 Week Price Chg	6.58%	6.64%	4.14%	0.09%	10.27%	17.60%
12 Week Price Chg	16.26%	4.97%	12.21%	-1.62%	11.18%	70.81%
52 Week Price Chg	-42.63%	-16.95%	-1.73%	-32.54%	-24.64%	58.32%
20 Day Average Volume	2,441,763	144,257	1,887,986	3,002,295	200,367	302,514
(F1) EPS Est 1 week change	0.14%	0.14%	0.00%	2.39%	42.55%	0.00%
(F1) EPS Est 4 week change	-0.56%	0.00%	0.38%	1.88%	45.65%	0.00%
(F1) EPS Est 12 week change	-7.22%	1.99%	-0.07%	1.99%	45.65%	20.00%
(Q1) EPS Est Mthly Chg	0.70%	0.25%	0.16%	-0.19%	22.22%	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	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.

Disclosures

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