

Unum

Model refinements in Colonial Life lead to modest 4Q23 EPS miss

Reiterate Rating: NEUTRAL | PO: 50.00 USD | Price: 47.84 USD

4Q23 adjusted EPS of \$1.79

This result compares with our forecast of \$1.83 and street consensus of \$1.85, coming a touch above the Street low of \$1.78. Material beats in both Group Disability and Group Life within Unum US were more than offset by weaker results in Colonial and Closed Book. International saw a slight beat vs our projection as a marginally better benefit ratio was partially offset by higher expense ratios, with lower investment incomes largely attributed lower invested assets and less benefits from inflation-linked securities within International.

Unum US continues to experience strong margins

The results in Unum US were a continuation of a positive trend vs our projections from 3Q23. Unum US adjusted pre-tax operating income of \$342mn ran well ahead of our forecast of \$305mn. Group Life and Group Disability experienced benefits ratios of 59.5% and 69.5% respectively, both of which came below our projections of 62% and 75% respectively. Management expects the strong results within Group Disability to continue throughout 2024. Accordingly, we model 60-65% benefits ratio as more normative for Disability and 72%-75% as normative for Group Life into 2025/2026. Performance of Supplementary and Voluntary was in-line with our projections.

Colonial and Closed Book underperform expectations

Colonial's pre-tax operating income of \$88mn lagged our projection of \$114mn, with benefit and expense ratios that run above our projections. Colonial suffered a one-time reserve charge amounting to ~\$20mn related to model refinements that had not been captured in earlier quarters, though this was partially offset by favorable claim costs in cancer and critical illness. Similarly, the closed block segment underperformed resulting from one-time adjustments relating to reinsurance transactions during the quarter.

Price Objective rises to \$50; reiterate Neutral

The earnings power for the ongoing business appears unimpaired despite claims incidence remaining elevated above the long-term average within the long-term care book. Our 2024-26E EPS forecasts rise modestly upon including the 4Q23 results into our model. We project 2024E EPS of \$8.30, an 8% increase from the FY23 EPS of \$7.66, and in line with management guidance of 7%-9%, a modest reduction from company's previous outlook of 8-10%. Our \$50 price objective (\$46 prior) is predicated on 70% of the year-ahead peer group multiple of 8.3x (8.0x prior). Higher forecasted earnings as well as modest multiple expansion results in our higher price objective. Modest upside potential versus our PO underlies our Neutral rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.75	7.66	8.30	8.65	9.20
EPS Change (YoY)	55.2%	13.5%	8.4%	4.2%	6.4%
Consensus EPS (Bloomberg)			7.88	8.46	8.58
DPS	1.26	1.39	1.53	1.68	1.84
Valuation (Dec)					
P/E	7.1x	6.2x	5.8x	5.5x	5.2x
Dividend Yield	2.6%	2.9%	3.2%	3.5%	3.8%

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Timestamp: 30 January 2024 09:30PM EST

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	46.00	50.00
2024E EPS	7.70	8.30
2025E EPS	8.25	8.65
2026E EPS	8.95	9.20

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Stock Data

Price	47.84 USD
Price Objective	50.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-2-7
52-Week Range	36.27 USD - 52.15 USD
Mkt Val (mn) / Shares Out (mn)	9,331 USD / 195.0
Free Float	86.6%
Average Daily Value (mn)	60.09 USD
BofA Ticker / Exchange	UNM / NYS
Bloomberg / Reuters	UNM US / UNM.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Unum

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	9,617	10,046	10,557	10,974	11,379
Net Investment Income	2,122	2,097	2,259	2,349	2,431
Total Revenue	12,000	12,422	13,102	13,609	14,096
Total Cost of Benefits and Claims	(7,483)	(7,257)	(7,726)	(8,103)	(8,449)
S,G & A (Including Commissions)	(1,086)	(1,170)	(1,222)	(1,270)	(1,317)
Total Operating Expenses	(10,722)	(10,746)	(11,311)	(11,850)	(12,315)
Pre-Tax Operating Earnings	1,277	1,676	1,791	1,759	1,781
Income Tax Expense	(343)	(356)	(436)	(426)	(435)
Operating Earnings After Tax	1,364	1,513	1,570	1,549	1,560
Net Income (Reported)	1,364	1,513	1,570	1,549	1,560
Diluted Shares	202	198	189	179	170
Operating Earnings Per Share	6.75	7.66	8.30	8.65	9.20
Net Income (Reported) Per Share	6.75	7.66	8.30	8.65	9.20

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	43,832	46,108	46,589	47,667	48,768
Total Assets	60,563	62,606	63,067	64,127	65,210
Reserves	NA	NA	NA	NA	NA
LT Debt	3,428	3,430	3,459	3,459	3,459
Total Liabilities	51,830	52,954	51,535	51,444	51,374
Total Equity	8,735	9,651	11,535	12,685	13,837
Total Equity (Ex FAS 115)	13,174	12,814	14,643	14,793	15,545
Book Value per Share (Reported)	44.17	49.90	63.04	73.24	84.34
Book Value per Share (Ex FAS 115)	59.53	49.90	63.04	73.24	84.34

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	6.9x	4.7x	4.6x	4.3x	4.3x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	1.4%	4.5%	5.1%	4.0%	3.7%
Net Investment Income	-4.1%	-1.2%	7.7%	4.0%	3.5%
Total Revenue	0.5%	3.5%	5.5%	3.9%	3.6%
Operating Earnings per Share	55.2%	13.5%	8.4%	4.2%	6.4%
Asset	-14.9%	3.4%	0.7%	1.7%	1.7%
Reported Book Value per Share	48.2%	13.0%	26.3%	16.2%	15.2%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	2.1%	2.5%	2.5%	2.4%	2.4%
Operating Margin	11.4%	12.2%	12.0%	11.4%	11.1%
Long Term Debt to Cap Ratio (Ex FAS 115)	20.6%	21.1%	19.1%	18.9%	18.2%
Net Income % Operating Income	103.1%	84.8%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Life

Company Description

Unum is a leading provider of disability income insurance and ranks among the world's leading special risk insurers. Unum has strong market share in the U.S. and U.K. Unum has a large legacy book of long-term care (LTC) and individual disability, but has put these businesses in run-off. The company distributes via captive sales representatives, brokers, and sales consultants.

Investment Rationale

We believe Unum is among the most interest rate sensitive companies within the group given its long-term care (LTC) closed block making it less defensive than it otherwise would be as a pure-play group insurer. A challenging claims environment and a sustained period of low rates presents risk of persistent LTC charges, which could hamper book value and cash flow. However, we believe the current depressed valuation reflects these difficulties, driving our Neutral rating.

Stock Data

Average Daily Volume 1,256,044

Quarterly Earnings Estimates

	2023	2024
Q1	1.87A	2.07E
Q2	2.06A	2.04E
Q3	1.94A	2.08E
Q4	1.79A	2.10E

Price objective basis & risk

Unum (UNM)

Our \$50 price objective for UNM is based on 70% of the U.S. large-cap life peer year-ahead (2025E) P/E multiple of 8.3x. Our target multiple is modestly below UNM's 8x-9x post financial crisis average and the P/E we target for most life insurance peers given Unum's heightened risk in long-term care, capital constraints and very low cash flow conversion related to its agreements with regulators, and lack of earnings growth trajectory.

Downside risks are charges or unfavorable developments for long-term care insurance, lower-than-expected sales and margins at the ongoing operations, and lower-than-anticipated interest rates. Further reserve charges for the company's long-term care risk, whether concluded upon internally or forced upon Unum by regulators, could further erode the capital flexibility and dividend paying capacity of the company.

Upside risks are positive developments for long-term care insurance, better-than-expected sales and margins at the ongoing operations, and higher-than-anticipated interest rates.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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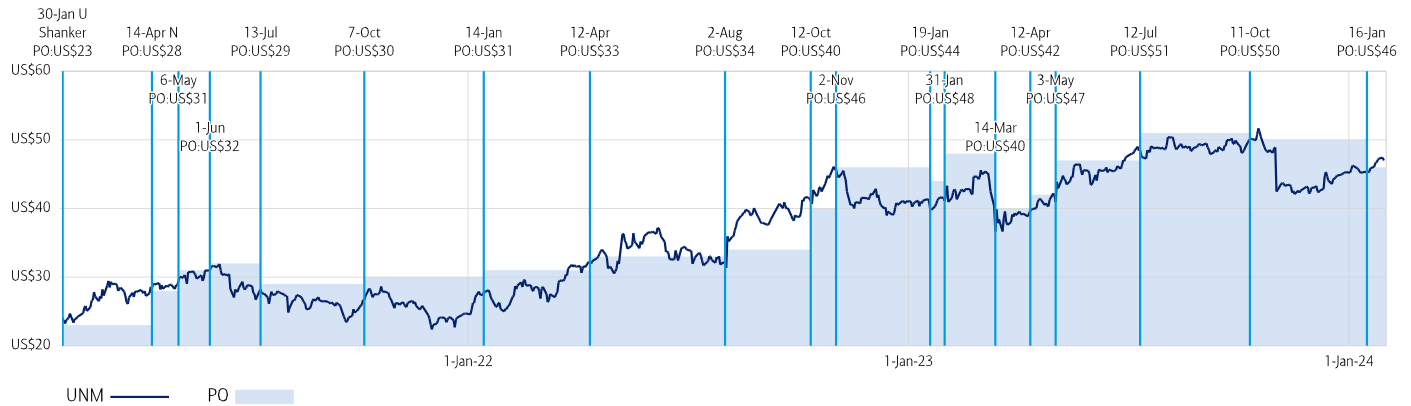
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Unum (UNM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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