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PRINCIPAL FINANCIAL GROUP INC
Form 8-K
February 07, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report: FEBRUARY 6, 2006
(Date of earliest event reported)

PRINCIPAL FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	1-16725	42-1520346
(State or other jurisdiction of incorporation)	(Commission file number)	(I.R.S. Employer Identification Number)

711 HIGH STREET, DES MOINES, IOWA 50392
(Address of principal executive offices)

(515) 247-5111
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On February 6, 2006, Principal Financial Group, Inc. publicly announced information regarding its results of operations and financial condition for the quarter ended December 31, 2005. The text of the announcement is included

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herewith as Exhibit 99.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

99 Fourth Quarter 2005 Earnings Release

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ Michael H. Gersie

Name: Michael H. Gersie
Title: Executive Vice President and Chief
Financial Officer

Date: February 7, 2006

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RELEASE: On receipt
MEDIA CONTACT: Jeff Rader, 515-247-7883,
RADER.JEFF@PRINCIPAL.COM
INVESTOR RELATIONS CONTACT: Tom Graf, 515-235-9500,
investor-relations@principal.com

PRINCIPAL FINANCIAL GROUP, INC. REPORTS FOURTH QUARTER 2005 RESULTS

Des Moines, IA (February 6, 2006) - Principal Financial Group, Inc. (NYSE: PFG) today announced net income available to common stockholders for the three months ended December 31, 2005, of \$246.9 million, or \$0.87 per diluted share compared to \$213.5 million, or \$0.70 per diluted share for the three months ended December 31, 2004. The company reported operating earnings of \$217.9 million for fourth quarter 2005, compared to \$199.7 million for fourth quarter 2004(1). Operating earnings per diluted share (EPS) for fourth quarter 2005 were \$0.77 compared to \$0.66 for the same period in 2004. Operating revenues for fourth quarter 2005 were \$2,470.8 million compared to \$2,215.7 million for the same period last year.(2)

"We entered 2005 faced with a number of familiar challenges," said J. Barry Griswell, chairman and chief executive officer. "A difficult equity market environment, continuously evolving customer needs, and a very high performance bar - a track record set over our first three years as a public company that included a 10 percent compounded annual growth rate for operating earnings, a \$70 billion increase in assets under management, and an average improvement of more than 110 basis points per year in return on equity."

"Importantly, we delivered another very strong result. In 2005, we achieved our seventh consecutive year of record operating earnings, up 13 percent from 2004 to \$862 million, reflecting record performance in all three operating segments,"

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said Griswell. "Strong earnings, combined with strategic use of share repurchases, drove EPS up 22 percent to a record \$2.97, including record fourth quarter earnings per share of \$0.77, a 17 percent improvement. We also grew assets under management by \$28 billion in 2005, and improved our return on equity by 150 basis points, reaching 13.8 percent as of year-end."

Additional highlights for the fourth quarter and full year 2005 include:

- o Record net income available to common stockholders of \$901.3 million, driving net income per diluted share up 19 percent to a record \$3.11 in 2005.
- o Record assets under management (AUM) of \$195.2 billion, up 17 percent from 2004, including organic growth of 33 percent for Principal International and 25 percent for Principal Global Investors' third party AUM.
- o Record full service accumulation account values of \$77.3 billion, up 12 percent from a year ago, and record full service accumulation deposits of \$15.4 billion in 2005, an increase of 15 percent.
- o Record sales for each of the company's three key retirement and investment products in 2005, including: \$3.4 billion for mutual funds; \$2.0 billion for individual annuities; and \$6.1 billion for organic full service accumulation, including \$1.6 billion in the fourth quarter, a 17 percent increase for both periods.

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"Our ability to again deliver sustainable, profitable growth, even under difficult conditions, reflects our discipline and strong focus on meeting the changing needs of our customers," said Griswell. "Employers continue to recognize the importance of employee benefits in attracting and retaining employees - but increasingly they're looking for more cost-effective options and shifting decision-making and financial responsibilities to employees. In turn, employees are increasingly seeking education, guidance, and "do-it-for-me" solutions as they take a more active interest in building their financial security."

"In 2005, we continued to invest in our portfolio of worksite solutions: we enhanced our array of bundled offerings such as Total Retirement Suite SM, helping employers reduce administrative burden and costs; we expanded access to personalized investment advice for retirement plan participants; we developed new retirement income management solutions for retirees; we added new cost effective health and voluntary benefits offerings; and we significantly expanded our educational resources to help employers meet their fiduciary obligations, and to help employees improve their health and financial well being," said Griswell.

"Our ongoing investment in helping customers achieve financial security continues to drive strong and improving retention across our businesses, as well as tremendous sales success," said Griswell. "Combined sales of our three key retirement and investment products - full service accumulation, mutual funds and individual annuities - reached a record \$11.5 billion for the year, a 13 percent increase. We also achieved a fourth consecutive year of record sales in our Specialty Benefits division, an increase of 23 percent."

"2005 was another year of strong execution, a year in which we continued to differentiate The Principal in the marketplace and to strengthen our competitive position," said Griswell. "We are highly optimistic about the growth opportunities across our businesses, and in 2006, we'll continue to leverage our strengths and execute our customer-focused strategy to deliver long-term value for shareholders."

SEGMENT HIGHLIGHTS

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U.S. ASSET MANAGEMENT AND ACCUMULATION

Segment operating earnings for fourth quarter 2005 were \$136.0 million, compared to \$134.3 million for the same period in 2004. Full service accumulation earnings were a record \$66.1 million in fourth quarter 2005. This compares to \$64.6 million in fourth quarter 2004, which included a \$6.2 million tax benefit for a special dividend received. The increase in full service accumulation earnings was primarily due to increased fees generated from higher account values. Full service accumulation account values were \$77.3 billion as of December 31, 2005 compared to \$68.9 billion as of December 31, 2004.

Operating revenues for fourth quarter increased 18 percent to \$1,195.4 million from \$1,010.5 million for the same period in 2004, primarily due to higher sales of single premium group annuities. The single premium product, typically used to fund defined benefit terminations, can generate large premiums from very few customers and therefore causes revenues to vary from period to period. Excluding

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this product, segment revenues increased 6 percent due to increased fees in the full service accumulation and Principal Global Investors' operations.

Assets under management for the segment were a record \$164.3 billion as of December 31, 2005, compared to \$159.0 billion as of September 30, 2005, and compared to \$142.1 billion as of December 31, 2004.

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION

Segment operating earnings for fourth quarter 2005 were a record \$22.7 million, compared to \$11.5 million for the same period a year ago, reflecting tax benefits of \$13.0 million, including an \$8.7 million tax benefit associated with the liquidation of defined contribution operations in Japan. Partially offsetting fourth quarter 2005 tax benefits was some discretionary expenditure on marketing, advertising and sales training during the quarter, as well as costs associated with the Japan liquidation.

Operating revenues for fourth quarter were \$165.1 million, compared to \$147.1 million for the same period a year ago reflecting strong growth in Hong Kong and India, and favorable currency translation in Chile, Mexico, and Brazil.

Assets under management for the segment were a record \$15.4 billion as of December 31, 2005, compared to \$14.7 billion as of September 30, 2005, and compared to \$10.2 billion as of December 31, 2004.(3)

LIFE AND HEALTH INSURANCE

Segment operating earnings for fourth quarter 2005 were \$63.2 million, compared to \$52.9 million for the same period in 2004, primarily due to solid growth and improved loss ratios in the Health and Specialty Benefits divisions.

Operating revenues increased to a record \$1,123.3 million for the quarter, compared to \$1,063.5 million for the same period in 2004. Revenues in the Specialty Benefits division increased 13 percent, driven by strong sales and steady retention in each of the division's product lines. Health revenues improved 8 percent, primarily reflecting an increase in group medical covered members and higher premium per member. Individual Life revenues decreased 3 percent, as the company continued its shift in marketing emphasis from traditional premium-based products to fee-based universal life and variable universal life products. Unlike traditional premium-based products, universal life and variable universal life deposits are not reported as GAAP revenue.

CORPORATE AND OTHER

Operating losses for fourth quarter 2005 were \$4.0 million, compared to operating earnings of \$1.0 million for the same period in 2004. Because corporate operations are varied, many items contribute to this variance. The primary contributor to the decline was the declaration of the fourth quarter 2005 preferred stock dividend. This \$8.3 million cost reduced operating earnings within the Corporate segment with no corresponding activity in the year earlier period. Partially offsetting this cost was reduced interest expense on federal income tax matters.

USE OF NON-GAAP FINANCIAL MEASURES

The company uses a number of non-GAAP financial measures that management believes are useful to investors because they illustrate the performance of our normal, ongoing operations, which is important in understanding and evaluating the company's financial condition and results of operations. They are not, however, a substitute for U.S. GAAP financial measures. Therefore, the company has provided reconciliations of the non-GAAP measures to the most directly comparable U.S. GAAP measure at the end of the release. The company adjusts U.S. GAAP measures for items not directly related to ongoing operations. However, it is possible that these adjusting items have occurred in the past and could recur in the future. Management also uses non-GAAP measures for goal setting, determining employee and senior management awards and compensation, and evaluating performance on a basis comparable to that used by investors and securities analysts.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

This press release may contain forward-looking statements, including, without limitation, statements as to sales targets, sales and earnings trends, and management's beliefs, expectations, goals and opinions. These statements are based on a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. Future events and their effects on the company may not be those anticipated, and actual results may differ materially from the results anticipated in these forward-looking statements. The risks, uncertainties and factors that could cause or contribute to such material differences are discussed in the company's annual report on Form 10-K for the year ended December 31, 2004, and in the company's quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities and Exchange Commission. These risks and uncertainties include, without limitation: competitive factors; volatility of financial markets; decrease in ratings; interest rate changes; inability to attract and retain sales representatives; international business risks; foreign currency exchange rate fluctuations; and investment portfolio risks.

SHARE REPURCHASES

In June 2005, following the Board's share repurchase authorization of up to 15.0 million shares, the company entered into an accelerated stock repurchase agreement with a third party investment bank for approximately 13.7 million shares of Principal Financial Group, Inc. common stock with an initial payment of \$542.3 million, using cash proceeds from the company's June issuance of perpetual preferred stock. The transaction was subject to a market price adjustment provision based on the volume weighted average market price over the execution period, which was settled in cash for \$84.0 million on November 16, 2005. In the fourth quarter 2005, the company did not repurchase any shares from the Board's November 2005 \$250 million authorization, but repurchased \$50.0 million of shares under that program through February 1, 2006.

STOCK OPTIONS

The Principal expenses employee stock options and the employee stock purchase plan, resulting in an after-tax expense of \$5.1 million and \$21.3 million,

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respectively for the three and twelve months ended December 31, 2005, compared to \$5.6 million and \$22.4 million, respectively for the three and twelve months ended December 31, 2004.

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EARNINGS CONFERENCE CALL

At 9:00 A.M. (CST) tomorrow, Chairman and CEO J. Barry Griswell and Executive Vice President and CFO Mike Gersie will lead a discussion during a live conference call. Parties interested in listening to the conference call live may access the webcast on the company's Investor Relations (IR) website (www.principal.com/investor) or by dialing (800) 374-1609 (U.S. callers) or (706) 643-7701 (International callers) approximately 10 minutes prior to the start of the call. To access the call, leader name is Tom Graf. Listeners can access an audio replay of the call on the IR website, or by calling (800) 642-1687 (US callers) or (706) 645-9291 (International callers). The access code for the replay is 3370203. Replays will be available through February 14, 2006. The financial supplement is currently available on our website and may be referred to during the conference call.

ABOUT THE PRINCIPAL FINANCIAL GROUP

The Principal Financial Group(R) (The Principal (R))(4) is a leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies. A member of the Fortune 500, the Principal Financial Group has \$195.2 billion in assets under management(5) and serves some 15.6 million customers worldwide from offices in Asia, Australia, Europe, Latin America and the United States. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG. For more information, visit WWW.PRINCIPAL.COM.

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SUMMARY OF SEGMENT AND PRINCIPAL FINANCIAL GROUP, INC. RESULTS

SEGMENT	OPERATING EARNINGS (LOSSES)* IN MIL		
	THREE MONTHS ENDED, 12/31/05	12/31/04	TWELVE MONTHS ENDED, 12/31/05
U.S. ASSET MANAGEMENT AND ACCUMULATION	\$136.0	\$134.3	\$538.4
INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	22.7	11.5	71.0
LIFE AND HEALTH INSURANCE	63.2	52.9	274.4
MORTGAGE BANKING	-	-	-
CORPORATE AND OTHER	(4.0)	1.0	(21.4)
OPERATING EARNINGS	217.9	199.7	862.4
NET REALIZED/UNREALIZED CAPITAL			

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GAINS (LOSSES), AS ADJUSTED	(15.9)	15.9	(20.6)
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OTHER AFTER-TAX ADJUSTMENTS	44.9	(2.1)	59.5
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NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$246.9	\$213.5	\$901.3

PER DILUTED EARNINGS PER SHARE
AVAILABLE TO COMMON STOCKHOLDERS

	THREE MONTHS ENDED, 12/31/05	12/31/04	TWELVE MONTHS ENDED, 12/31/05
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OPERATING EARNINGS	\$ 0.77	\$ 0.66	\$ 2.97
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NET REALIZED/UNREALIZED CAPITAL GAINS (LOSSES), AS ADJUSTED	(0.06)	0.05	(0.06)
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OTHER AFTER-TAX ADJUSTMENTS	0.16	(0.01)	0.20
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NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 0.87	\$ 0.70	\$ 3.11
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WEIGHTED-AVERAGE DILUTED COMMON SHARES OUTSTANDING	282.9	304.7	289.9