

## CNO Financial Group (CNO)

**\$16.13** (As of 08/05/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

### Summary

CNO Financial's earnings of 43 cents beat the Zacks Consensus Estimate by 30.3% but was down 10.4% year over year on account of weak annuity collected premiums and lower margin in life insurance products, partly offset by reduced costs. Its shares have outperformed its industry in a year's time. Its cost-cutting initiatives for enhancing earnings profile looks impressive. Its expenses are expected to decline going forward backed by cost containment program. The company has invested significantly in technology to improve agent productivity as well as sales and advertising. CNO Financial engages in effective capital deployment measures, which should instill investor confidence in the stock. However, its high-debt levels lead to rise in interest expenses. Revenues are expected to get depleted due to the current uncertainty.

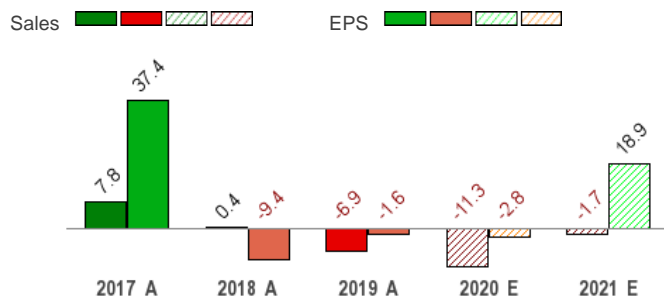
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$20.93 - \$8.79
20 Day Average Volume (sh)	915,628
Market Cap	\$2.3 B
YTD Price Change	-11.0%
Beta	1.29
Dividend / Div Yld	\$0.48 / 3.0%
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	Bottom 28% (182 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	30.3%
Last Sales Surprise	23.4%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	11/03/2020
Earnings ESP	-20.7%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	845 E	847 E	850 E	852 E	3,499 E
2020	717 A	1,014 A	841 E	844 E	3,561 E
2019	1,023 A	980 A	944 A	1,069 A	4,016 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.42 E	\$0.50 E	\$0.60 E	\$0.55 E	\$2.08 E
2020	\$0.58 A	\$0.43 A	\$0.40 E	\$0.40 E	\$1.75 E
2019	\$0.41 A	\$0.48 A	\$0.45 A	\$0.47 A	\$1.80 A

\*Quarterly figures may not add up to annual.

P/E TTM	8.4
P/E F1	9.2
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

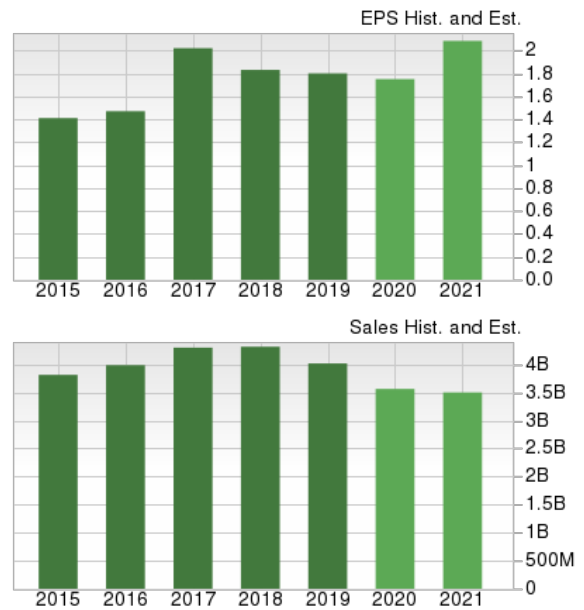
## Overview

Headquartered in Carmel, IN, CNO Financial Group Inc. is a top-tier holding company for a group of insurance companies operating throughout the U.S., which develops, administers and markets supplemental health insurance, annuity, individual life insurance and other insurance products. It distributes these products through three distribution channels: career agents, professional independent producers and direct marketing. Founded in 1979, Consecro Inc. began operations in 1982, going on to become a public company in 1985. It changed its name to CNO Financial Group Inc. on May 11, 2010.

The company announced its business transformation in January. It now reports under two divisions, namely Consumer and Worksite to allow cross-channel efficiencies and serve customers better. Earlier, it used to report via three operating segments, such as The Bankers Life, The Washington National, The Colonial Penn and Long Term Care- Run Off.

**The Consumer Division:** This includes consumer engagement over the phone besides online and face-to-face interaction with agents or via a combination of sales channels. This division gains traction from agent sales force and leading direct-to-consumer business with experience in advertising, web/digital and call center support.

**The Worksite Division:** This division focuses on worksite and group sales for businesses, associations and other membership groups, communicating with customers at their workplace. With this division, the company focuses on high-growth business. The unit also allows the company to gain traction from the recent buyout of Web Benefits Design Corporation.



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## Reasons To Buy:

- ▲ **Reducing Costs:** The company has been taking initiatives to lower costs. In 2019 and during the first six months of 2020, benefits and expenses decreased 18.3% and 10.2%, respectively, year over year. The company will pursue further strategic actions to control costs and enhance its earnings profile. Going forward, its expenses are expected to decline on the back of cost containment program.
- ▲ **Investments in Technology:** The company has invested significantly in technology to improve agent productivity as well as sales and advertising. This is expected to improve online customer experience and enhanced lead productivity. In June 2019, the company added a web chat facility to its Colonial Penn website, which will offer customers a unique omni-channel experience. In the third quarter of 2019, it entered into a new strategic technology partnership with Cognizant and HCL Technologies. With added technology, CNO Financial have the accessibility to employer partners, which was not present earlier due to dearth of sophisticated benefits platform offer.
- ▲ **Capital Deployment:** CNO Financial has been raising its quarterly dividend since 2013. Frequently taken up share repurchase programs have been a major capital deployment strategy for the company. In 2019, the company returned capital of \$319 million to its shareholders. It also witnessed a steady cash flow for the past several years. In the second quarter, the company returned \$47 million in the form of share buybacks and dividends. This should attract investors' attention.
- ▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry. Moreover, its solid fundamentals, such as improving top line and strong capital position, are likely to sustain momentum in the days ahead.

CNO Financial's cost-reduction efforts, investments in cutting-edge technology and strategic initiatives are its tailwinds.

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## Reasons To Sell:

- ▼ **Withdrawal of Guidance:** Due to the current market volatility and the uncertainty revolving around COVID-19, the company scrapped its 2020 guidance. It expects second-quarter results to be disappointing due to muted sales volumes. It also anticipates that earnings for the remaining year will be affected by lower interest rates and increased pressure on insurance product margin related to the coronavirus.
- ▼ **Weak Capital Position:** CNO Financial's rising level of debt continues to escalate interest expenses. Its total debt accounts for 41.2% (sequentially in line) of the total capital, higher than the industry average of 30.3%. Also, its time interest earned stands at 2.5X (compared with the sequential figure of 1.95X), lower than the industry's average of 10.3X. As of Jun 30, 2020, the company had cash and cash equivalents of \$521 million, lower than its debt level of \$1.6 billion. Thus, its solvency level continues to bother.
- ▼ **Revenues Under Pressure:** Revenues have been weighed on since last year due to low insurance policy income. In 2019 and the first six months of 2020, the top line declined 6.9% and 13.5% each year over year. Revenues remain stressed due to realized losses, and negative policyholder and other special-purpose portfolios. Sales of health products plunged more than 70% in April. In July, total worksite life and health sales slumped 52% while annuity sales were down 13%. The company expects sales to face challenges going forward.
- ▼ **Weak ROE:** Its return on equity — a profitability measure — is 6.5%, lower than its industry average of 8.3%. This reflects the company's inefficiency in utilizing its shareholders' funds.

High financial leverage and suppressed revenues raise concerns for the company.

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## Last Earnings Report

### CNO Financial's Q2 Earnings Beat Estimates, Fall Y/Y

CNO Financial's second-quarter 2020 adjusted earnings per share of 43 cents beat the Zacks Consensus Estimate by 30.3%. However, the bottom line declined 10.4% year over year on account of fall in annuity collected premiums and lower margin in life insurance products, partly offset by reduced costs.

Nevertheless, the company's total revenues improved 3.5% year over year to \$1.01 billion due to higher insurance policy income, improved income from policyholder and other special-purpose portfolios, and increased fee revenue and other income. The top line also outpaced the consensus mark by 23.4%.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	23.35%
EPS Surprise	30.30%
Quarterly EPS	0.43
Annual EPS (TTM)	1.93

### Quarterly Operational Update

Annuity collected premiums plunged 29% year over year to \$242.7 million due to pricing discipline.

New annualized premiums for life and health products were \$69.4 million, down 19% from the year-ago period.

Total insurance policy income inched up 1% year over year to \$625.3 million.

Operating return on equity for the second quarter was 10.5%, contracting 40 basis points (bps) year over year.

Total benefits and expenses fell 2.5% year over year to \$908.8 million, primarily on account of lower insurance policy benefits and interest expense.

### Financial Update

Unrestricted cash and cash equivalents held by CNO Financial were \$521.1 million as of Jun 30, 2020, down 10.2% from the level at 2019 end. As of Jun 30, 2020, total assets were \$34 billion, up 1% from the level at 2019 end.

Debt-to-capital was 17.3% as of Jun 30, 2020 compared with 17.5% at 2019 end.

### Securities Repurchase and Dividend Update

In the second quarter, the company returned \$47.4 million in the form of share buybacks and dividends.

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## Recent News

### CNO Financial's Unit Introduces an Indexed Annuity Product — Jul 10, 2020

Bankers Life, which is a subsidiary of CNO Financial, has launched a new indexed annuity — Security Builder. The new product, which is the fourth indexed annuity launched so far by Bankers Life, is supposed to provide greater returns, tax-deferred earnings and principal safety, and access to funds. This move seems well-timed as the new product is likely to provide guaranteed income for middle-income consumers amid the COVID-19 pandemic.

## Valuation

CNO shares are down 10% and up 7.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 24% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.1% and 6%, respectively.

The S&P 500 index is up 3.7% in the year-to-date period and 17.1% in the past year.

The stock is currently trading at 8.28x forward 12-month earnings, which compares to 8.36x for the Zacks sub-industry, 16.51x for the Zacks sector and 22.71x for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.19x and as low as 4.46x, with a 5-year median of 10.49x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 8.95x forward earnings.

The table below shows summary valuation data for CNO

Valuation Multiples - CNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.28	8.36	16.51	22.71
	5-Year High	16.19	12.61	16.51	22.71
	5-Year Low	4.46	6.62	12	15.25
	5-Year Median	10.49	9.99	14.21	17.55
P/S F12M	Current	0.66	0.81	6.04	3.63
	5-Year High	1.07	1.74	6.66	3.63
	5-Year Low	0.34	0.81	4.97	2.54
	5-Year Median	0.83	1.27	6.06	3.04
P/B TTM	Current	0.62	1.05	2.42	4.54
	5-Year High	0.98	1.98	2.91	4.56
	5-Year Low	0.29	0.85	1.72	2.83
	5-Year Median	0.77	1.48	2.52	3.73

As of 08/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
Globe Life Inc. (GL)	Neutral	3
Horace Mann Educators Corporation (HMN)	Neutral	4
Kemper Corporation (KMPR)	Neutral	3
MGIC Investment Corporation (MTG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
American International Group, Inc. (AIG)	Underperform	4
Radian Group Inc. (RDN)	Underperform	3

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	CNO	X Industry	S&P 500	GL	KMPR	PRU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	C	A
Market Cap	2.32 B	3.43 B	22.93 B	8.55 B	5.32 B	26.54 B
# of Analysts	3	3	14	4	2	5
Dividend Yield	2.98%	2.34%	1.76%	0.93%	1.47%	6.55%
Value Score	A	-	-	A	B	A
Cash/Price	0.36	0.36	0.07	0.04	0.09	2.44
EV/EBITDA	6.01	4.01	13.16	6.08	6.85	-2.61
PEG Ratio	NA	1.23	2.99	NA	NA	0.80
Price/Book (P/B)	0.49	0.80	3.20	1.31	1.27	0.40
Price/Cash Flow (P/CF)	4.43	7.10	12.45	6.67	13.09	5.09
P/E (F1)	9.19	9.82	21.78	11.66	12.85	7.21
Price/Sales (P/S)	0.62	0.77	2.47	1.86	1.07	0.47
Earnings Yield	10.85%	9.89%	4.33%	8.58%	7.79%	13.87%
Debt/Equity	0.56	0.24	0.77	0.21	0.19	0.30
Cash Flow (\$/share)	3.64	3.45	6.94	12.04	6.22	13.20
Growth Score	B	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	9.72%	9.72%	10.46%	13.09%	54.52%	5.79%
Proj. EPS Growth (F1/F0)	-2.78%	-9.20%	-7.14%	2.00%	1.04%	-20.24%
Curr. Cash Flow Growth	-7.46%	7.19%	5.47%	6.55%	24.30%	2.41%
Hist. Cash Flow Growth (3-5 yrs)	0.13%	1.69%	8.55%	6.53%	25.09%	1.57%
Current Ratio	0.23	0.42	1.32	0.07	0.23	0.13
Debt/Capital	35.76%	20.31%	44.59%	17.12%	15.66%	23.26%
Net Margin	10.17%	4.27%	10.15%	15.84%	8.90%	-0.25%
Return on Equity	6.45%	6.29%	14.46%	10.60%	12.03%	6.13%
Sales/Assets	0.11	0.20	0.51	0.18	0.38	0.06
Proj. Sales Growth (F1/F0)	-11.32%	0.00%	-1.68%	4.45%	-1.56%	-6.96%
Momentum Score	F	-	-	A	B	B
Daily Price Chg	6.33%	1.07%	0.59%	2.06%	-0.13%	6.19%
1 Week Price Chg	-3.70%	-1.69%	0.14%	-0.96%	0.08%	-2.37%
4 Week Price Chg	8.77%	2.27%	5.31%	11.22%	6.87%	10.58%
12 Week Price Chg	29.98%	23.96%	19.84%	20.66%	42.46%	30.87%
52 Week Price Chg	4.74%	-17.38%	2.73%	-6.62%	4.49%	-21.10%
20 Day Average Volume	915,628	158,684	2,098,555	520,367	242,511	2,516,907
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.36%	1.26%
(F1) EPS Est 4 week change	-0.94%	0.00%	1.10%	0.51%	1.36%	1.30%
(F1) EPS Est 12 week change	-9.09%	-1.15%	1.04%	-1.11%	8.29%	-6.87%
(Q1) EPS Est Mthly Chg	-2.42%	0.00%	0.39%	2.77%	-3.68%	-1.12%

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## 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.

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### 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	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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