

CNO Financial Group (CNO)

\$18.27 (As of 01/17/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

CNO Financial's top-line has been witnessing growth over the past several years. Its Bankers Life and Washington National segments are poised for growth as well. Its tie-up with Wilton Reassurance Company on the back of growth initiatives launched in the last two years, will likely boost its growth going forward. Its capital management and reducing expenses also impress. It has been raising its quarterly dividend since 2013. The company has invested significantly in technology to improve agent productivity as well as sales and advertising. Shares of the company have underperformed its industry in a year's time. However, its deteriorating debt burden persists to elevate interest expenses, which drains the margins. A decline in interest earned ratio along with high debt raises financial risk.

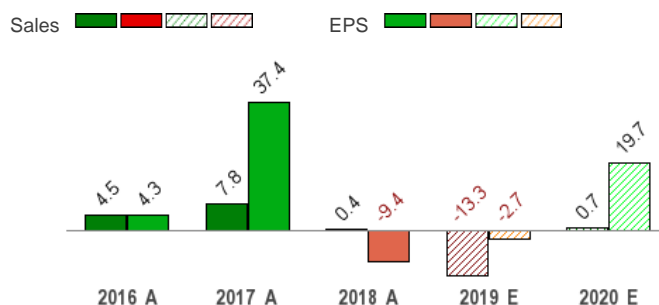
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.30 - \$14.01
20 Day Average Volume (sh)	1,019,158
Market Cap	\$2.8 B
YTD Price Change	0.8%
Beta	1.28
Dividend / Div Yld	\$0.44 / 2.4%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 34% (87 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	10.8
P/E F1	8.6
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					3,766 E
2019	1,023 A	980 A	944 A		3,739 E
2018	1,008 A	1,046 A	1,481 A	778 A	4,314 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.46 E	\$0.52 E	\$0.53 E	\$0.54 E	\$2.13 E
2019	\$0.41 A	\$0.48 A	\$0.45 A	\$0.41 E	\$1.78 E
2018	\$0.44 A	\$0.49 A	\$0.53 A	\$0.36 A	\$1.83 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 01/17/2020. The reports text is as of 01/20/2020.

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.

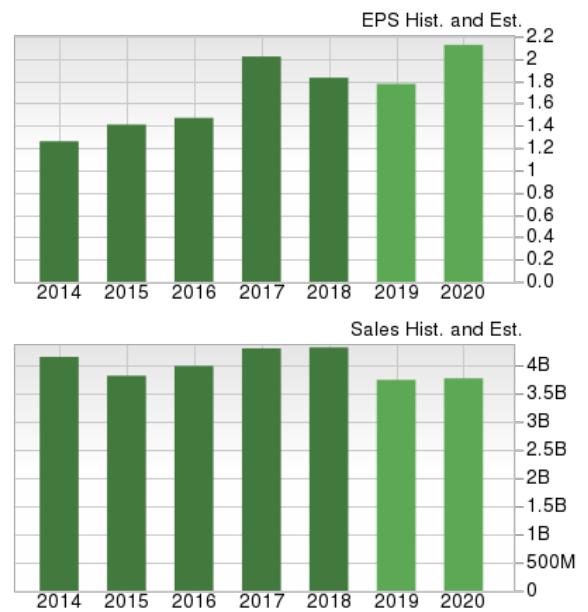
The company manages its business through the following operating segments: **The Bankers Life** (58.5% of the total revenues in 2018) It helps individuals and families protect their financial security and prepare for retirement. It serves the retirement market through a broad portfolio of affordable and good quality health and life insurance products and annuities.

The Washington National: (24.4%) The segment helps individuals protect themselves and their families from the financial problems associated with critical illness, accidents or loss of life. The company's supplemental health and life insurance products are designed to assist policy-holders and their near ones.

The Colonial Penn: (8.9%) The segment specializes in offering simple, easy-to-understand life insurance products to the middle-American market via direct-to-consumer strategies. It uses television, direct mail, telemarketing and web-based communication approaches to reach its customers and prospects.

Long Term Care- Run Off: (8.2%) The segment consists of the long-term care business that was recaptured due to the termination of certain reinsurance agreements effective Sep 30, 2016. This business is not actively marketed and was issued or acquired by Washington National and BCLIC. The company's Corporate Operations segment also contributed to a negligible portion of the total collected premiums in the first quarter.

Corporate operations of the company contributed 2.3% to the company's total revenues.



Reasons To Buy:

- ▲ **Growing Top Line:** CNO Financial has been witnessing a steady top line for the past several years. This is evident from its 2015-2018 CAGR of 4.2%. Although in the first nine months, the same declined 7% due to low insurance policy income, we expect the top line to recover in the upcoming quarters on the back of premium growth, product expansion, net investment income and a solid balance sheet.
- ▲ **Reducing Costs:** The company has been taking initiatives to reduce costs. In the first nine months of 2019, the same decreased 27.5% year over year. It will pursue further actions to lower costs and enhance its earnings profile. Going forward, the company's expenses are expected to decline on the back of its efforts.
- ▲ **Washington National Poised to Grow:** Continuing with its momentum since 2011, total premiums collected from Washington National grew 2.2% and 4.6% year over year, respectively, in 2017 and 2018. The upside is mainly attributable to growth initiatives launched in the last two years, including portfolio diversification and geographic expansion program. Although in the first nine months quarter, total collected premiums from the business dipped 1.7% year over year, we expect the same to bounce back on the back of initiatives taken by the company for diversifying product offerings.
- ▲ **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.
- ▲ **Tie-up with Wilton Reassurance Company:** In September 2018, the company completed its long-term care reinsurance transaction with Wilton Reassurance Company. Under this deal, CNO Financial's wholly-owned subsidiary, Bankers Life and Casualty Company has ceded all of its legacy (dating back to prior 2003) comprehensive and nursing home long-term care policies including statutory reserves of around \$2.7 billion to Wilton Re through 100% indemnity coinsurance. This deal has significantly lowered the risk profile of the company. It will also allow the management to focus on executing its strategic initiatives for accelerating profitable growth for the company and meeting requirements of its targeted growing middle-income market.
- ▲ **Capital Position:** CNO Financial remains focused on improving its capital and debt position. The company has been raising its quarterly dividend since 2013. Frequently taken up share repurchase programs have been a major capital deployment strategy for the company. It has recently approved an additional \$500 million to buy back the company's remaining common stock. It also witnessed a steady cash flow for the past several years. It is committed to deploy 100% of excess capital over time. Its balance sheet strength, which assists in efficient capital management, should attract investors' attention.
- ▲ **Share Price Performance:** In a year's time, shares of the company have underperformed its industry's growth. However, its solid fundamentals, such as improving top line and strong capital position are expected to help the stock bounce back going forward.

CNO Financial expects to lower long-term care exposure by almost 50% over the long term via run-off of existing business, reinsurance and focus on growth of other business lines.

Reasons To Sell:

- ▼ **High Financial Leverage:** The company requires significant amount of cash each year to fund its operations and repay debt. The rising level of debt continues to increase interest expenses as well. The company's debt-to-equity ratio that has been rising over the last few quarters, now stands at 57.8%. In 2018 and the first nine months of 2019, interest expense of the company escalated 21.1% and 6.4% year over year, respectively. Its times interest earned stands at 2.3, lower than the industry's average of 8.9. A decline in interest earned ratio along with high debt raises financial risk.
- ▼ **Suffering Colonial Penn:** The company's Colonial Penn business has been suffering from the last many quarters. In 2017 and 2018, total premiums collected from this business fell 15% and 16.7% year over year, respectively. Although the same increased 3.5% in the first nine months of 2019, it remains a concern. The company's third-quarter results were weighed down by high advertising spend. It now expects 2019 EBIT from Colonial Penn in the range of \$12-\$16 million, narrower than the earlier guidance of \$12-\$20 million.
- ▼ **Weak ROE:** Its return on equity — a profitability measure — is 6.8%, lower than its industry average of 8.1%. This reflects the company's inefficiency in utilizing its shareholders' funds.

High financial leverage leading to elevated interest expenses, suffering Colonial Penn segment and stiff competition are some concerns of the company.

Last Earnings Report

CNO Financial's Q3 Earnings Lag Estimates, Fall Y/Y

CNO Financial Group's third-quarter 2019 adjusted earnings per share of 45 cents, missing the Zacks Consensus Estimate of 47 cents by 4.3%. The bottom line also declined 15.1% year over year, mainly due to lower revenues.

In the quarter under review, CNO Financial's total revenues plunged 36.3% year over year to \$944 million, mainly due to lower net investment income and no realized investment gains. However, the same beat the Zacks Consensus Estimate by 6.9%.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	NA
EPS Surprise	-4.26%
Quarterly EPS	0.45
Annual EPS (TTM)	1.70

Quarterly Operational Update

Total collected premiums of \$949.3 million were up 2.9% from the prior-year quarter's level, mainly driven by Bankers Life segment.

New annualized premiums for life and health products amounted to \$84 million, up 2.8% from the year-ago period.

First-year collected premiums of \$405.3 million rose 16% from the year-earlier quarter, primarily banking on the contribution from Bankers Life segment.

Quarterly Segment Update

Bankers Life

Total collected premiums of \$692.8 million were up 9% year over year, aided by annuity.

New annualized premiums for life and health products were unchanged at \$37.3 million.

Washington National

Total collected premiums of \$176.1 million were up 5.1% year over year.

New Annualized premiums from life and health products were \$27.5 million, up 8.7% from the year-ago quarter's figure.

Colonial Penn

Total collected premiums were \$77.1 million, up 4.2% year over year.

New annualized premiums from life and health products were \$19.2 million, up 0.5% from the amount recorded in the comparable quarter last year.

Long-Term Care in Run-Off

Total collected premiums were \$3.3 million, down 92.7% year over year.

The long-term care business was ceded under a 100% indemnity coinsurance agreement in the third quarter of 2018.

Financial Update

Unrestricted cash and investments held by CNO Financial's holding company were \$260 million as of Sep 30, 2019, up 18.2% from 2018 end.

Debt-to-capital ratio was 17.8% as of Sep 30, 2019 compared with 21.4% at the end of 2018.

Securities Repurchase and Dividend Update

In the third quarter of 2019, the company returned shares worth \$75.3 million and dividend payout of \$16.8 million.

Recent News

CNO Financial Launches New Operating Model — Jan 14, 2020

CNO Financial came up with a new operating model which realigns the company from three operating business segments with two divisions, namely Consumer and Worksite. This strategic move is expected to enhance the financial performance of the company.

Valuation

CNO shares are up 3.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 9.2% and 12%, respectively.

The S&P 500 index is up 24% in the past year.

The stock is currently trading at 8.54X trailing 12-month price to earnings value, which compares to 9.59X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.19X and as low as 6.3X, with a 5-year median of 11.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$19 price target reflects 8.92X price to earnings ratio.

The table below shows summary valuation data for CNO

Valuation Multiples - CNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.54	9.59	14.73	19.2
	5-Year High	16.19	12.61	16.21	19.34
	5-Year Low	6.3	8.4	12.01	15.17
	5-Year Median	11.53	10.22	13.97	17.44
P/S F12M	Current	0.73	1.34	6.53	3.57
	5-Year High	1.07	1.74	6.61	3.57
	5-Year Low	0.57	0.89	5.2	2.55
	5-Year Median	0.85	1.34	6.04	3
P/B TTM	Current	0.61	1.4	2.86	4.55
	5-Year High	0.98	1.98	2.9	4.55
	5-Year Low	0.48	0.94	1.83	2.85
	5-Year Median	0.78	1.46	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 254)



Top Peers

Aflac Incorporated (AFL)	Neutral
American International Group, Inc. (AIG)	Neutral
The Allstate Corporation (ALL)	Neutral
Chubb Limited (CB)	Neutral
FBL Financial Group, Inc. (FFG)	Neutral
MetLife, Inc. (MET)	Neutral
Manulife Financial Corp (MFC)	Neutral
Prudential Financial, Inc. (PRU)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	CNO Neutral	X Industry	S&P 500	AIG Neutral	CB Neutral	PRU Neutral
VGM Score	B	-	-	A	B	A
Market Cap	2.76 B	5.05 B	24.65 B	46.02 B	69.65 B	39.03 B
# of Analysts	2	2.5	13	6	8	6
Dividend Yield	2.41%	1.92%	1.73%	2.42%	1.95%	4.12%
Value Score	B	-	-	B	B	A
Cash/Price	0.40	0.22	0.04	0.57	0.06	1.26
EV/EBITDA	24.41	9.20	14.11	8.08	12.60	2.06
PEG Ratio	NA	1.18	2.08	1.04	1.40	0.87
Price/Book (P/B)	0.61	1.12	3.39	0.69	1.28	0.59
Price/Cash Flow (P/CF)	5.06	10.42	13.81	7.28	13.27	7.74
P/E (F1)	8.58	11.36	19.19	10.44	13.96	7.82
Price/Sales (P/S)	0.74	1.09	2.69	0.91	2.01	0.67
Earnings Yield	11.66%	8.86%	5.21%	9.58%	7.16%	12.78%
Debt/Equity	0.58	0.21	0.72	0.53	0.24	0.29
Cash Flow (\$/share)	3.61	3.14	6.94	7.26	11.58	12.54
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	9.16%	4.22%	10.56%	-13.65%	-1.51%	5.94%
Proj. EPS Growth (F1/F0)	19.72%	9.89%	7.57%	10.08%	9.63%	7.86%
Curr. Cash Flow Growth	-3.12%	8.34%	14.73%	5.26%	12.66%	6.28%
Hist. Cash Flow Growth (3-5 yrs)	-0.01%	-0.76%	9.00%	-10.95%	8.90%	0.73%
Current Ratio	0.25	0.38	1.24	0.26	0.31	0.11
Debt/Capital	36.64%	17.26%	42.99%	34.33%	19.94%	22.41%
Net Margin	4.29%	6.85%	11.14%	3.56%	10.48%	6.67%
Return on Equity	6.77%	6.77%	17.16%	4.17%	8.60%	8.45%
Sales/Assets	0.11	0.23	0.55	0.10	0.20	0.07
Proj. Sales Growth (F1/F0)	0.72%	3.72%	4.16%	NA	4.69%	2.51%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	-0.27%	0.15%	0.27%	1.03%	0.67%	1.79%
1 Week Price Chg	-1.33%	-0.60%	0.39%	1.30%	-3.07%	1.23%
4 Week Price Chg	-2.51%	0.00%	2.95%	1.87%	-0.52%	3.03%
12 Week Price Chg	16.52%	2.60%	7.76%	-0.00%	1.70%	6.40%
52 Week Price Chg	5.00%	12.37%	22.29%	22.20%	15.68%	6.50%
20 Day Average Volume	1,019,158	124,577	1,536,375	3,433,939	1,294,852	1,676,447
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.50%	0.32%	-0.13%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.36%	0.02%	-0.16%
(F1) EPS Est 12 week change	-2.33%	0.00%	-0.40%	-0.93%	-0.90%	-6.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.57%	0.34%	-1.08%

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	B
Growth Score	C
Momentum Score	A
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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