

CNO Financial Group (CNO)

\$16.09 (As of 07/23/20)

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:A

Value: A

Growth: A

Momentum: D

Summary

Shares of CNO Financial 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. It has been raising its quarterly dividend since 2013. CNO Financial engages in effective capital deployment measures via share repurchases, which should instill investor confidence in the stock. However, the company's high-debt levels lead to rise in interest expenses. Revenues are expected to get depleted due to the current uncertainty. The bottom line for the remaining year is likely to be affected by lower interest rates and increased pressure on insurance product margin.

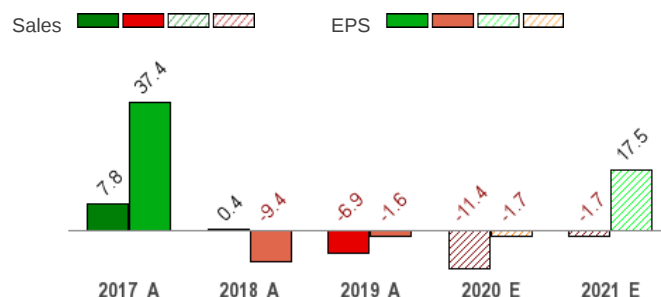
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.93 - \$8.79
20 Day Average Volume (sh)	1,027,002
Market Cap	\$2.3 B
YTD Price Change	-11.3%
Beta	1.32
Dividend / Div Yld	\$0.48 / 3.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 32% (171 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	45.0%
Last Sales Surprise	-24.8%
EPS F1 Est- 4 week change	-5.4%
Expected Report Date	08/04/2020
Earnings ESP	-1.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	845 E	847 E	850 E	852 E	3,498 E
2020	717 A	822 E	841 E	844 E	3,557 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	\$0.34 E	\$0.41 E	\$0.43 E	\$1.77 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	8.1
P/E F1	9.1
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 07/23/2020. The reports text is as of 07/24/2020.

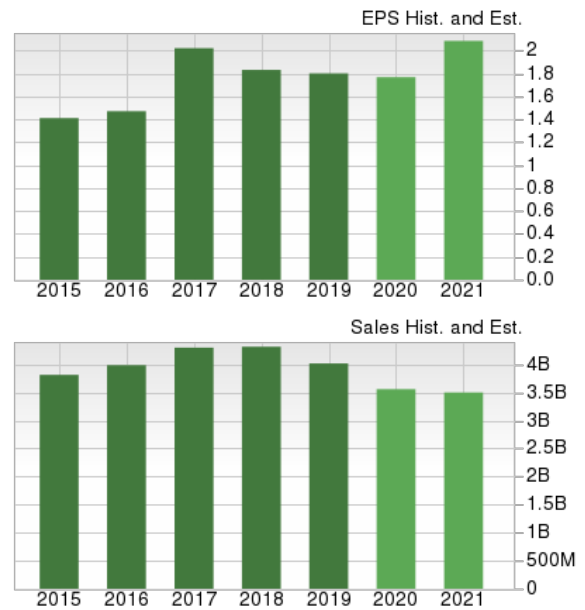
Overview

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.



Reasons To Buy:

▲ **Reducing Costs:** The company has been taking initiatives to lower costs. In 2019 and the first quarter of 2020, benefits and expenses decreased 18.3% and 17.7%, 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 first quarter, the company returned \$99.2 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.

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% (in-line sequentially) of the total capital, higher than the industry average of 30.3%. Also, its time interest earned stands at 1.95x, lower than the industry's average of 10.3x. As of Mar 31, 2020, the company had cash and cash equivalents of \$778 million, lower than its debt level of \$1.6 billion.
- ▼ **Revenues Under Pressure:** Revenues have been weighed on since last year due to low insurance policy income. In 2019 and the first quarter of 2020, the top line declined 6.9% and 29.9% each year over year. Revenues remain stressed due to realized losses and negative policyholder and other special-purpose portfolios. In April 2020, Consumer Division life and health sales decreased 24% year over year while life and health sales in Worksite Division plunged around 75% year over year. The company expects sales to face challenges going forward.
- ▼ **Weak ROE:** Its return on equity — a profitability measure — is 7%, 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.

Last Earnings Report

CNO Financial's Q1 Earnings Beat Estimates, Surge Y/Y

CNO Financial's first-quarter 2020 adjusted earnings per share of 58 cents beat the Zacks Consensus Estimate by 45%. The bottom line also improved 41.5% year over year on the back of growth in health and life production along with stable margins and expense management.

However, the company's total revenues declined 29.9% year over year to \$717 million due to realized losses and negative policyholder and other special-purpose portfolios. The top line also missed the consensus mark by 24.8%.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-24.77%
EPS Surprise	45.00%
Quarterly EPS	0.58
Annual EPS (TTM)	1.98

Quarterly Operational Update

Annuity collected premiums declined 7% year over year to \$292.2 million due to pricing discipline.

New annualized premiums for life and health products amounted to \$85.1 million, up 7% from the year-ago period.

Total insurance policy income inched up 2% year over year to \$628.7 million.

Operating return on equity for the first quarter was 11.1%, expanding 60 bps year over year.

Total benefits and expenses decreased 17.7% year over year to \$788.2 million, mainly on the back of lower insurance policy benefits, amortization and other operating costs.

Financial Update

Unrestricted cash and cash equivalents held by CNO Financial were \$482 million as of Mar 31, 2020, down 16.9% from the level at 2019 end.

As of Mar 31, 2020, total assets were \$32.7 billion, down 2.7% from the level at 2019 end.

Debt-to-capital was 20.8% as of Mar 31, 2020 compared with 17.5% at 2019 end.

Securities Repurchase and Dividend Update

In the first quarter, the company returned \$99.2 million in the form of share buybacks and dividend.

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.

CNO Financial Raises Quarterly Dividend — May 8, 2020

The company's board of directors hiked quarterly dividend payout by 9.1% to 12 cents per share. The dividend was paid on Jun 24, 2020, to its shareholders of record as of Jun 10. This dividend hike marks the company's consecutive annual increase for eight straight years.

Valuation

CNO shares are down 11.2% and 1.7% 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 24.6% and 17.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.2% and 12.9%, respectively.

The S&P 500 index is up 2% in the year-to-date period and up 9.9% in the past year.

The stock is currently trading at 8.28x forward 12-month earnings, which compares to 8.34x for the Zacks sub-industry, 16.55x for the Zacks sector and 23.05x for the S&P 500 index.

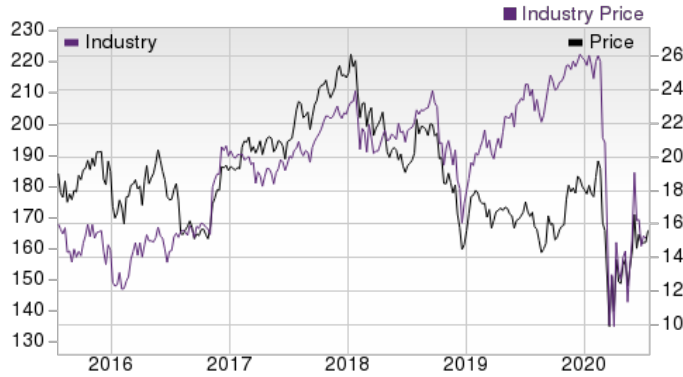
Over the past five years, the stock has traded as high as 16.19x and as low as 4.46x, with a 5-year median of 10.53x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 8.76x forward earnings.

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	8.34	16.55	23.05
	5-Year High	16.19	12.61	16.55	23.05
	5-Year Low	4.46	6.62	11.59	15.25
	5-Year Median	10.53	9.99	14.16	17.52
P/S F12M	Current	0.66	0.81	6.04	3.62
	5-Year High	1.07	1.74	6.66	3.62
	5-Year Low	0.34	0.81	4.96	2.53
	5-Year Median	0.82	1.26	6.06	3.02
P/B TTM	Current	0.61	1.05	2.41	4.49
	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	0.76	1.48	2.53	3.71

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	4
Globe Life Inc. (GL)	Neutral	4
Horace Mann Educators Corporation (HMN)	Neutral	4
Kemper Corporation (KMPR)	Neutral	4
MGIC Investment Corporation (MTG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
American International Group, Inc. (AIG)	Underperform	5
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	-	-	4	4	3
VGM Score	A	-	-	B	B	A
Market Cap	2.31 B	3.33 B	22.58 B	8.55 B	5.18 B	25.92 B
# of Analysts	3	3	14	4	2	5
Dividend Yield	2.98%	2.37%	1.81%	0.93%	1.51%	6.70%
Value Score	A	-	-	B	B	A
Cash/Price	0.35	0.36	0.06	0.05	0.09	2.42
EV/EBITDA	6.00	4.03	13.13	6.08	6.69	-2.73
PEG Ratio	NA	1.25	3.04	NA	NA	0.79
Price/Book (P/B)	0.61	0.80	3.15	1.31	1.38	0.43
Price/Cash Flow (P/CF)	4.42	7.34	12.33	6.67	12.78	4.97
P/E (F1)	8.90	10.38	22.09	12.05	12.71	7.13
Price/Sales (P/S)	0.62	0.80	2.41	1.86	1.03	0.45
Earnings Yield	11.00%	9.05%	4.30%	8.30%	7.87%	14.03%
Debt/Equity	0.70	0.22	0.76	0.21	0.21	0.33
Cash Flow (\$/share)	3.64	3.45	7.01	12.04	6.22	13.20
Growth Score	A	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	9.72%	9.41%	10.82%	12.88%	54.52%	5.79%
Proj. EPS Growth (F1/F0)	-1.85%	-9.18%	-9.01%	-1.22%	-0.32%	-21.23%
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	0.24	0.48	1.31	0.07	0.23	0.14
Debt/Capital	41.15%	20.90%	44.41%	17.12%	17.14%	24.81%
Net Margin	9.07%	5.09%	10.46%	15.84%	8.74%	5.16%
Return on Equity	6.97%	6.71%	15.13%	10.60%	12.74%	7.13%
Sales/Assets	0.11	0.20	0.54	0.18	0.39	0.07
Proj. Sales Growth (F1/F0)	-11.43%	0.00%	-2.06%	2.31%	-1.24%	-6.96%
Momentum Score	D	-	-	B	D	C
Daily Price Chg	3.54%	-0.04%	-0.20%	6.13%	0.81%	0.24%
1 Week Price Chg	4.77%	2.27%	3.82%	4.15%	3.14%	5.95%
4 Week Price Chg	3.74%	3.69%	6.02%	10.54%	10.42%	8.57%
12 Week Price Chg	14.44%	7.02%	10.03%	-2.45%	18.21%	5.23%
52 Week Price Chg	-1.71%	-19.38%	-2.89%	-12.84%	-8.65%	-35.95%
20 Day Average Volume	1,027,002	170,901	2,026,477	525,193	295,937	2,585,130
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.59%	0.00%	0.11%
(F1) EPS Est 4 week change	-5.36%	0.00%	0.15%	-1.30%	0.00%	0.15%
(F1) EPS Est 12 week change	-7.02%	-7.02%	-3.24%	-1.94%	4.46%	-18.92%
(Q1) EPS Est Mthly Chg	-6.06%	0.00%	0.00%	-4.14%	-0.43%	-1.37%

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	A
Momentum Score	D
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.

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