CNO Financial Group, Inc. (CNO)

Published August 2nd, 2024, by Kody Kester

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$3.4B
Fair Value Price:	$34	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	09/09/24
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	09/24/24
Dividend Yield:	2.0%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

CNO Financial Group, Inc. serves middle-income pre-retirees and retired Americans. The company's offerings include Medicare supplement insurance, long-term care insurance, annuities, and individual life insurance. Founded in 1979, CNO is well-established within its industry. Bankers Life, Washington National, and Colonial Penn are among the company's most recognized brand names. As of June 30, the company served 3.2 million customers with its insurance policies and annuities and had $36 billion in total assets.

The company serves consumers through the Consumer and Worksite Divisions. As it sounds, the Consumer Division serves the needs of individual consumers via the phone, online, virtually, face-to-face with agent interaction, or some mix of these modes. The Worksite Division sells life and health insurance products in the workplace to businesses, associations, and other membership groups, serving consumers at their place of employment and virtually.

In 2023, premiums from annuities accounted for $1.6 billion of CNO's total premiums collected (39%). Supplemental health premiums million made up ~$707 million in total premiums collected for the year (17%). Medicare supplement plans chipped in another ~$609 million or 15% of total collected premiums. Long-term care plans collected another ~$262 million in premiums or 6% of total collected premiums. Finally, life insurance plans made up the remaining $937 million of premiums or 23% of total collected premiums.

On July 29, CNO shared its financial results for the second quarter that ended June 30. The company's total revenue grew by 4.2% year-over-year to nearly $1.1 billion in the quarter. A 4% increase in net annualized premiums contributed to this topline growth during the quarter. This healthy growth rate was made possible by new products, the company's geographic expansion initiative, and an initiative to help agents acquire new employer groups for insurance sales. CNO's diluted EPS soared 65.6% over the year-ago period to $1.06 for the quarter. Put into perspective, that was a whopping $0.34 ahead of the analyst consensus. CNO complemented its topline growth with disciplined cost management and prudent underwriting in the quarter. These actions led the company's net profit margin to surge higher by 370 basis points to 10.9% during the quarter. Along with its substantial share repurchases, this is how diluted EPS growth handily exceeded revenue growth for the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.19	$1.41	$1.47	$1.75	$1.83	$1.85	$2.53	$2.79	$2.33	$3.09	***$3.01***	***$4.63***
DPS	$0.24	$0.27	$0.31	$0.35	$0.39	$0.43	$0.47	$0.51	$0.55	$0.59	***$0.64***	***$0.84***
Shares[2]	203.3	184.0	173.8	166.9	162.2	148.1	135.3	120.4	114.3	109.4	***106.5***	***78.2***

Moving forward, CNO has several levers that it can pull to drive diluted EPS growth. For one, the company's geographic expansion and growing agent count should help to keep the topline trending higher over time. Secondly, the company posted its eighth consecutive quarter of sales production growth in the second quarter. Even as the percentage growth of agent counts diminishes, improved productivity should be another catalyst. Finally, CNO's exceptional cash flows have

[1] Estimate
[2] Share count is in millions.
Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

CNO Financial Group, Inc. (CNO)

Published August 2nd, 2024, by Kody Kester

allowed it to retire nearly half of its share count in the past 10 years. We expect significant share repurchases to continue in the future, which is why we think that diluted EPS can grow by 9% annually in the coming five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	14.3	13.5	13.0	14.1	8.1	9.7	8.8	8.5	9.8	9.0	***10.7***	***11.2***
Avg. Yld.	1.4%	1.4%	1.6%	1.4%	2.6%	2.4%	2.1%	2.1%	2.4%	2.1%	***2.0%***	***1.6%***

In the last 10 years, CNO's P/E ratio has varied from as low as the high-single-digits to the low teens. The average P/E ratio of 11.2 falls squarely within this range. We believe that since CNO's annual diluted EPS growth prospects remain intact versus recent years, that multiple remains a sensible fair value estimate. The stock's current P/E ratio of 10.7 is situated just below this multiple and may provide a reasonable entry point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	19%	21%	20%	21%	23%	19%	18%	24%	19%	***21%***	***18%***

CNO's trusted reputation and nationally recognized brands allow it to effectively compete against larger industry peers. That's how the company continues to grow its consumer base, revenue, and profits.

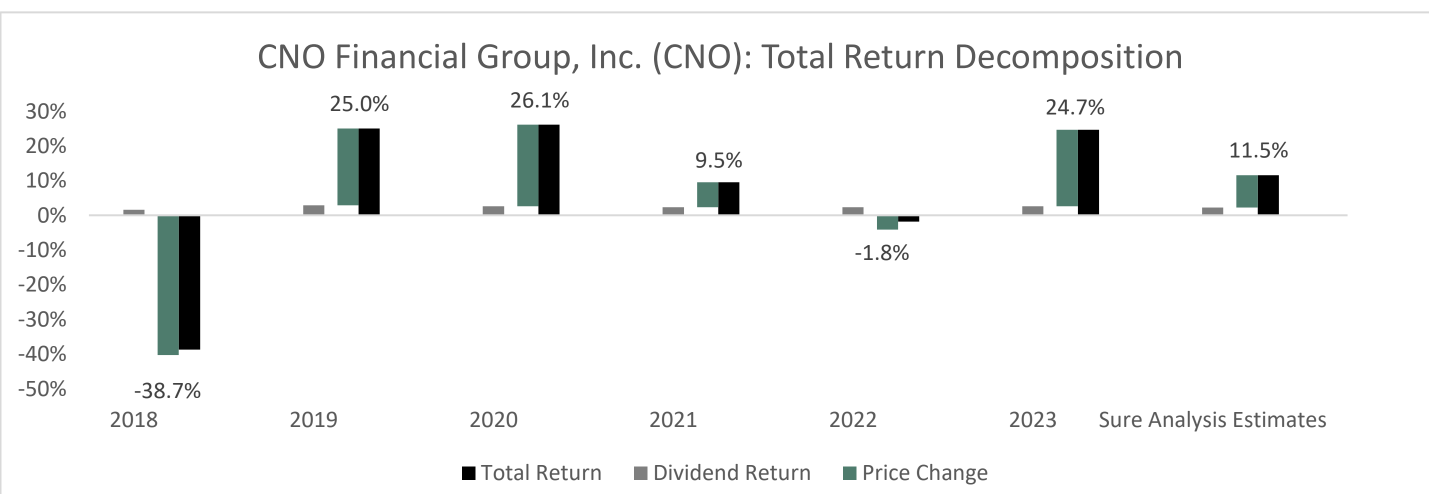
CNO's balance sheet is also a strength. The company's major brands all boast A-rated balance sheets on stable outlooks from the four major credit rating agencies (AM Best, S&P, Fitch, and Moody's). CNO itself possesses BBB+, BBB-, Baa3 (BBB- equivalent), and BBB credit ratings from Fitch, S&P, Moody's, and AM Best, respectively.

These investment-grade credit ratings are backed up by a total consolidated risk-based capital ratio or RBC ratio of 394% as of June 30. This is above the 375% RBC ratio that the company targets. As of June 30, CNO's $429 million in holding company liquidity was also comfortably above the target minimum holding company liquidity amount of $150 million. The company's dividend payout ratio in the high-teens to low-20% range also protects the company from a downturn in profits.

Final Thoughts & Recommendation

CNO's 2.0% dividend yield, 9.0% annual diluted EPS growth prospects, and 0.9% annual valuation multiple upside could set it up for 11.5% annual total returns through 2029. We believe this is an enticing enough total return profile to justify a buy rating here.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

CNO Financial Group, Inc. (CNO)

Published August 2nd, 2024, by Kody Kester

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,145	3,801	3,992	4,302	4,314	4,016	3,821	4,122	3,577	4,147
SG&A Exp.	242	205	231	237	233	238	253	268	288	291
D&A Exp.	274	283	275	265	292	268	304	237	249	267
Net Profit	51	271	358	176	(315)	409	302	570	631	277
Net Margin	1.2%	7.1%	9.0%	4.1%	-7.3%	10.2%	7.9%	13.8%	17.6%	6.7%
Free Cash Flow	122	748	776	633	318	697	736	598	495	583
Income Tax	124	97	(5)	305	50	(135)	43	163	186	80

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	31156	31125	31975	33110	31440	33631	35340	36204	33133	35103
Cash & Equivalents	68	364	189	179	62	75	54	100	69	115
Accounts Receivable	2991	2859	2260	2175	4925	4786	4584	4354	4223	4041
Total Liabilities	26468	26987	27488	28263	28069	28954	29856	30945	31364	32887
Long-Term Debt	3571	4136	4223	3972	3980	3786	3931	4001	3883	4151
Shareholder's Equity	4688	4139	4487	4848	3371	4677	5484	5260	1769	2216
LTD/E Ratio	0.76	1.00	0.94	0.82	1.18	0.81	0.72	0.76	2.20	1.87

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.2%	0.9%	1.1%	0.5%	-1.0%	1.3%	0.9%	1.6%	1.8%	0.8%
Return on Equity	1.1%	6.1%	8.3%	3.8%	-7.7%	10.2%	5.9%	10.6%	17.9%	13.9%
ROIC	0.6%	3.3%	4.2%	2.0%	-3.9%	5.2%	3.4%	6.1%	8.5%	4.6%
Shares Out.	203.3	184.0	173.8	166.9	162.2	148.1	135.3	120.4	114.3	109.4
Revenue/Share	19.04	19.47	22.39	24.99	26.07	25.55	26.69	31.44	30.38	36.02
FCF/Share	0.56	3.83	4.35	3.68	1.92	4.43	5.14	4.56	4.21	5.06

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.