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PRESENTATION

Operator

Hello, and welcome to today's CNO Financial Group fourth-quarter 2023 earnings conference call. My name is Baily, and I'll be your moderator for today. (Operator Instructions) I would now like to pass the conference over to today's host, Adam Auvil, to begin. Please begin.

Adam Auvil - CNO Financial Group Inc - Investor Relations

Good afternoon and thank you for joining us on CNO Financial Group's fourth-quarter 2023 earnings conference call. Today's presentation will include remarks from Gary Bhojwani, Chief Executive Officer; and Paul McDonough, Chief Financial Officer. Following the presentation, we will also have other business leaders available for the question-and-answer period.

During this conference call, we will be referring to information contained in yesterday's press release. You can obtain the release by visiting the Media section of our website at cnoinc.com. This morning's presentation is also available in the Investors section of our website and was filed in a Form 8-K yesterday. We expect to file our Form 10-K and post it on our website on or before February 23.

Let me remind you that any forward-looking statements we make today are subject to a number of factors, which may cause actual results to be materially different than those contemplated by the forward-looking statements. Today's presentation contains a number of non-GAAP measures, which should not be considered as substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentation, we will be making performance comparisons, and unless otherwise specified, any comparisons made will be referring to changes between full year 2023 and full year 2022.

And with that, I'll turn the call over to Gary.

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Thanks, Adam. Good afternoon, everyone, and thank you for joining us. CNO delivered strong earnings growth in the quarter and exceptional operating performance for the full year. Our results underscore the health and strength of our business model and laid a foundation for sustained profitable growth.

Highlights of our full year performance include four quarters of sustained sales momentum. Total new annualized premium up 9%, improvement in virtually all agent metrics across both divisions, strong net investment income results, continued strong capital position and free cash flow generation, and our share price reached an all-time high.

We delivered a solid earnings performance for the full year with operating earnings per diluted share of \$3.9. Stable underlying insurance product margins were bolstered by our diversified product suite. New money rates exceeded 6% for all four quarters, which drove an inflection point in our investment portfolio yield and reversed several years of decline. Fee income improved as we grew fee revenue and expanded margin. Paul will go into greater detail on our financial performance for the quarter and full year.

Sales production and agent force results were strong in both divisions as we posted record sales levels in multiple product categories. A robust calendar of successful product launches in 2023 accelerated our growth. Producing agent counts were up sharply, driven by recruiting and retention initiatives.

Total health NAP was up 11% and total life NAP was up 7%, with nearly all of our product lines posting sales growth. Fee revenue was also up for the year and remains an important component in our diversification approach. Our portfolio includes both manufactured and distributed products, which enables us to offer customers a broad selection of solutions to meet their needs.

Our strong capital position remains a differentiator for CNO. Notable highlights of our year include our capital and liquidity ended the year well above target levels. We established our Bermuda affiliate and executed its first reinsurance transaction, and Fitch upgraded our financial strength rating from A minus to A.

We returned more than \$230 million to shareholders in the year, including \$165 million in share buybacks. We again raised our quarterly common stock dividend, marking 11 straight years with an increase. Book value per diluted share, excluding AOCI, was \$33.94, up 6%.

Turning to slide 5 and our growth scorecard. Our growth scorecard metrics for the quarter and the full year reflect our continued focus on and investment in our strategic growth priorities. We expect to build on this momentum in 2024. I'll discuss each division in the next few slides.

Beginning with the consumer division on slide 6, we delivered a strong production year, illustrating the value and attractiveness of our business model and approach to serving our market. Our unique capability to marry a virtual connection with our established in-person agent force, who complete the critical last mile of sales and service delivery, remains a key differentiator.

Total NAP was up 6% for the full year, led by 16% sales growth in field agent NAP. Total life sales were up 6%, with balanced production for our agent and direct-to-consumer distribution. Field sold life was up 9%. Direct-to-consumer life was up 3%, reflecting six consecutive years of growth and record results in 2023.

Health NAP was up 8% for the full year. Long-term care NAP was up 27% on the strength of our new long-term care fundamental plus product. As mentioned last quarter, this product is part of our strategy to offer plans to the middle market that cover essential costs for one to two years of care. 99% of the policies we sell have benefit periods of two years or less. Our long-term care product policies provide a balanced, affordable approach to funding care. We are pleased to see consumers embrace these plans and the protection that they provide.

We were also pleased with the performance of our Medicare business and how we're growing this portfolio. Total Medicare policies sold were up 5% over prior year. The balanced diversification of our Medicare portfolio is central to how we serve our market. As a reminder, we offer two types of Medicare products, Medicare supplement products that we manufacture and third-party Medicare Advantage and Part D prescription drug plans for which we collect fees and bear no underwriting risk. Medicare supplement NAP was up 16% and Medicare advantage fee revenue was up 14%.

In the fourth quarter, we completed another successful Medicare annual enrollment period with a strong go-to-market approach. We expanded our MA carriers to 14 and increase the number of MA certified agents by 14%.

Our agents bring local knowledge and experience to every customer they assist. The personal sales and service provided by agents reduces churn and builds relationships for potential cross sales. As I've mentioned before, our local agents represent the unique strength of our last mile distribution capabilities.

Annuity account values were up 4%, and we reported record annuity collected premiums in the quarter. Consistent with previous quarters, our captive agent distribution model lends stability to this block and persistency remains within expected levels. Client assets and brokerage and advisory were up 20% to a record of \$3.2 billion. Total accounts were up 7% for the full year. When combined with our annuity account values, our clients now entrust us with nearly \$15 billion of their assets.

Our consumer division had a very strong recruiting year, up 23%. We consistently grown agent recruiting for six consecutive quarters, and we credit this growth to ongoing investments in agent referrals, productivity, and retention. Producing agent count was up 9% and continues to build on our four consecutive quarters of year-over-year growth. These results contributed to the meaningful growth we reported for the year and positioned us well for a strong 2024.

Three notable investments in 2023 contributed to our sales momentum and illustrate how our approach to technology can improve operational efficiency. First, we enhanced our life, health, and annuity product lines, which bolstered sales growth. Second, we expanded the scale and capabilities of our Medicare health insurance technology platform. Nearly 9 out of 10 Medicare advantage policies sold during the AEP were processed through our myhealthpolicy.com portal. This represents a 14% increase from 2022. Lastly, by introducing accelerated underwriting on a portion of our simplified life products, approximately 75% of those applicants received an instant decision.

Next, slide 7 and our worksite division performance. Our worksite division finished the year strong with continued insurance sales momentum and a successful fourth quarter benefits enrollment fee. Life and health insurance sales were up 29% for the full year and up 20% for the quarter.

In five of the past six quarters, insurance sales have delivered 20% growth. This level of sustained incremental growth is exceptional and underscores the significant value that our worksite insurance offerings bring to employers and their employees. Initiatives to grow our worksite agent force generated significant gains in 2023.

For the full year, recruiting was up 15% and agent productivity was up 4%. Improving agent productivity while onboarding new agents is not easy. It takes time and training to grow these metrics simultaneously. Having both of these measures up is a testament to the strength of our field leadership to attract and develop career agent talent.

Producing agent count was up 27%, our seventh consecutive quarter of year-over-year growth, and partially driven by agent retention, which was up 20%. Enhanced agent referral and onboarding programs also delivered double digit growth in first year agent count, which was up 43%- and first-year agent productivity, which was up 40%.

Multiple investments in product development, geographic expansion and sales enablement created a foundation for accelerated worksite growth in 2023 and beyond. Our accident insurance product, which was refreshed in June, was up 34% for the full year. And our updated critical illness product launched in the fourth quarter has already received positive early reception.

Our geographic expansion initiative generated approximately one-fourth of worksite's total sales growth for the year. We are pleased with this early result. As a reminder, this program targets key markets where we've identified strategic opportunities to grow our market share and footprint.

We'll also continue to be opportunistic in engaging third-party technology partnerships that enhance the tech-enabled services in our benefits enrollment offerings. I am pleased with our worksite insurance sales momentum and recognize that there is still a sizable opportunity for us to get more value out of our worksite fee business.

We're focused on continuing to deepen the integration across our sales channels to improve our client service capabilities and cross sale opportunities. As we enter 2024, we remain bullish on our worksite business and confident in our strategic path forward.

And with that, I'll turn it over to Paul.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thanks, Gary, and good afternoon, everyone. Turning to the financial highlights on slide 8. We finished the year strong with operating earnings excluding significant items up 34% year over year. This reflects an improvement in every major component of operating income, including insurance product margin, net investment income, fee income and expenses.

Fee income in the quarter was up 31% with solid growth in net advantage sales, despite reduced advertising and lead spend. Expenses were down year over year, and we posted a full year expense ratio excluding significant items of 19.4%, in line with our prior guidance. The significant items in the quarter relate to the impact of our annual actuarial review, which I'll summarize on the next slide.

For the full year, operating earnings per share were \$2.72 excluding significant items as compared to \$2.91 in the prior year period with variance driven by two things. Number one, lower alternative investment income, which is volatile by definition. And second, elevated health claims during the second quarter, which moderated as expected during the second half of the year. The underlying trends evident in our strong third and fourth quarter results position us well for solid earnings growth going forward.

We're also well positioned from a capital perspective with the recent formation of CNO Bermuda Re, and the initial treaty between our Illinois based operating company and the new Bermuda company, which settled on November 30 with an October 1 effective date. This structure materially enhances capital efficiency, which is reflected in our year end capital and holding company liquidity metrics.

Turning to slide 9, our annual actuarial review resulted in a \$33.9 million favorable impact driven by favorable morbidity and persistency assumption updates in our supplemental health business with smaller, mostly offsetting impacts across the remaining product lines. As mentioned, we're calling this out as a significant item in the quarter and presenting the margin on this slide X significant items.

On that basis, total insurance product margin posted another strong quarter with some puts and takes across products, highlighting the value of our diverse product mix. It's worth noting that the assumption unlocking related to the annual actuarial review creates new go-forward income patterns beginning with the fourth quarter results, separate from and in addition to the \$33.9 million impact reported in the quarter. In particular, supp health was favorably impacted by \$4 million, and FIA and med supp were unfavorably impacted by \$2 million and \$1 million, respectively.

Turning to slide 10, the new money rate in the quarter was 6.92%, up from 5.96% in the prior year period and 6.03% in the third quarter of this year. This is the fourth consecutive quarter of new money rates above 6% and set the high watermark for the year. The average yield on allocated investments was 4.68% in the quarter, up 8 basis points year over year. The increase in yield, along with strong production driving growth in net insurance liabilities and the assets supporting them contributed to 4% growth in net investment income allocated to products for the quarter and up 5% for the year.

Investment income not allocated to products increased 52% in the quarter, primarily driven by an improvement in income from alternative investments. Our new investments in the quarter comprised approximately \$350 million of assets with an average rating of single A minus and an average duration of 7.5 years. Our new investments are summarized in more detail on slides 22 and 23 of the presentation.

Turning to Slide 11, approximately 97% of our fixed maturity portfolio at quarter end was investment grade rated with an average rating of single A, reflecting our up in quality actions over the past several years. In the last 12 months, the allocation to single A rated or higher securities is up 310 basis points, the BBB allocation is down 290 basis points and the high yield allocation is down 20 basis points.

With respect to commercial real estate, our commercial mortgage loan and CMBS investments continue to perform well, reflecting conservative underwriting and proactive management. We have again included some summary metrics in slides 24 and 25 of the presentation.

Turning to slide 12, we ended the quarter with a consolidated RBC ratio of 402%, up 18 points for the year and comfortably above our 375% target. Holdco liquidity was \$256 million, above our minimum threshold of \$150 million. Again, these metrics reflect the impact of the capital efficiency

of our new Bermuda captive reinsurance structure. We generated \$311 million in excess cash flow to the holding company for the year, slightly below our guidance, but excess capital relative to our target RBC and holdco liquidity levels was in line with our expectations.

Turning to slide 13 and our 2024 guidance. We expect operating earnings per share to be in the range of \$3.10 and \$3.30 for the year, which at the midpoint represents an 18% increase from full year 2023 excluding significant items. This reflects an expectation of modest improvement in insurance product margin and expense ratio of between 18.8% and 19.2%, a slight improvement from the 19.4% in 2023 and following a quarterly trend similar to 2023, starting on the high-end in the first quarter and then grading down through the year. Significant improvement in net investment income not allocated to product, which assumes that alternative investments generate a return more in line with the long-term run rate assumption of between 9% and 10%.

Fee income to be slightly down year over year with roughly a quarter of the full year earnings coming in the first quarter and the balance coming in the fourth quarter with the second and third quarters roughly breakeven, and no change to our expected effective tax rate of 23%.

We expect excess cash flow to the holding company in the range of \$140 million to \$200 million. The high end of the range assumes status quo, in particular that we maintain the current pace of organic growth, we maintain the current asset mix in our investment portfolio, and there is no change to economic conditions and the related pattern of credit migration in the investment portfolio.

The low end of the range assumes a departure from the status quo, in particular that we accelerate organic growth, or we take more risk in our investment portfolio and/or economic conditions deteriorate, prompting adverse credit migration. Certainly, decisions to accelerate organic growth and/or to take more risk with our assets would consume more capital in the near-term, but those decisions would be based on an expectation of enhancing value creation and free cash flow in the long-term.

Finally, we will continue to manage to a consolidated RBC ratio of 375% in our US-based insurance companies, minimum holdco liquidity of \$150 million and target leverage of between 25% and 28%.

And with that, I'll turn it back over to Gary.

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Thanks, Paul. Our business continued to perform well in the year and we are proud of how the CNO team executed against our strategic growth priorities. Our sales engine has momentum and our agent force is growing.

We enter 2024 well-positioned to build on our strong operating performance. Our capital position, our liquidity and the cash flow generating power of the company remain robust. We remain confident in our profitable growth and shareholder return opportunity.

We thank you for your support of and interest in CNO Financial Group. We'll now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Krueger, Stifel.

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

My first question was on the ROE. It has been trending in the 9% range I think ex-notables recently. I'm curious where you think that can go over time and what are some of the key opportunities to improve the ROE? And I guess perhaps one of them maybe what you were just mentioning in terms of accelerating growth or repositioning some of the investment portfolio.

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Sure. Good morning, Ryan. It's Paul. So we didn't include ROE in our guidance, and that's primarily because the non-operating income can create some unplanned noise in the ratio. But I would say assuming no impact from non-operating for the year, the guidance that we provided, translates to an ROE around 9.5%. I would characterize that as the current run rate. I certainly think that we have opportunities to expand the ROE, and that's something that we're focused on as a management team over the next couple of years.

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Ryan, I would add one other thing to -- Ryan, can you hear me okay?

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Yes.

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

I just wanted to remind you and our shareholders, the senior management team, notably myself and Paul, but others -- we have ROE expansion in our targets. Our incentive comp is based on hitting certain ROE targets and so on. So we are very focused on this, and as Paul indicated, we believe there's an opportunity to drive this up.

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Thanks. And then I guess a question on the non-variable components of unallocated. And it trended up throughout 2023 there's a lot going on with the yield curve and the forward curve. And I'm just hoping to get a little more color on what how that may look as we go into 2024 given alpha the variables at play?

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Yes, I can give a very high-level comment. And then Eric, I'd like you to provide some color. So I guess I'd make two points, Ryan. Number one, it's variable by definition. So it's going to be volatile.

And then the second point I'd make is, as I indicated in my earlier comments, our plan for the year and the related guidance that we've provided, assumes that all generate return that's consistent with our long term on average run rate expectation, which is around 9%, 9.5% call it. Is that what we expect in the next three to six months? Probably not. There's probably more downside risk there than upside. But over the course of the next 12 months, I think it's not unrealistic expectation. So I'd leave it there.

Eric, would you -- what would you add?

Eric Johnson - CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors

If I could just add, I was actually thinking more about the non-variable components of the unallocated NII (multiple speakers) net income.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Let me jump in on you here, a couple ingredients there. One, higher floating rate, short-term rates in the market flow through there as a benefit. So to the extent that rates stay -- short rates stay higher for longer, that works well there. Second, we extracted higher margins in our Federal Home Loan bank and funding agreement programs just through asset reallocation on an ongoing basis, without really taking on any much greater credit risk and well within the asset liability management boundaries that we targeted when we started doing those things.

And then there's just more dollars there as well, like Gary mentioned earlier about the growth of the company and a little more capital in the company. So there's more. So there's a founding effect of more dollars there, and then marginally higher returns on the dollars. So, I agree with that. It's not going to be a steady state. There are going to be puts and takes over time, but those are some of the things that paid some benefits in 2023.

Ryan Krueger - Stifel, Nicolaus & Company, Incorporated - Analyst

Thank you.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

You're welcome.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - Jefferies - Analyst

Great, thanks. I just wanted to start with the RBC 402, I guess for the end of the year and you are guiding to 375 for, I guess the plan for 2024, is the idea that you'll see that RBC decline driven largely by sales strain? Or is there an expectation that you may start to take some cash out of the operating subsidiary?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Good morning, Suneet. It's Paul. I wouldn't say we're guiding to a 375. We continue to manage to 375 is called a threshold level. Our practice for the last couple of years has been to manage comfortably to the plus side of that 375. And I expect we'll continue to do that. We do actually have a minimum in our risk appetite that we share with rating agencies and regulators of 350. But as a practical matter, we have been and will continue to manage to the plus side of that 375. So you should expect that 402 to come down, but not necessarily come down all the way to 375. And you should expect that we'll continue to pay dividends out of the APCOs as we manage the RBC.

Suneet Kamath - Jefferies - Analyst

And that makes sense. And then I guess, in terms of the Medicare supplement business, we get the question all the time when the managed healthcare companies report and they've been reporting Medicare Advantage claims that have gone up and I know supplement is different. But

are you seeing anything that would cause you to think that claims could increase here if -- what we're seeing if the managed care companies persists? Or is it just a completely different exposure and you're not expecting to see any increase in claims?

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Well, they are very different as you've pointed out. But we are seeing some pressure on claims. I think you've seen that in our own results, not anywhere to near the same extent as you've seen from some writers of net advantage. But I would emphasize that with Med Supp, we have the opportunity to reprice the business annually. And so to the extent that there's pressure on loss costs, we're able to adjust -- by adjusting the price subject to regulatory approval. But typically, we get something close to what we're asking for because it's based on real experience.

And the other thing I'd say is that notwithstanding the pressure, we continue to generate returns from that business that are consistent with our target returns. And then the last thing I'd say, and again, you've seen this in the results, the new Med Supp product that we introduced, I think it's been a little over a year now, is not as profitable as the old Med Supp product that's now running off. That creates a little bit of a headwind for us in terms of year-over-year margin comparisons in that product.

Suneet Kamath - Jefferies - Analyst

Okay. That's helpful. Thanks.

Operator

John Barnidge, Piper Sandler.

John Barnidge - Piper Sandler - Analyst

Great. Thank you very much. Thank you very much. Appreciate the opportunity. With the completion of the first transaction for the Bermuda platform, can you talk about leveraging that for possibly other actions for your liability profile? Thank you.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Good morning, John. It's Paul. That is something we're currently in the process of exploring. Now that we've created this platform, certainly, there's an incentive to explore ways to leverage it further. We suspect that we'll ultimately identify specific opportunities to do that, but nothing specific to share at this time.

John Barnidge - Piper Sandler - Analyst

Great. Thank you. And then to the extent we get rate cuts, can you talk about sensitivity of NII to floaters?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

We don't have a ton of floating rate, but Eric, I'll ask you to comment.

Eric Johnson - CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors

As I described earlier, there is a marginal amount of sensitivity that passes through unallocated NII. But to Paul's comment, the great amount of floating rate securities that we own on the asset side are matched against floating rate liabilities on the liability side, such that what we're taking out is a margin and not a variable income. It will be probably a marginal impact, but I'd say 90%, if not more of the floating rate assets we hold are paired against liabilities of similar duration and index basis.

John Barnidge - Piper Sandler - Analyst

Thank you very much. Appreciate it.

Eric Johnson - CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors

You're welcome.

Operator

(Operator Instructions) Wilma Burdis, Raymond James.

Wilma Burdis - Raymond James - Analyst

Good morning. How do you now handle past medication or other healthcare events like Leqembi, which is the new Alzheimer's drug? I guess, I'm talking about your Med Supp line. Could you see pressure on pricing for the first few quarters post approval, but prior to repricing, or do you have the ability to reprice first when you see an event like that coming?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Good morning or afternoon, Wilma, I guess, depending on what time zone you're in. We've been tracking Leqembi for a while now, it feels like. We have anticipated an impact from a Leqembi on claims in '24. That was contemplated in the rate increase that we filed. I think it's an example of something that can put pressure on loss costs that we respond to with rate increases. I think, it's evolving in terms of how much pressure it will put, but we've anticipated some and I think we'll be able to manage it as it evolves over the next few years.

Wilma Burdis - Raymond James - Analyst

Thank you. And then could you just give a little bit of color on the recruiting environment in this coming year? I mean, recruiting numbers were pretty good this year. How are you guys seeing that to shift in 2024? Thank you.

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Wilma, this is Gary. Thanks for the question.

So we were obviously very pleased with the recruiting environment and let me start with the short answer. Based on everything we're seeing, we expect that to continue. And so there's a few points I'd make. First of all, historically, conventional wisdom says that when unemployment starts to rise, you see more people willing to try a career change and specifically try out a commission-only based position like this.

So as the labor market tightens a little bit, we're going to see that. But I think what's really happened and why we've had such performance, it's a little bit like Jim Collins analogy of the flywheel. I can't point to one or even two things. I could point to half a dozen or a dozen different things that we've done to make this a more attractive career path and to simultaneously increase both recruiting and productivity.

For us, that's the real trick. And if you asked me to pick, I would actually emphasize productivity. But the trick is doing both, and that's what we're very focused on. As we've built out new products, as we've bettered our sales enablement, as we've made clear the career path for these agents to become financial advisors, as we've done a number of different things, literally dozens of small, small things, I think we've made this an increasingly attractive opportunity. And everything we're seeing in 2024 leads us to believe that we should be able to continue to see good results.

Now as the agent population gets bigger, of course, it gets harder to match this type of percentage growth rates. But we feel very good about our opportunity to continue to drive both recruiting and productivity in both divisions.

Wilma Burdis - *Raymond James - Analyst*

Thank you.

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Thank you.

Operator

There were no additional questions waiting at this time. So I'd like to pass the call back over to Adam Auvil for any closing remarks.

Adam Auvil - *CNO Financial Group Inc - Investor Relations*

Thank you, operator, and thank you all for participating in today's call. Please reach out to the Investor Relations team if you have any further questions. Have a great rest of your day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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