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# Prudential Financial, Inc. (PRU)

Business Update Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the Prudential Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host Darin Arita. Please go ahead, sir.

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### Darin Arita

*Senior Vice President, Head of Investor Relations, Prudential Financial, Inc.*

Thank you, Roxanne. Good morning and thank you for joining our call to discuss Prudential's definitive agreement to acquire Assurance IQ, Inc. Representing Prudential on today's call are Charlie Lowrey, Chairman and CEO; Rob Falzon, Vice Chairman; Andy Sullivan, our next Head of U.S. businesses; and Ken Tanji, Chief Financial Officer. Representing Assurance on today's call are co-founders, Mike Rowell, CEO; and Mike Paulus, President. We will start with prepared remarks by Charlie, Andy and Mike Rowell and then we will take your questions.

I would kindly ask that you keep your questions related to the transaction. Today's presentation may include forward-looking statements. It is possible that actual results may differ materially from the predictions we make today. For a discussion of factors that could cause actual results to differ materially from those in the forward-looking statements, please see the slide titled forward-looking statements in today's presentation, which can be found on our website at [investor.prudential.com](http://investor.prudential.com).

In addition, this presentation may include references to non-GAAP measures. For historical periods, reconciliations of such measures to the comparable GAAP measures can be found in our quarterly financial supplement, which are also available on our website at [investor.prudential.com](http://investor.prudential.com).

With that, I will hand it over to Charlie.

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### Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

Thank you, Darin. Good morning, everyone, and thank you for joining us today. Earlier this morning, Prudential announced the acquisition of Assurance IQ, a leading online and agent-assisted consumer solutions platform for people seeking personalized financial wellness needs across products including life, health and auto. This is an exciting moment for both companies and an important next chapter in our strategy to serve a broader range of customers as the leading provider of financial wellness solutions. At a high level, this acquisition is a compelling investment for three primary reasons. First, Assurance is a fast-growing highly scalable business model that brings deep technology capabilities and a new, more flexible and variable cost workforce model.

Second, this acquisition significantly accelerates our U.S. Financial Wellness strategy. Assurance will add a large and rapidly growing direct-to-consumer channel to Prudential's platform, allowing us to reach the underserved mass market with financial wellness solutions.

Third, this acquisition offers attractive financial benefits with significant upside potential. Assurance represents a new earning stream for us that is not sensitive to equity markets, interest rates or credit. We expect it to be modestly accretive to EPS and ROE starting in 2020 and will enhance Prudential's long-term growth profile. We

also expect additional value creation from adding our products to the platform, leveraging their technology within the Prudential platform and over time expanding the Assurance business model internationally.

As shown on slide 3, I'll provide a quick overview of the terms of the deal. We are purchasing Assurance for \$2.35 billion in upfront consideration. This will be funded through a mix of cash on hand, debt financing and equity. The Prudential's Board of Directors has authorized a \$500 million increase to its share repurchase authorization for calendar year 2019. This will offset the equity issued as part of the upfront consideration. As a result, the share repurchase authorization for the full year 2019 is \$2.5 billion. As of June 30, Prudential had repurchased \$1 billion of shares of its common stock under this authorization. We expect to fully utilize this share repurchase authorization by the end of 2019. The Assurance team also has the opportunity to earn up to an additional \$1.15 billion contingent on reaching certain performance targets between 2020 and the end of 2022.

Turning to slide 4, Mike Rowell and Mike Paulus are impressive leaders and they have built a world class team. They have a track record for driving growth and innovation and we greatly respect the business model they have pioneered.

Now turning to slide 5 and more importantly in Assurance, we have found a partner that shares our purpose to solve the financial challenges of our changing world. We've had the opportunity to spend a lot of time with Mike and Mike and other members of their executive team over the past few months. Right from the start there was an alignment of vision and it quickly became clear that there is great potential in partnering together. They built Assurance from the ground up on the premise of protecting and improving the personal and financial health of all consumers. This shared vision gives us confidence in the strong strategic as well as a cultural fit between both companies, an important consideration in the success of any acquisition.

I'm pleased to say that Mike and Mike are heavily invested in the long-term success of both Assurance and Prudential underscored by the equity portion of the initial purchase consideration as well as the significant equity portion of the earn out incentive. My team and I are confident that this acquisition, which we expect to close early in the fourth quarter of this year, will create significant long-term value for our company and our shareholders.

Assurance is a fast-growing business with a substantial and long-term runway for expansion in the U.S. as well as internationally over time. We see clear opportunities to further accelerate their growth trajectory with our products and capabilities, and we see many opportunities to leverage their capabilities to create an ecosystem together that will enhance our long-term growth profile.

I'd now like to turn the conversation and call over to Andy Sullivan and Mike Rowell CEO and co-founder of Assurance. Andy?

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## Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

Thank you, Charlie, and good morning, everyone. Turning to slide 6, I am excited to talk with all of you today about Assurance and how it will help accelerate our Financial Wellness strategy. As we've discussed in the past, financial wellness is a compelling opportunity for Prudential. Our business mix, capabilities and strategy put us in an enviable position to deliver a comprehensive range of solutions, education and advice for people with a variety of financial wellness needs.

The acquisition of Assurance, a fast-growing and highly scalable consumer solutions platform accelerates our ability to reach and engage a critical market directly with the products and capabilities we both have to offer. Assurance's CEO Mike Rowell will discuss the business model and opportunity in greater detail, then I'll come

back to talk about how this acquisition accelerates our Financial Wellness strategy and delivers attractive financial benefits and potential upside for our company and for our shareholders.

Mike Rowell and his co-founder Mike Paulus are terrific leaders and we're thrilled that they're joining Prudential along with the full Assurance team. I'll now hand the call over to Mike Rowell.

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## Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

Thank you, Andy. We're excited to be here this morning and to talk about our future with Prudential. In creating Assurance, our goal is to transform the consumer experience for people seeking help and financial wellness products. We wanted it to be intuitive, highly personalized and most importantly relevant to a broad range of people in needs across the socioeconomic spectrum with a significant focus on the underserved mass market.

Turning to slide 7 our innovative digital engagement platform orchestrates a highly personalized consumer journey. The customer journey begins by attracting consumers to our digital platform, which we achieved through targeted digital advertising and affinity marketing to highly trafficked web domains in relevant product categories such as life, health and auto insurance. Once a visitor to our platform provides details on themselves and what they're looking for. We build a picture of the customer that is assigned to one of more than 50 cohorts for buyer groups.

This near instantaneous segmentation, which is achieved using machine learning and third party data, allows us to produce real-time personalized product recommendations to our customers, customized to their needs. We currently have approximately 19 million people who are actively engaged on our platform and the numbers continue to grow each month. Because of the advantages of machine learning, every new interaction that comes with deeper engagement helps to make our recommendations smarter and the customer's journey better.

The final step in the process is where humans come in and make our customer journey unique. People are increasingly comfortable researching important purchases like life and health insurance online. But they still overwhelmingly prefer to make their final decision with the help of an expert. We address this preference by using algorithms to connect the customer in real time to live digital guides and then licensed agents who are determined to be the best match to walk an individual through their recommended solutions set answering questions and assisting them with an online purchase.

Now turning to slide 8, our model is built customer in meaning that the business model puts the customer's needs at the center. The platform we built combines data science and a human touch in the form of expert agents to help consumers research find and ultimately purchase help in financial wellness solutions that are tailored to their needs. These agents are available seven days a week, which enhances the overall customer experience. Our unique approach helps us by eliminating the inefficiencies of conventional models and lowers the cost of customer acquisition.

As a result, we are able to serve all customers more effectively regardless of demographic status, while at the same time delivering a superior experience with a human touch and personalizing details leading to the right solution. Data science is often applied to help companies with operational efficiencies, but Assurance – but at Assurance we also apply these technologies to improve outcomes and experiences for the consumer.

As shown on slide 9, we are particularly proud of our assisted agent model and the tools and support network we have created to help them succeed. These include dashboards with real-time information that helps answer

customer questions as well as access to a smaller network of Assurance subject matter experts, who can provide further customer assistance when needed.

The agents that we partner with work remotely on their own hours and on commission, an arrangement which allows us to maintain a variable cost model that we can scale up and down based on demand. These agents benefit from a flexible schedule and entrepreneurial opportunity where they can focus their skills on helping customers as opposed to prospecting. This leads to much higher agent productivity as well as better outcomes for the customer and strong net promoter scores.

As our business has grown, Mike and I have thought a lot about how we expand in a way that preserves the Assurance customer experience and keeps us connected to our purpose of improving personal and financial health. We knew that we wanted to find the right partner and our growth roadmap led us to Prudential.

In combining with Prudential, we gain a growing product suite and access to new markets and institutional expertise. Our combined capabilities create an end-to-end customer engagement model that serves more people with a broader range of solutions available in the manner that they prefer. It's an exciting next chapter for us.

With that, I'll turn it back to Andy.

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## Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

Thanks Mike. Let's turn to slide 10. Assurance helps us significantly accelerate our U.S. Financial Wellness strategy. Turning to slide 11, at our Investor Day in June, we talked about our growth opportunity for financial wellness in three customer areas. Overall, we see a significant unmet need where individuals are not currently being served through the traditional financial channels and we have been prioritizing our capabilities accordingly. First, we talked about winning and retaining institutional clients in retirement and group insurance.

Second, we talked about serving individuals within those institutions where there's an opportunity to increase utilization of our savings and benefit programs offered to employees. And third, we talked about a significant long-term opportunity for Prudential to provide more individuals with retail solutions that address a broader range of financial wellness needs. Today, the acquisition of Assurance allows us to accelerate our strategy to expand to direct and deeper engagement with individuals so that we can capitalize on this opportunity now.

As shown on slide 12, Assurance deepens and strengthens our platform for serving individuals with additional financial wellness solutions and together Prudential and Assurance will create an end-to-end engagement model for financial wellness. Assurance adds to our existing solution set with health insurance, Medicare and auto insurance. Assurance expands the ways we serve and engage with a highly successful and fast-growing direct-to-consumer marketplace and it strengthens and advances our sales model by adding currently more than 3,000 on-demand agents who are enabled by technology. This variable cost model has quickly scaled to serve a growing base of customers across the United States.

We've said that financial wellness for us means helping people to take action to achieve progress in foundational elements of their financial security. For this financial wellness vision to work we must offer the solutions that people need, engage with them in the way they prefer, and create an experience that's holistic, seamless and personalized.

Now turning to slide 13, Assurance helps us deliver on this vision faster and for a much larger addressable market. We know that there are large middle market and mass affluent customer segments that have been

traditionally underserved. We've been reaching a portion of those customers today through our workplace businesses. Today Assurance is accelerating this strategy by bringing approximately 17 million individuals who are actively seeking insurance solutions. This number is expected to grow quickly.

Together Assurance and Prudential could serve a fuller range of demographics, more people along the socio economic spectrum. We can engage with them in more ways. And as Prudential introduces expanded product options and advice capabilities, we will have the platform to offer a more comprehensive range of financial wellness solutions to meet people's specific needs.

As shown on slide 14, together Prudential and Assurance will create a fast growing ecosystem one that we believe has a significant runway for expansion and will enhance our long-term growth profile. We will be able to offer customized solutions enabled by advanced data science and human touch drawn from abroad offering inclusive of Prudential and third-party providers supported by an end-to-end engagement model with on-demand live agent service. This will enable better, simpler experience for the customer leading to improved engagement and outcomes. We believe this is a winning proposition in a market where demand is outpacing what the industry currently has to offer.

Turning to slide 15, as a result, we expect this acquisition to deliver attractive financial benefits for our company and for our shareholders. On slide 16, we highlight the immediate value creation by this transaction. As Charlie mentioned earlier in the call, we expect the acquisition to be modestly accretive to EPS and ROE. We expected to be accretive to EPS by approximately \$0.10 in 2020 and \$0.30 to \$0.35 in 2021 with significant growth in revenues and attractive returns. The EPS accretion assumes some cost synergies and minimal revenue synergies. We expect to generate cost synergies of \$25 million to \$50 million in 2020 increasing to \$50 million to \$100 million by 2022 as we leverage Assurance's scalable model and advance data science capabilities.

These synergies are incremental to the \$500 million margin expansion provided at our recent June Investor Day. This acquisition will add a low-fixed cost, capital light and high margin model, which will support a free cash flow conversion ratio above the company's current ratio of 65% over time. And Assurance will add a new earning stream to Prudential that's not sensitive to equity markets, interest rates and credit. These financial results will be reported as a separate segment. We hope this transparency makes it easier to model our financials and to track our progress.

Now turning to slide 17, we see significant upside to our accretion expectations from revenue synergies and additional opportunities for efficiency that have not been assumed in the financial impacts previously highlighted. We have a clear roadmap for increasing the Assurance's growth by adding Prudential products to their existing open architecture marketplace and by helping them expand internationally over time.

Assurance also offers us the opportunity to deepen our relationship with Prudential's customers. We can leverage their innovative advanced analytics technologies and assisted agent service model and offer a broader solution set to existing Prudential customers. And we can accelerate our usage of these analytics to increase our operational speed and productivity to make it easier for our employees to focus on higher value-added activities.

In summary, we are excited about Assurance becoming a part of Prudential. It's a fast-growing highly scalable model. We will further accelerate our U.S. Financial Wellness strategy and this will generate attractive financial benefits with upside potential.

Operator, we'd now like to turn the call over to Q&A.



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from the line of John Nadel, UBS. Please go ahead.

John Nadel

*Analyst, UBS Securities LLC*

Q

Good morning. I guess if I was going to start at some place, I'd start here. The 11 times EBITDA multiple that you highlighted on slide 16, does that assume the earn-out and what are the targets that would generate the full earn-out and how will the – what the composition of that earn-out if it is indeed earned?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. So this is Ken, hey, John, in terms of the 11 times multiple, that's assuming our base case and the way you can think of that is in about two years, we expect annual revenue to be about a \$1 billion with operating margins better than 20%. So you can think of the EBITDA that that generates relative to the \$2 billion and \$3.50 of purchase price is about a 11 times EBITDA multiple. And we think that compares quite favorably to comparable tech-focused platforms or insurance brokers.

And we believe Assurance is much better positioned for growth and success again to the uniqueness of their business model, which is proven to be successful and it brings us new capabilities. So – and then beyond that we expect robust growth to continue beyond year two. And again it doesn't include the upside of offering our life and annuities and investment solutions on their platforms over time nor does it factor in much in terms of referring our customers to their platform or launching this business model in international market. So, overall, we think the purchase price was fair and attractive and based upon our base case valuation.

John Nadel

*Analyst, UBS Securities LLC*

Q

So – but just to follow-up and is the base case assuming any portion of the earn-out is...

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

No. No. No. It doesn't. It doesn't. So to the extent that variable profits over the three-year – first three years exceeds \$900 million then we will begin to pay an earn-out up to variable profits of \$1.3 billion and then after that all of the upside belongs to Prudential. We think the earn-out makes sense; it aligns our interest for the management team to reach those levels and if we do and we hope we pay an earn-out our returns will look better.

John Nadel

*Analyst, UBS Securities LLC*

Q

And then if – I have a number of questions, but I'll limit it to two. So, I'll just do my follow-up. I don't want to get overly personal here, but how much are the co-founders making personally in this transaction and assuming there's a very significant payday for both of them. What gives you confidence Charlie that they'll have the same kind of motivation to continue to manage and grow this business over the intermediate to long-term as part of growth?



Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Hey, John. It's Charlie. I'll answer that in a couple of ways. One, obviously the earn-out is there, the earn-out is substantial and the earn-out was intentional. So they have a real incentive to stay to earn that earn-out. Secondly, part of the earn-out goes to the existing employee base and the two Mikes have been generous in that. So there's a retention factor there as well.

The second thing I will say it's softer and this is under the sort of prove it to me, if I were you. But if you get to know Mike and Mike over time, you will see that they share our real passion in the vision that we have to create products for the mass market and to expand financial solutions and financial wellness to a much broader population both here and internationally. And they chose us, because of that shared vision and the confluence of that vision, we think leads us both to working together for a long period of time. So that's the soft side of it, but we spent a great deal of time talking about that and are convinced on both sides that we chose the right partner and that we have a lot of work to do in order to manifest our visions and we're going to be hard work at it.

John Nadel

*Analyst, UBS Securities LLC*

Q

And just a real quick, was this an auction process or were you guys involved directly in conversations with Assurance here and how long was the process?

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

The process was over many, many months. What I will say is that Assurance had a lot of choices and we were delighted that they choose us.

John Nadel

*Analyst, UBS Securities LLC*

Q

Thank you very much. Good luck.

**Operator:** Our next question comes from the line of Jimmy Bhullar, JPMorgan. Please go ahead.

Jaminder Singh Bhullar

*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning. I guess the finance – the sort of strategic logic of the deal is fairly apparent, but I had a couple of questions on just the financial aspects of it. You're including the buy – it seems like most of the buyback and actually more than what you're outlining is accretion from the deal is coming just from the buying back of the \$500 million. And if it wasn't for that, the deal would actually be fairly diluted. So what's the logic of including that \$500 million of extra buybacks and the math on the deal, because that's something that you could have done anyway, right? Was there something precluding you from doing that? And why is it being tied to the deal itself?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah, Jimmy, the idea of increasing our share repurchase program by \$500 million was essentially to offset the shares that are being issued as part of the purchase price. So we thought having shares as consideration for the purchase price, which are locked up for three years was important not just to us, but to the insurance team as well that we would be fully aligned with our common objectives. So having – making that part of the arrangement, we

increased the buyback to offset that delusion and that's – so that the buybacks aren't factored into the accretion numbers that we say.

Jaminder Singh Bhullar

*Analyst, JPMorgan Securities LLC*

Q

And then is this increased buy back in anyway sort of front ending the buybacks that you would have done next year or this is – this doesn't affect your plans for capital deployment beyond this year?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

No, I think the way, Jimmy you should think about this is this leaves our share repurchases on a net basis unchanged from our authorization originally from this year. We increased it by \$500 million to \$2.5 billion, but then we issued – we'll be issuing \$500 million as part of this transaction and on a net basis \$2 billion and unchanged from our original intentions for the year.

Jaminder Singh Bhullar

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just lastly on the additional products that this brings to your platform, how much of sort of ramp-up do you expect in those types of products now that Assurance, it's part of a larger franchise, and you've obviously got other distribution that complements what you're getting through this deal? How much of a pick-up and growth do you expect on the company that you're buying or is it going to be fairly steady with what it would have grown anyway, because it's a separate division?

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

Yeah. So Jimmy, it's Andy, maybe I'll start with the base case is predominantly squarely upon what the company was going to grow in and of itself. But as I mentioned in my prepared remarks, we do believe that because of our other mix of businesses we're going to accelerate the growth that they would have seen otherwise. And in particular, the scope and scale of our workplace businesses where we've been already leaning in on broadening out the solution set to those 20 million individuals, we now have a very low friction capability to bring a broader solution set. So the medical products offerings, the auto, the home those type product offerings to those customers and then obviously, as well the opportunity to expand this into international – in our international markets. So while the base case is squarely on what the Assurance as a company intended to grow in and of itself we do believe that we will accelerate that over time.

Jaminder Singh Bhullar

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** Our next question comes from the line of Tom Gallagher, Evercore. Please go ahead.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

Good morning. First question, just on the \$700 million of revenues assumed for 2020. How does that compare to the current run rate of revenues and what kind of growth has Assurance been seeing, like it is the 40-some-odd-percent growth that you're estimating between 2020 and 2021, a deceleration and acceleration.

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Yeah. Tom, I can take that question. It's Mike Rowell here. So revenues for 2019, we are targeting a little under \$500 million of revenue for this year.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

And how did that compare to 2018?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

2018 was about a \$120 million.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

Got it. So this is really, we're seeing exceptional growth on a run rate basis. And I guess my question is it's a little more longer term strategic? To what extent will – what's been driving the exceptional growth, is it being adding a lot new insurance providers to the platform that are selling products? Is it the type of products that have been sold, that have been expanded and would you expect that these revenue targets are pretty easily achievable based on the trajectory here?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

We feel very confident in these revenue targets. I'll add to that that the driver of the growth has really been consumer demand, which has continued to significantly grow on our platform and there is significant opportunity for adding additional solutions to the platform in order to capitalize on all of the consumer demand it's there.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

And to your point around lines of insurance, I think what we've seen is we have a unique business model that's resonating with customer so Assurance is profitable from a very early point in our history and we've been able to both grow market share in the lines of insurance have we been in longer and we've also proven our ability to enter new lines of insurance with the model and have success.

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

And Tom, it's Andy. Maybe one thing I would just add from my perspective about the model, Mike and Mike and their team have had a zealous focus on removing friction in the shopping and the buying process and they have literally, quite literally applied data science to every step of that process. And from that focus and from that better shopping experience and reduce friction that's been a key secret to the acceleration in the growth along with what Mike and Mike have shared.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

Got it. That's helpful. And just one final follow-up if I could, Charlie, you meant in the slide that's mentioned that the – this should, I think significantly lower acquisition costs over time. If there's an agent being used in most transactions here presumably they're still being paid a similar commission. How exactly does would that lower acquisition expenses?

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Well I'll take a first crack at it and then somebody can either clarify or correct me. But the beauty of the Assurance model is that these are independent agents and if you think that an agent does three things right, he prospects, presents and closes. What Assurance does is eliminate the prospecting by the way they attract customers and then through data science, analyze those customers and then assign them to an appropriate agent and that way all the agent has to do is to present recommendations and then close and therefore the agents can be highly efficient and much more productive. And that's one of the beauties of the model is that it eliminates all the prospecting time if you will and makes the agents much more efficient. So that's one of the ways in which you get the cost down.

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Yeah, I'll add to Charlie's statement. This is Mike Rowell here. So the platform that we've built truly integrates data science throughout the entire process. And so every consumer as they enter the process, we try and move them as far digitally as possible. And then when it makes sense we have them interact with an agent. And if you look at the role of the agent, we've really split it into two different parts. There's this quantitative aspect that we sell the models did a much better job of addressing.

And then there's the soft part of the agent where they can really focus on that relationship with the consumer and the end result of that is that agents are far more productive. And so what it's enabled within our model is that on a per policy basis or per product basis, we can pay the agent far less on our model; however, because of significant productivity their earning opportunity on our platform is significantly higher than they can find elsewhere.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

That makes perfect sense. So it would be lower commissions, if I'm hearing you all correctly. Okay. Thank you.

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Lower commissions, but with higher – much higher productivity.

Thomas Gallagher

*Analyst, Evercore ISI*

Q

Makes sense. Thanks.

**Operator:** Our next question is from Alex Scott, Goldman Sachs. Please go ahead. Alex Scott, your line is open for your question.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, sorry about that. Good morning. First question I had was just on the EBITDA margin. I think you mentioned it was around 20% and I guess my question is just how scalable would you expect this to be or where do you think that margin could get to over time?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah, the margin is very solid, 20% is a very healthy margin. So although that can maybe have some room to improve the earnings growth will look more come from volume and attraction of customers than necessarily margin expansion.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

Yeah. And one thing I would add is there are some flywheel and network effects in the business. So as we grow, we have more customers and more agents, so we can more effectively match the right customer to the right agent. We can bring more products on, so we have a better product for each customer and we have more opportunities to learn from the data to improve the engagement and outcome for people.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. And I guess just my follow-up to that would be the revenue growth you're talking about is large. I would assume there's probably a significant agent head count increases that are associated with that. So I just be interested in any color on your process there, how successful you guys have been and being able to add that kind of head count in a quick time period?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Yeah. Two things to add there is agents have, they play a key role in our business. We consider them one of our customers and as a result, we have a deep focus on improving the experience for them. What that has led to is significant productivity gains over time meaning that the average number of policies that an agent can sell on our platform continues to increase on our system. The second thing, I would add is just that agents are very much attracted to the platform. And so, we've had a very positive response with significant agents reaching out, wanting to get on.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

And the unique model means that we have agents in all 50 states. It's a very diverse agent base. Our youngest agent is 18 and our oldest is 83 on the platform. So there is – and I think the other key piece as Charlie alluded to earlier was we've really taken away the biggest pain point and the most – the biggest reason why agents don't find success in this business, which is prospecting.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Okay. That's really hopeful. Maybe if I could sneak in one last one. Just on the overall Financial Wellness investment cost saving strategy, I think in the past you guys have showed a range of investment that may be needed. I mean, does this transaction change it all the where you might come out on that spectrum and just

thinking through if there's investment synergies coming from this deal maybe you don't have to do quite as much as you'd originally planned. I mean is that the right way to think about it?

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

Yeah, Alex. It's Andy. So the cost saves that I talked about in my prepared remarks the \$25 million to \$50 million and the \$50 million to \$100 million, a good portion of those cost saves or bills that we had underway that we don't need to do anymore because Assurance actually brings the capabilities to us. That's not certainly all the components that will produce the cost saves, but directly to your question. There are capabilities that Assurance is bringing day one that we were either underway building or had intended to build as part of our three year plan and now we do not need to do that.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it.

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

We will obviously have some one-time deal related expenses associated with the transaction, which we will record as we close the transaction.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Any sense of how larger those would be?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Roughly \$30 million.

Alex Scott

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Thanks very much.

**Operator:** Our next question comes from the line of John Barnidge, Sandler O'Neill. Please go ahead.

John Bakewell Barnidge

*Analyst, Sandler O'Neill & Partners LP*

Q

Yes. Sorry. Could you please talk about your plans to export Assurance's capabilities internationally please?

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Sure. Happy to do that, it's Charlie. So the first priority is to concentrate on expanding quickly in the U.S. that's job one, day one. When we ultimately consider international markets, we and Assurance we'll look at both the developed and the emerging markets and evaluate where Assurance's capabilities could be most effective. For

example in developed markets, it may be that the opportunity is the same in the U.S., right, creating a robust platform or ecosystem of products that can be marketed to the mass market.

On the other hand for emerging markets given the lower premium amounts, it may be that we leverage their model to reach a wider range of potential customers at all levels with a slightly different product set. So we'll evaluate opportunities when we're ready, but the first priority is to continue to grow in the U.S.

John Bakewell Barnidge

*Analyst, Sandler O'Neill & Partners LP*

Q

Okay. And then, my follow-up, what is the length of the contracts behind the relationship Assurance IQ already has with its product partners?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. We are currently not on the platform. There's another provider – there's a few other providers of life insurance on the platform and that contract extends into next year and so that's the general length of the life insurance piece.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

And just to give you a little bit of flavor across the board, we have more than 20 providers on the platform to highlight to some more known providers Humana, Chubb, Aetna, UnitedHealth amongst others.

John Bakewell Barnidge

*Analyst, Sandler O'Neill & Partners LP*

Q

Okay. Great. And is there any seasonality you can speak to I know that's been fast growing, so maybe hard to actually to identify?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Certainly in Q4 because of the healthcare enrollment periods that are there, certainly increases during that time period.

John Bakewell Barnidge

*Analyst, Sandler O'Neill & Partners LP*

Q

Thank you for the answers.

**Operator:** The next question is from Elyse Greenspan, Wells Fargo. Please go ahead.

Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. My first question just picking up on the revenue side, you guys mentioned there is 20 providers on the platform. I was just wondering if, when you do your math, do you view, any of these I guess as being competitors where you might kind of lose some relationships now that you guys are owned by Prudential?



Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

We don't. We believe our partners will be very excited by this. We continue with an open architecture model and we think that the Prudential supports us continuing to build out solutions with the existing partners as well as new ones to come.

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

And Elyse, this is Andy. I guess two things I'd add. One is as we talked about, we see this and we see evidence in the business model and with the results that have been produced of, this is tapping into an underserved segment of the market, which is creating greater volumes for all. So we think that the degree of volumes running through the platform will remain very attractive to all providers even those that might consider Prudential as a competitor.

And then the other thing is this is an open architecture type of a business where the Assurance guides consumers to solutions and there needs to be a degree of choice around that. So that number of providers, I'd ask Mike and Mike, but likely it will continue to grow as we add new solutions in different products.

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

The one other thing I would add not to pile on, but most of these products were not in, right. So we don't view these folks as competitors nor would they necessarily view us as a competitor.

Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

Q

Okay. That's helpful. And then in terms of the revenue synergies I know this has come up throughout the call. You guys obviously pointing to being able to sell Prudential products on this platform and just expanding your reach. And you didn't really – you doesn't sound like you really want to put a number on the revenue synergies, but if you can kind of I don't know ballpark it or talk a little bit more and then give us a sense in terms of timeframe like when can those revenue synergies start coming into your numbers?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah, this is Ken. We didn't factor in a lot of revenue synergies near-term. As Charlie mentioned, job one is to execute on their existing business model and continue on the trajectory that they're on, to get to that scale that's possible. We prioritize revenue synergies second and those will be – will come in later out and we'd rather not put a number on that right now.

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

And it's Charlie. Those are all upside anyway. They weren't factored into our base case per se and therefore we will develop those over time and add them when appropriate.

Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And then one last question. Is it possible to get the mix of revenue between life, health and auto as it's kind of sits today?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

It's a – I mean it's a good representation by the three largest kind of product categories of life, health and Medicare. It's fairly evenly distributed. Over time revenues by product will change as the company grows, auto and other products that we add to the platform.

Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

Q

Okay. That's helpful. Thank you very much.

**Operator:** Our next question is from the line of Mark Dwelle, RBC Capital Markets. Please go ahead.

Mark A. Dwelle

*Analyst, RBC Capital Markets LLC*

Q

Yeah. As Elyse actually asked a number of the questions I had, but I guess it's your intention that you will offer now on the platform where as you had not been previously, is that right?

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

Yes. So this is Andy. So obviously we have some really deep manufacturing capabilities in life and in guaranteed income and we will begin offering our solutions as part of the solution set on the platform. One of the things, we're most excited about is as I talked about really utilizing Assurance's data science capabilities and understanding of the consumer, combined with our product manufacturing in life and guaranteed income to produce solutions that I'll use the word are more tuned to the exact need and we think we'll get lift for us out of that.

Mark A. Dwelle

*Analyst, RBC Capital Markets LLC*

Q

Do you think that, I mean, obviously you already have your own face to face advisors, is there going to be an opportunity for them to utilize this tool in their relationships or is this going to be a completely separate parallel channel?

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

Yeah, we actually and you may have heard us talk about our advice continuum before we see these capabilities as completely complimentary and we're already as we were on our Financial Wellness journey were seeing the benefits of being able to use the word refer customers to the best channel that they wanted to solve. So we always start with how does the consumer want to do it? Where do they want to do it? When do they want to do it? How do they want to do it? And we will plug this capability into our Prudential advisor capability and we believe there will be times that we appropriately will have consumers go back and forth and that will be required based on what the solution set is, we're trying to solve for them.

Mark A. Dwelle

*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks. And then one last question. Just you really alluded to the earn-out previously that there was potentially an equity component to that. Is that in the same proportion as the initial purchase allocation or is it more or less equity heavy on the earn-out piece?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah, so the split on the earn-out is 75% will be in the form of PRU stock and 25% in cash. So we structured again the earn-out to incent the Assurance team to exceed our base case assumptions and in the stock again further alliance or interest in that. So that's the structure of the earn-out.

Mark A. Dwelle

*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks. Those are my questions.

**Operator:** Our next question is from Josh Shanker, Deutsche Bank. Please go ahead.

Josh Shanker

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you for taking my question. A couple of questions. One in terms of the earnings, the business versus the cash flow, when you guys are booking a policy is there a certain number of years that policy need to stay intact or before any revenues that you would generate turn cash flow positive?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. I'll talk to that cash flow. It's actually a highly cash flow generative business. The commissions are received from the insurers over – in a timely fashion and that keeps the cash flow quite high. After a period of growth, we would expect that free cash flow relative to after tax earnings to be about 85%.

Josh Shanker

*Analyst, Deutsche Bank Securities, Inc.*

Q

And that period of how long – how many years that gap because that period of growth you're talking about?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

I think about over the next couple of years. Again sort of as they approach a \$1 billion of revenue, we just then see a pretty healthy cash flow stream. They've been self-funded up until this point and now they're going through a raft and so that speaks to the natural cash flow nature of it. But they're going to go through some rapid growth and then that cash flow will become fully coming through and again at about a rate of 85% of after tax earnings.

Josh Shanker

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you. And the other question, can we just talk about the units of measurement that were used. I guess when you met the company that they were using the gauge success was it growth and interaction? Was it revenues per customer? And can we talk a little bit about that last one how revenues per customer has been tracking over time?

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

That's really been just revenue overall was I think kind of our primary discussion point and then a number of interactions with consumers on the platform and the growth of those two components.

Josh Shanker

*Analyst, Deutsche Bank Securities, Inc.*

Q

And then – and how that latter one been scaling?

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Very well. I don't have it in front of me, but it continues to grow at a excellent pace.

Josh Shanker

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Thank you.

**Operator:** Our next question comes from the line of Randy Binner, FBR. Please go ahead.

Randy Binner

*Analyst, B. Riley FBR, Inc.*

Q

Hey, good morning. I have some product questions, just to follow-up on some of the prior questions. In terms of what Prudential is going to manufacture now, it sounds like Medicare Supplement would be expected there. But on the healthcare side, can you dimension for us what kind of major medical products you may manufacture or are you just going to be more on the supplemental health side.

Andrew Sullivan

*Chief Executive Officer, Workplace Solutions, Prudential Financial, Inc.*

A

Yeah. So, Randy, it's Andy. So, yeah, let me – that is not the direction we're going. So, we have manufacturing expertise in life insurance, in guaranteed income. Those are the areas that we'll be working with Assurance to put those types of products into and onto the platform. As far as the other solution sets, so the healthcare solutions that you mentioned whether it'd be supplemental medical or Medicare Advantage or any of the P&C type solution sets, we'll – we will in essence be bringing those solutions to consumers. But participating in the distribution economics, we will not be going into manufacturing of those broader product lines.

Randy Binner

*Analyst, B. Riley FBR, Inc.*

Q

Okay, great. Thanks for clarifying that. And so then the follow-up question I have is given the significant revenue ramp that Assurance is expecting in 2019 from 2018, it sounds like that's going to be through open enrollment period. So can you help us understand kind of what type of products are driving that? And if it is around open enrollment kind of what changes you've made to your approach to open enrollment this year that you think would lead to much higher sales?

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

So as we look at Q4 and the annual election period, I think the single product that will see the most growth in on a year-over-year basis is Medicare Advantage and over the course of the past year, we've done a lot of work in terms of having a fully end to end digital capability for consumers to enroll in Medicare Advantage. We've grown out our ability to fulfill those Medicare Advantage sales our self. And we will also have a much larger Medicare Advantage agent force for this AEP.

Randy Binner

*Analyst, B. Riley FBR, Inc.*

Q

Are you – what about short-term limited benefit health or other forms of like ACA-compliant health? Are you participating in the healthcare market as well or just Med Advantage?

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

Yes. So we have a Medicare Advantage, Medicare Supplement and then we have a broad swath of 165 health plans both ACA and non-ACA options. And similarly as you look at our Q4 this year, we've broadened out our carrier set, we've broadened out our digital capabilities. And you'll also have a significantly larger agent base.

Randy Binner

*Analyst, B. Riley FBR, Inc.*

Q

But the main thrust of your growth expectation is MA, Medicare Advantage.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

It's both. I think MA just on a year-over-year basis is the single product line that we'll see the most growth.

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

We continue to see growth on all product lines.

Randy Binner

*Analyst, B. Riley FBR, Inc.*

Q

Okay. Thank you.

**Operator:** We have a question from the line of John Heagerty, Atlantic Equities. Please go ahead.

John Heagerty

*Analyst, Atlantic Equities LLP*

Q

Thanks. Following up on the ramp-up questions, just wondering what the revenues were in the first half of 2019?

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

We don't pay.

Kenneth Yutaka Tanji

*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. We don't need a break – we're not going to break that down for you.

John Heagerty

*Analyst, Atlantic Equities LLP*

Q

Okay. A quick follow-up just wondering how many employees are rather than contractors; presumably all the agents or contractors?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

So, there's roughly 120 full-time employees.

John Heagerty

*Analyst, Atlantic Equities LLP*

Q

Okay. Thank you. And just – just last one. So your confidence levels around heading the roughly \$500 million of revenues in 2019?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

We feel good.

John Heagerty

*Analyst, Atlantic Equities LLP*

Q

Okay. Thanks.

**Operator:** Our next question comes from Humphrey Lee, Dowling & Partners. Please go ahead.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

Good morning and thank you for taking my questions. Just to follow on kind of the revenue outlook trajectory, because I think about how your, I guess the active user base on the platform right now of that \$90 million like how many of those are actually buying a product as opposed just to use – just using your platform for educational purposes?

And then also to get to that \$1 billion revenue target like how much – how big would that customer base are or user base have to grow over time?

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Yeah. It's a good question. What I will say is that part of our reason behind seeking out a partner and landing on Prudential has been that the demand for solutions from customers on our platform kind of far exceeds the number of solutions that we have. So, by that I mean, we can identify a significant number of consumers that we don't currently have a good solution for today. And part of this transaction really enables us to broaden our relationships with our existing partners as well as on board those products from Prudential in order to help with that.

Michael Paulus

*Co-Founder & President, Assurance IQ, Inc.*

A

And maybe just to give a little bit more insight there, we have sold more than 300,000 policies to date. What we do see with our current customer base is that they are engaged and when they come back to us a second or third time, they purchase at a higher and higher rates. So as people become more familiar with us, they do purchase at a higher rate and then we also do have millions of new customers coming in on a monthly basis. So that base of users continues to grow rapidly.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

Okay. So basically the growth is not only supported by kind of the sheer size of the active users, but also by deeper penetration.

Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

That is correct.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

Okay. All right. And then maybe a question for Charlie and then also Mike you can provide some insight too. So I guess I understand the rationale behind kind of how PRU and Assurance in terms of kind of a corporate missions how they are aligned, but like why picking Assurance IQ as the partner like may be kind of Mike can you share in terms of where you guys stand in terms of the market position or the market share in the direct-to-consumer channel?

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

So let me take that first Humphrey. We are always looking for interesting ideas and new ways of accessing customers especially in the mass market. And when we began talking to Assurance, we quickly realized that in many ways they've cracked the code that nobody else has cracked before, right.

So the way they use data science with a human touch, the way they focus on the customers and the way they have structured their business model is such that we immediately saw the potential in their company and what they've done not only because of the platform they've created, but quite frankly because of the quality of the people in their firm and the vision that they have.

And when you combine all that together we became more and more excited about what – where they were going and what we could do together in combination. And that's what led us to them. These things don't come along very often. And we think we found an extraordinary company here and we were very lucky to find them and very lucky that they chose to combine with us.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

And then I guess in terms of the Assurance market position or kind of share of the direct-to-consumer channel?



Michael W. Rowell

*Co-Founder & Chief Executive Officer, Assurance IQ, Inc.*

A

Surely I can take that. And I think maybe the way that I would answer it is really just bringing a little more understanding to our platforms. So you have an end-to-end customer engagement platform where we are product agnostic and it really centers around the consumer. And so, by that I mean, we look at the consumers that are coming into our platform and we not only look at the specific products that they came in looking for, but we're also looking at the characteristics of those consumers and what other products they need.

And just that on its own will take us into significantly more product segments than what we are in today. So I think just looking at us for the specific products that we're in today and kind of the specific direct-to-consumer model that is there kind of limits what the opportunity to really leverage the platform in many different ways than just what we're currently doing.

And we really believe there's no other company that does everything that we do, with data science guiding the end to end customer journey with a broad set of both product categories and products within those categories. And then the on-demand service supported by the unique variable cost agent model.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

Thank you for the color. Thanks.

**Operator:** So I'll now turn the conference over to Charlie Lowrey for closing comments. Please go ahead.

Charlie F. Lowrey

*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

Okay. Thank you. In closing, I hope we've succeeded this morning in conveying the sense of excitement and conviction, we feel about our acquisition of Assurance. Together, Assurance and Prudential have a unique opportunity to live our purpose and grow our business in a way that benefits our customers, our business partners and our shareholders. So thank you all for your time today. And we look forward to having further conversations with you.

**Operator:** Ladies and gentlemen, that concludes our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.

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