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# Prudential Financial, Inc. (PRU)

Morgan Stanley US Financials, Payments & CRE Conference - Fireside Chat

## CORPORATE PARTICIPANTS

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

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## OTHER PARTICIPANTS

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Good afternoon, everyone. Before we get it started, just want to read the disclosures. For important disclosures, please see the Morgan Stanley Research Disclosure website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). Taking a photograph and the use of recording devices is also not allowed. If you have any questions, please reach out to your Morgan Stanley sales representative.

Having that out of the way, we're very privileged to have Rob Falzon, the Vice Chairman of Prudential Financial is with us today at our Morgan Stanley Financial Conference.

## QUESTION AND ANSWER SECTION

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

So if we'll then just get it started. Maybe at the very starting point in terms of a broader strategy, can you maybe talk about looking at the last few years, right, we had some very big strategic achievements. And then going forward, can you talk about what is the expectation in terms of how the company will evolve over time for the next few years?

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

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Yeah. Thanks, Bob. Sort of looking back, I think there were actually a series of things I would point to, first and foremost, is the focus that we've driven the company and that's really come out in two dimensions. One very obvious which is the level of divestitures that we've done in order to focus in on the businesses that we think are sort of most interesting to us on a go-forward basis.

That's been like some 10 activities that have aggregated \$8.5 billion over the last sort of handful of years. The other way in which that's manifested itself is the focus we've had on what we're doing with technology and our sort of our organizational spend and looking at organizational redesign, process enhancement, speed to market, so other things that aren't generally visible to investors.

But we've cut in half the amount of time it takes us to get from a product from sort of the lab into the marketplace as a result of that kind of focus that we've applied. The second piece is, as we've looked at those divestitures, it's also come with a de-risking that's associated with our sort of mix of businesses today as well.

And so included in those numbers were significant pivots away from what we've considered to be sort of the most volatile components of the book of business we had which is our VA book and our GUL book, and so reduced the VA book by about half, reduced the GUL book by about a third, and in both cases pivoted to new products, so kind of stopped selling those things on a go-forward basis.

And that's had sort of manifested itself in increasing focus with a much lower level of volatility in earnings on a go-forward basis as well.

With that de-risking has come an improvement in flexibility of our capital as well. A big component of that most recently has been our announcement around Prismic which is our ability to then bring third-party capital in to finance some of the growth that we have within our businesses. And so we're quite excited about that as well. And then the last thing I'd sort of highlighted sort of the mix of things and I guess they're about four when you sort of add this up would be what we're doing from an investment capability standpoint.

And so within PGIM, expanding the capabilities that we have really with an eye toward two things. First is maximizing what we've called our mutual reinforcing business system. So the types of investment capabilities that will be most additive to the success of the products that we're selling in the market. So a lot of private credit fixed income-type stuff.

But secondly, the sort of things that are going to also be most important to the growth of PGIM as we think about the positioning of that, and we could talk about that later if you'd like but the positioning of PGIM within the sort of

the broader dynamics that's happening within investment management. So if you look at those four things, the combination of them has resulted in what we view as a substantial strengthening of the platforms in each and every one of our businesses.

And as a result of that, we think we're competitively positioned well to take advantage of where some really interesting tailwinds that are occurring in the industry today. And so, that's what we feel good about. It's that focus, it's divestitures of businesses, the capital flexibility that we've got, the investment capabilities they have. All of those things coming together to create competitive positioning, to take advantage of what we think is a pretty healthy environment for each of our businesses on a go-forward basis.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. No, that's very helpful. And if I were to think about these initiatives, obviously the de-risking had an immediate impact to your financials. But as I think about the technology aspect, as I think about capabilities on the PGIM side as well as Prismic, how quickly and how noticeable will they show up – start to show up on your financials?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

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Yeah, I think they're actually showing up already. I mean, if you look at our sales in 2023, with the exception of PGIM flows in that year, the rest of the business is double-digit sort of growth on the top line. That's also come down to the bottom line where we had very robust core earnings growth, double digits on an AOI and on an EPS basis, on a core basis.

And that momentum both from a top line basis and from a bottom line basis has carried into the first quarter as well. So I don't think we have to wait to see these things manifest. I think they're actually occurring now and you're seeing them in our results. And I think that there's the opportunity for then that to be sustained, given the investments we've made along with the – I think the more accommodative macro environment.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

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And they should get more exciting as we go forward.

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

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Well, we hope so, yeah.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

For sure. Maybe if we want to shift gears a little bit towards the retirement theme, right? One of the theme that a lot of folks talk about as well, specifically Morgan Stanley, is the idea of aging population here in America today. This is obviously ushering an evolution within the life insurance and annuity space. But you're actually not new to this. You've seen this in the Japan market that you've operated currently. Maybe can you talk about your ability to grow in and compete as we look into an aging population as a theme?

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So from a headline standpoint, we're positioning ourselves well for this, so there's a report out from one of the associations around Peak 65. We've got some bylines that you're actually beginning to show up in – hopefully, through seeing some of our ads and in some of our interfacing with our clients as well as we talk about living longer, better, and we talk about protecting your life's work.

And so, as you look at this as a global phenomena, I don't know what the number is, but it's in excess of a \$100 trillion of a GAAP from a retirement standpoint today across economies, and two significant contributors to that are markets in which we're deeply involved, the US and Japan, as you indicated. And as we think about lessons we've learned in Japan and we think about the opportunities within US, what we're seeing is that, using Japan as an example, there is a continued appetite for protection-type products even as people age.

So it's not like the insurance business becomes irrelevant as people age. In fact, what we're finding is that we continue to have very robust protection sales in Japan, because actually people are thinking on an intergenerational basis. And whether it's creating wealth for the next generation or protecting wealth for the next generation, protection products are still very relevant. Most relevant in higher income sectors, but pushing down to middle income as well when people think about how do I create wealth for the next generation.

But beyond that, importantly, within the retirement space and even with – what we're seeing is really two big trends. One is, it's a catalyst to savings and investments. If you look at the younger cohorts within that demographic, you're going to find that there's – they've got a 10th the level of savings they need for retirement.

And so, we're going to – I think we're going to see a significant increase in both savings and investments which will be to the benefit of our asset management complex, as well as our retirement complex. But then, for those that are getting closer to retirement, this whole concept of how do I take a basket of assets and ensure that I can figure out how that's going to generate an income for me, that's going to last as long as I live. And so, that aspect of it is the most interesting thing that we see from a retirement standpoint.

Obviously, we're very well-positioned with our individual retirement business to provide those kind of solutions and whether we provide that through our retirement complex or through our asset management complex, we think that that's going to be a significant opportunity, and we're seeing that in Japan if you look at the shift of the mix in the sales that we have in Japan. While we continue to sell a lot of protection products, we're selling an increasing amount of retirement product into that marketplace as well.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

The beauty of that is it really touches every segment that you have essentially. It's almost a perfect flywheel, so to speak.

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

A

Yes.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

So maybe if you can specifically look into the retirement business as a whole. In your institutional retirement market, specifically, you had two large pension risk transfer deals last quarter. And overall, the macro environment, again, very supportive and a favorable funding position, reasonable interest rate environment. Can you talk about just how competitive is that market looking today for Prudential? But also at the same time, what would be the opportunity for remainder of this year and next year and then how would that reflect on the financial?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

Yeah. So let me just touch it on a high level and I'll try to pull that down the way that you asked, Bob. But at a very high level, as you indicated, in the US, plans are 105% funded. UK, Netherlands were a different transaction last year. Plans there are well in excess of a 100% funded as well. And so what you've seen is there's a lot of momentum toward corporations that have these plans to de-risk their own balance sheets. They saw what happened, the dot com bubbled, they saw what happened in the financial crisis where funding levels dropped by like a third. They don't want to experience that again.

That's really happening. I think there are two different paths that they're taking to do that, depending on what their ultimate choice is, whether they want to get out entirely or they just want to protect themselves. So what we're seeing from an asset management standpoint is an increased interest in essentially immunizing the portfolio. So how do we think about constructing a portfolio of fixed income that will largely immunize? We're going to keep the liability on our balance sheet particularly for public plans and union plans and otherwise. They're less interested in exiting out of them and more interested in using this opportunity to basically protect the funding levels.

And so we saw that in the first quarter with the very large transaction that we – a very significant one client flow that we had in the first quarter from – and within PGIM. And on the other side is what's happening with people who actually want to exit out of sort of the business of having pension plans on their balance sheet. And that's a large segment of corporate America. And there what's really interesting is that what we're seeing and expect on a go-forward basis is in the first instance a higher level of volume.

So two years ago, there were \$50 billion plus or minus of transactions. Last year, it was in somewhere in excess of \$40 billion. This year, it's going to be \$42 billion. Our people are saying they think it's going to be north of \$50 billion. So whatever that number is, it's going to be another very robust year from a totality standpoint. But importantly within that and what's driving toward the larger end of that number is our view is you're going to see more complete plan terminations, implications of that are, one, individual transactions will be much larger if they're not just doing a sub-segment of it, but they're doing the entire plan .

Two, they will be more complex and complex meaning that within that plan, if it's an entire plan, you're going to have more deferred lives, meaning people who haven't retired yet. That introduces more longevity risk. We like that, we have a lot of mortality risk, more longevity risks helps us to balance that out. We get paid for that. So the more longevity risk that's in there, the better that we can get paid and we like that. But also, if they do complete plan exits, they're going to look for solutions that are not just on the liability side but on the asset side as well. So take my liability, but take my portfolio of assets as well.

So when you think about our competitive positioning for that, Bob, we've done 6 of the 10 largest transactions in the history of this marketplace. Because we're known for being able to do large transactions, to be able to take the assets along with those and figure out how to reposition the portfolio on behalf of them instead of forcing them to reposition the – take the portfolio over.

And we have really good execution, so both on the onboarding of clients of the pensioners and on the ongoing service of those pensioners. So we think that the scale of this, the complexity of it and as a result of those two things, incidentally, the likelihood that there'll be more bilateral negotiations on these as opposed to the way they've been done to date which is there's a kind of a like a quasi-auction process that's associated with it.

It'll be much more bilateral because there's a limited capacity in the marketplace for being able to absorb what's coming out of the corporate balance sheets. They're going to want to lock up their counterparty and then negotiate a transaction. We think we're incredibly well-positioned for that and because of that dynamic and the particular area in which we're focused, we continue to believe that we'll get attractive returns on that business despite the fact that many more players have entered into that segment than when we first started it out with Verizon and GM a number of years ago.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

All right. Okay. Got it. No, that's very helpful. So if we can shift a little bit to the individual retirement side. You also had very strong sales and you're expecting that going forward. Within individual retirement, what are the products people are gravitating towards and what are the areas where you think you're very optimistic about? And is there a way for us to think about the return profile for those products, ROA or some other type of metrics especially in the current environment where rates is still relatively elevated?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, first, another market that's continued to grow rapidly, so on the institutional side, on the individual side, two years ago, \$300 billion of transaction, \$380 billion of premiums, \$385 billion last year. And the expectation is this year is probably going to break \$400 billion. First quarter alone was in excess of \$100 billion of premiums. And so expectation is that market's going to continue to grow.

Now, in terms of where it's growing, notably, two things I would say. First is, if you looked at both last year and first quarter of this year, what you would see is about half the premiums are in MYGA and sort of kind of the simple, shorter duration fixed annuity product. So, that's one factor.

The second is, though, the highest growth last year and first quarter and expect on a go-forward basis is actually in the RILA or indexed variable annuity space. And so, we're trying to position ourselves kind of across the spectrum to take advantage of where there's deep appetite today and where it's growing. With our FlexGuard product, it's an IVA product, we were sort of early in that and we continue to have sort of a top three-ish kind of market share within that. So, we're particularly well-positioned.

But more importantly, what we've done is, I was just looking at these statistics actually just the other day because we're having a board meeting. If I look at our business just two years ago, 2022, we were number 18 in the retail annuities marketplace. We had only one product that was selling in excess of \$1 billion worth of sales on an annual basis. That was our FlexGuard product. That therefore accounted for 85% of our sales.

And from a distribution partner standpoint, we had only one or two distribution partners that were selling more than \$0.5 billion worth of our products on their platform. And incidentally, we had nothing in the DC space. Move forward to first quarter of 2024, so not a very long period of time, going to my point I made earlier about focus and speed, we now have – we're more than six products, but six products that are each selling more than \$1 billion on an annual basis. Our concentration in FlexGuard, even though we've now have a suite of FlexGuard products, is down to just a little over half of our sales. So we've got good diversification that's occurring within that.

We've increased the number of distributors from that one or two to five distributors today, they're selling in excess of \$0.5 billion worth of our products on their shelves today. We've gone from number 18 to number 10 and we've introduced a DC product that's on the Fidelity platform, and we have four other platforms that are in development at this point in time.

So, we see this as an enormous opportunity across the space and we think we're really quite well-positioned to be able to take advantage of that. Returns on the space are very attractive, but I would note that these are much more capital light products, much less market-sensitive than they were before; and therefore, lower risk and both the cost of capital and the return on capital are commensurate with that lower risk.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

**Q**

Yeah. And of course, FlexGuard being a smaller part is not because it's not growing, but...

[indiscernible] (17:31)

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

We have \$3.3 billion of sales in the first quarter, and that's the highest level of quarterly sales we've had since 2011. So we were growing across that product suite for sure.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

**Q**

And on the capital intensity side, so when I speak to some wealth managers, financial advisors and distributors, they're hoping within the individual retirement space that guaranteed income or guaranteed living benefit would make a comeback at some point in time. And obviously, that – we've all experienced that in the past. We all know how that worked out. Curious, do you see some type of guarantees within the individual retirement space make a comeback in the current environment where retirement is the major theme for a lot of folks and the way it's rated and where they are.

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

Yeah. So we hear the same thing from both the wholesale and on a retail basis. I would say that we're going to continue to operate on what we found to be the sweet spot of an intersection between creating customer value. We know we're creating customer value given the level of sales that we've got both from an industry standpoint and from a company standpoint, but that intersection with investor value proposition as well. So I think whatever we do on a go-forward basis is going to be shaped by ensuring that we continue to operate within that sweet spot.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

**Q**

Okay. That's helpful. Thank you. So, maybe shifting a little bit to Individual Life. So you had relatively strong sales in the individual life and that is due in part to the FlexGuard life products you have. So as you shift towards, again capital-efficient products going forward, should you like – it feels like there should be two things happening, right? One is that sales should continue to be very strong, but also your capital consumption should be lower from here. Should we expect some type of additional capital release as you focus more on the capital-light products there?

**Robert Michael Falzon***Vice Chairman, Prudential Financial, Inc.*

A

So, a couple of thoughts, I guess. So first, while industry sales have been pretty modest growth, only got 1% last year and off to a soft start at the beginning of this year, we did double-digit growth last year and double-digit growth in the first quarter of this year. So we're quite strong benefiting from having pivoted out of GUL early into VUL products, but expanding so we have term products and we have other fixed products as well.

As we look at the products we're selling today, to your point, Bob, it's like half the capital intensity of our old product set that we've got today. And so therefore, the margins and the free cash flow coming off of those new sales are actually very, very attractive to your point. The other mechanism we use for getting cash, freeing capital and cash out of the life business has really been through reinsurance.

Now, we've done that to extent in some captive reinsurance, but really to get the capital of that we're just talking about is third-party reinsurance. And as I mentioned at the onset, we did a very material GUL transaction. Would we continue to look at reinsurance tools to optimize that back book and accelerate the release of capital, those are things that are actively under consideration, yes.

**Bob Huang***Analyst, Morgan Stanley & Co. LLC*

Q

Got it. That's helpful. So Group Insurance, Group Insurance and benefit ratio, obviously, fairly solid. Part of that is due to segment diversification. As we go forward, what are the other opportunities you see in Group business and especially from a growth as well as from the margin perspective?

**Robert Michael Falzon***Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So we've moved our guidance around our benefit ratio down from 85% to 89% all the way down to 83% to 87%. I hope I got that number right somewhere. We've moved that down pretty materially. That's actually a manifestation of how we're growing the business. So historically, our business would have been characterized as a business that was heavy in the national accounts with solely life and disability has been their product line. That's a very competitive space.

And so over the last couple of years, we've been very focused on growing in the premier market which is much larger markets, comprised of smaller firms and in the association market. And then importantly, from a product standpoint, introducing a supplemental suite of products, starting initially with health supplemental products and then expanding from there. And if you sort of think about our benefit ratio, it's come down in part because we're operating better.

We made the investments I described upfront into that business as well. It's made us more efficient, it's created enhanced profitability of the business, but also the mix of business that we've got there has got lower benefit ratios. It is a more profitable business. The association and premier space, supplemental health products, those are all very attractive return products and kind of continues to move that benefit ratio down.

**Bob Huang***Analyst, Morgan Stanley & Co. LLC*

Q

Got it. I think one of the business that really supports the broader efforts you have is in investment management, PGIM, right? And if we look at the flow of last quarter, it was fairly strong, but also at the same time, is it mostly because of fixed income as far as I can tell. Now that said, over the last two years or so, flows have been

somewhat volatile and maybe somewhat unpredictable. But from that perspective, can you talk about where is the most of the opportunities from net flow perspective now and where is the area where you see some challenges? I'm assuming the opportunity would be fixed income, private credit, but just curious of your view?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

Yeah. First, if you look at historical basis, we've had significant positive flows and that picture changed when interest rates spiked and people pulled back from the fixed income marketplace. So it really was primarily a function of what was happening in the larger market in terms of industry flows. And so we obviously have been have been experiencing that along with the rest of the marketplace.

We did have a very positive episodic flow within the – in the first quarter. And, yes, it was primarily fixed income. In fact, on a retail basis, positive, fixed income, positive on an overall retail basis. But that was muted by negative flows from an equity standpoint. As we think forward, I would think about the flows into that businesses as sort of having two drivers on a go-forward basis, the two principal drivers, there are many drivers, but two principal things. One is the intersection between an inflection in the marketplace in fixed income with regard to interest rates and our track record.

So when and as the Fed cuts rates, we think that that's going to be a significant catalyst to people moving out of the very large sums that are sitting in money market funds still today and begin to move out into the longer duration fixed income marketplace. And because our performance took a hit when rates spiked because we were long at that point in time that was not sort of in – it was not part of how we saw the market developing.

Since then we've significantly recovered. So, 80%, 85% of our funds on a one-year basis are outperforming in the longer track record as well. And the vast majority of our funds are now in the second, if not first, primarily first quartile performance. So we're competitively positioned to take advantage of that flow when it occurs from a market standpoint. So we feel good about that. And that's right around the corner. We're seeing some of the more thoughtful and leading-edge investors sort of getting ahead of that and locking in longer rates.

And so we think we'll benefit from that. The second factor that we've got is this growth that's happening within the private credit marketplace, okay? So a lot of people talking about it's probably a little overblown in terms of how people are – what people are expecting on a go-forward basis quite honestly. But having said that, one big player in this market, we're like \$425 billion worth of assets under management in the alternative credit space today.

We've had a long-standing private placement business. We've developed a direct lending business. We've carved all that out as private alternatives. And that's a business that's got \$320 billion, \$325 billion worth of assets under management. But we've also been a long-standing player in the CLO marketplace and in the asset-backed finance marketplace. Those are like \$60 billion worth of assets under management under each of those.

And so, when you look at those markets, what you're seeing is not only growth in those markets but a convergence particularly in structured securities whether it be [indiscernible] (26:05) ABF between public and private markets. That's just increasingly saying, I'm not looking for a public strategy. I'm not even necessarily looking for a private strategy. I'm looking for you to deliver a structured security strategy that's going to take advantage of what opportunities you see in the marketplace.

And that's where we're incredibly well-positioned because we have a long legacy and track record in ABF and CLOs and in private placements, and we're building a longer track record in direct lending as well to be able to take advantage of that convergence of interest in both the crossover between public and private. And so do I think

the market may be getting a little exuberant about what that outlook maybe, maybe. But for us, we're actually extremely well-positioned for it. We do think there'll be increased flows there.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*



Got it. Now, that's very helpful. So within the real estate portfolio and then I think one of the things that Prudential have said previously was that from peak to trough, there is still probably a little bit more ways to go within the office side. Now, that said, it has been fairly stable relatively speaking, like probably better than what some people are expecting. Can you maybe talk about what are some of the actions you've been taking to protect that portfolio there? Obviously, you have some maturity coming up in 2024, but not a lot. Yeah, just maybe the overall view there.

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*



Yeah. So just in terms of the outlook to be sort of clear on the record on that. Year-to-date, total real estate sector about a 15% or so declined from its peak. Our view is, you've got about another 5% to occur in that. Probably most of that occurs in 2024, but some of it may push into 2025. Within the office sector, that number looks more like 30% decline year-to-date and probably another 10% to 15% yet to occur. So the peak to trough in office is going to be 40%, 45%, okay?

But most of that's behind us at this point in time. Little bit more pain to come in marketplace. By the end of 2024, a lot of that should have worked its way through, it may extend into 2025. I say that importantly because as we think about our investment management operation from a real estate standpoint, we're actually finding that investors are going to begin to queue up to get position themselves for the rebound in that marketplace once they see that valuation sort of worked their way through and we're now at a trough.

We raised \$1 billion in real estate in the first quarter. Now, it was largely around a data center fund. But nonetheless, you're seeing people, they haven't completely exited out the sector. There are flows coming into the sector. So from an asset management standpoint, we think we're well-positioned there and that will turn late 2024, maybe 2025 that we'll see there.

From our own portfolio exposure standpoint, now we've talked about that a lot where conservative LTV is 58% of the overall portfolio. Office for us is only 14% of that portfolio, so that's 2% of assets. LTV is a little higher there, because we've been writing that portfolio down. So they're kind of low to mid-70s, 74% or something like that. Maturities in the upcoming year, as you said, remaining for this year is about \$2 billion, about a quarter of that is office.

The rest of it is sort of across. Based on our experience in 2023, which we think will carry over to 2024, there'll be modifications and extensions associated with that. There'll be some impairments. We've taken impairments in the first quarter, pretty modest overall. It was well less than \$100 billion of total impairments, real estate being sort of maybe half that.

But we think the quality of our portfolio will mean that we're not going to get a lot of sort of frightening results coming out of our maturity schedules on an upcoming basis. We've got a team that's been in this for 25 years on average from a leadership standpoint. So they're very experienced and seasoned at our underwriting. And so, we feel pretty good about the quality of the portfolio. I don't know if [indiscernible] (29:50) further, but that's sort of not a high level of concern is what I would say, but closely watching it.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

That's very helpful. Thank you. Another segment you have, International. One of the things that stood out was your Latin America opportunity, right?

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

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Yeah.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

So if we think about Brazil specifically, they saw strong momentum across all distribution channels. In fact, Brazilian real, probably 27% of your sales within Life Planner segment. Can you maybe just talk about the general emerging market opportunities? Where do you see Prudential best positioned in your International business there? And then also maybe a little bit more on Brazil in terms of how you think about that business going forward.

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, within our emerging market portfolio and we're in multiple markets, but I would say, to your point, LatAm is one of the most exciting markets from our standpoint. Brazil, from an insurance standpoint, is about half the market. They're 50% of the premiums in Latin America. So, it's a market you have to pay attention to. We have our operation in Mexico as well. We exited out of what we had in Argentina. And as we think about the Brazilian operation, we've been there for like 23 years. So it's not a new operation for us, very much built off the model that we have in Japan. So it's got a really, really robust distribution capability.

So, we have life planners. There are like 1,400, 1,500 of those life planners. We think the opportunity for growth there, incidentally, high double-digit growth from a revenue standpoint that's coming off of that business. So, growing really robustly. We can continue to do that. From an organic standpoint, our life planners, we think we can grow that over some period of time to 4,000 from where we are today at around 1,500, okay?

We have third-party distribution similar to what we have in Japan. As we've mentioned, we have a large relationship with Itaú, but we introduced Mercado Libre to hit sort of deeper into the middle market of the Brazilian marketplace and that's going gangbusters. We're really quite enthusiastic about what's happening there. And then, we have a group business, and that's a business that's just approaching scale. And so, we're very excited about the opportunities there to accelerate growth on a go-forward basis as well.

So, group third-party Life Planner, each of those will contribute to what we think is really robust opportunity from both the overall market growth but more importantly our ability to capture market share. We're the number one insurer in Brazil from an independent standpoint. The banks kind of dominate that market. But even when you include the banks, we would be number four, number five in that marketplace. We look to look at Brazil as a leverage point to get into the rest of the Latin American marketplace.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. Obviously, Prismic is another important part of the business. It's relatively new unlike the Brazil business. You did about \$10 billion of transaction last year. And I think the expectation is that you will do well above that going forward. What would be some of the business or blocks that you think fits into that business very well? And

then can you maybe help us think about how should we think about the remainder of this year in terms of transactions?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

Yeah. So I'll start and finish with the same comment which is you got to recognize we're working intensively on a series of things. But the reality is they're complex, they take time in the regulatory involvement and everything. So these things take time. Having said that, as I've mentioned before, we have a set of investors in Prismic that have aspirations consistent with our own, which is both for scale and for the diversity of things that we're going to do within Prismic.

So we see it as an ability to continue to optimize our existing balance sheet. We see it as an opportunity to finance our sales growth, so flow arrangements. And we also see it importantly as an opportunity to do third-party business. Most attractively, where we see that opportunity is likely to be in Japan. As we look at what's happening in Japan with TSR and looking at sort of our own operations and knowing what's happening with other insurers, we think there's going to be an increasing amount of reinsurance coming out of Japan in response to [indiscernible] (33:48) the adoption of their new sort of regulatory regime.

And so therefore as we think about Prismic, it is the opportunity to accelerate growth for PGIM as assets under management but also to accelerate the growth of our businesses by providing third-party sources of capital as sort of one of those things that we accomplished that I mentioned upfront in terms of access to capital in order to fuel the growth of our business. So an important tool for us.

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**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

**Q**

Maybe one last one from me. On your investor presentations, I think one thing you're focused on a lot is your rock-solid balance sheet, right, I mean your financial strength. And Prismic transactions adds more to that financial flexibility. And if you look at everything we talked about, favorable rate environment, durable operating results, stable buybacks in place, as we look at capital management going forward, how should we think about your ability to deploy your existing capital and how to balance between buybacks, potential bolt-on M&As and things of that nature?

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**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

**A**

Yeah. So as I said, I think we have – we feel good about our capital flexibility. There's \$4.2 billion of cash, highly liquid assets sitting on the balance sheet. As we've articulated many times, we've got, we think, a pretty robust level of free cash flow coming off of our operations that are around two-thirds of earnings turning into free cash flow. And we've said several times that the way we think about that is, first and foremost, we want to use our capital flexibility and our free cash flow to finance continued organic growth. We're seeing really interesting opportunities to do that.

The combination, as I said, of competitively positioned businesses, the platforms across all of our businesses and what we're seeing is those tailwinds from an industry standpoint, market standpoint is creating accelerated growth and we want to be able to finance that growth as evidenced by the \$9 billion of pension risk transfer we did in the first quarter alone. I probably should have said preceded that, first and foremost, is balance sheet strength. So we want to make sure that we're rock solid.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Rock solid.



**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

Right. Right. We want that label to stick. And so then you think about financing your growth both organically and inorganically. And then, obviously, we've been, we think, very constructive around return to shareholders. We've had 16 years of dividend increases, consecutive dividend increases, and we want to perpetuate that track record. In the last three years since we announced sort of our three-year plan, we've done \$10.5 billion worth of distributions to shareholders.



Between those dividends and buybacks, we're doing about \$1 billion worth of buybacks. So we'll continue to look at opportunities to use excess capital where we're not – don't need it for the balance sheet. We're financing all the growth that we need and we're not going to hoard capital. We're going to want to make sure that investors get a current return component to their returns as well.

**Bob Huang**

*Analyst, Morgan Stanley & Co. LLC*

Thank you for that. Again, thank you very much for taking the time. So really appreciate it.

**Robert Michael Falzon**

*Vice Chairman, Prudential Financial, Inc.*

All right. Thanks. Okay. Thank you.

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