

01-May-2025

Prudential Financial, Inc. (PRU)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Prudential's Quarterly Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. Later, we'll conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions] As a reminder, today's call is being recorded.

I will now turn the call over to Mr. Bob McLaughlin. Please go ahead.

Robert McLaughlin

Head-Investor Relations, Prudential Financial, Inc.

Good morning, and thank you for joining our call.

Representing Prudential on today's call are Andy Sullivan, CEO; and Yanela Frias, CFO. We will start with prepared comments by Andy and Yanela and then we will address your questions.

Today's discussion may include forward-looking statements. It is possible that actual results may differ materially from those predictions we make today. In addition, our presentation includes references to non-GAAP measures. For reconciliation of such measures to the comparable GAAP measures, and a discussion of factors that could cause actual results to differ materially from those in the forward-looking statements please see the slides titled Forward Looking Statements and Non-GAAP Measures in the appendix to today's presentation, which can be found on our website at investor.prudential.com.

And now, I'll turn it over to Andy.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Good morning, everyone. I am incredibly excited to lead Prudential forward at this pivotal moment in our 150-year history.

We make promises that last for decades, and we commit every single day to keep those promises to our 50 million customers all over the world. Our work makes a difference, and that is a privilege that I take seriously.

Over the past few months, I've been visiting our global offices and meeting with our leadership, as I take stock of the state of our business. What is clear to me from this early assessment as CEO is that, we need to sharpen our focus on driving growth and on creating greater value for our stakeholders.

Beginning on slide 2, I see both significant opportunities and challenges in front of us. With our unique combination of global scale, distribution power, brand, and talent, we're well-positioned to address the growing protection and retirement needs of customers and clients around the world and to meet increasing investor appetite for a broad range of investment products, including private credit and alternatives.

Over the last several years, we have made tangible progress towards derisking and diversifying the company. Through our divestitures and blocks placed into run-off, we've significantly reduced our exposure to more volatile and market sensitive products.

We have already reduced our overall exposure to traditional variable annuities and guaranteed Universal Life products by nearly 60%, and we continue to focus on ways to optimize our balance sheet, capital, and cash flows.

Our life and annuity products in the US are more diverse than ever. While in Japan, we have increased sales of savings and retirement products by more than 50% over the past three years, complementing our core life insurance offering in that market.

We are beginning to see the benefits of this more diversified product mix, specifically stronger sales and flows across our retirement and insurance businesses, while PGIM continues to benefit from a broader range of traditional and alternative investment products, an expanding distribution platform, and strong investment performance.

In the first quarter, we reported strong sales across our global retirement and insurance businesses, as well as strong investment performance and robust flows at PGIM. And while our earnings were higher than in the first quarter of last year, I want to be clear, our recent results do not meet our expectations, and we will do better. The underlying capabilities, distribution strength, brand, and product quality of Prudential should deliver more value to our stakeholders.

We will deliver to a higher performance standard going forward. That is what our customers, our employees, and our shareholders expect.

My leadership team and I are committed to executing on a strategy to fundamentally improve our financial performance. At the same time, the path to higher earnings growth will not be linear. There are two reasons for this.

First, we expect lower earnings growth in our US businesses over the near-term, as we continue to run-off more volatile blocks of our business comprised of traditional variable annuities and guaranteed universal life products.

Second, we face near-term earnings pressure in our Japan business, driven by elevated surrenders of US dollar denominated products due to a weaker yen. Although we're seeing signs that this is beginning to stabilize.

Importantly, we believe these earnings headwinds that contribute to an estimated 3 point to 4 point drag to EPS growth in 2025 will dissipate over time. We will see the compounding impact of our strong sales and flows drive stronger growth long-term.

We remain confident in achieving the intermediate-term financial targets we provided to you last quarter. While we do not plan to provide quarterly updates to these targets, I want to assure you that as the new CEO, and despite the current macro uncertainty, we continue to expect 5% to 8% core adjusted operating EPS growth on average through 2027, which is inclusive of the transitory headwinds.

We have real work ahead of us to create greater value for our stakeholders, but let me reiterate, we are committed to delivering stronger results over time.

Turning to slide 3, I want to share with you today how I see us getting there. First, we will evolve and deliver on our strategy. Our world is evolving. We will adapt to meet the opportunity and prioritize the allocation of our capital accordingly. The areas that present the greatest opportunities for profitable growth will get more capital; those that do not will get less.

Second, we will execute with consistency. We must raise the bar as we execute. Specifically, that means, continuing to evolve to a more favorable product and business mix; improving our track record of delivering the expected returns of our inorganic and organic capital deployment; and continuing to improve our expense profile across our operations.

Finally, we will focus on our culture. We benefit from strong talent, expertise, and diversity of perspectives. But we must move faster to ensure we capture new opportunities as they emerge and take greater accountability for outcomes. We've already taken action to align incentives even more closely to earnings per share growth.

These are my priorities: evolving and delivering on our strategy; improving on our execution; and fostering a high-performance culture.

Coupled with our differentiated position serving 50 million customers and clients with a diverse range of financial solutions, I have every confidence that we can, and we will evolve our business and drive sustainable, profitable growth in the years ahead.

Moving to slide 4, and before turning it over to Yanela to provide greater detail on our results, let me briefly reflect on how we are positioned in the current macroeconomic and market environment.

Prudential has a long history of navigating economic cycles and global events, and we are well positioned to support our customers and capitalize on new opportunities as they emerge. Our diversified business mix provides stability across a variety of macroeconomic scenarios.

Our balance sheet includes nearly \$5 billion in highly liquid assets, strong statutory solvency ratios, and access to significant off-balance sheet resources that support our AA financial strength.

In addition, we have a high-quality, well diversified investment portfolio and disciplined approach to asset liability and risk management which is designed for times like these – to perform through periods of stress, uncertainty and volatility.

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

Yanela del Carmen Frias

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

Thank you, Andy. I will provide an overview of our financial results and business performance for our PGIM, US, and International businesses.

I will begin on slide 5 with our financial results. Our pre-tax adjusted operating income was \$1.5 billion, or \$3.29 per share for first quarter of 2025, up 8% from the prior year quarter. This reflects favorable variances on underwriting results across our US businesses, including the benefits of our recent derisking transactions, and lower expenses.

The current quarter also included alternative investment income that was below our expectations by \$90 million, driven by lower private equity and real estate returns.

Turning to the quarterly operating results from our businesses compared to the year-ago quarter. PGIM had lower other related revenues, driven by lower seed and co-investment income and incentive fees, which was partially offset by higher asset management fees, net of related expenses.

Results of our US businesses reflected more favorable underwriting results and lower expenses, partially offset by lower fee income from the run-off of our legacy traditional variable annuity block, and lower spread income, driven by lower alternative investment returns that more than offset the benefit from business growth.

Our International Businesses had lower spread income including lower alternative investment returns, lower joint venture earnings driven by less favorable encaje performance in Chile, and the net unfavorable impact from foreign currency exchange rates.

Turning to slide 6, PGIM has diversified capabilities in both public and private asset classes, across fixed income, equities, and alternatives. PGIM's investment performance remains strong, with 81% and 79% of assets under management outperforming their benchmarks over the last 5- and 10-year periods, respectively.

PGIM's assets under management increased by 3% to \$1.4 trillion from the prior year quarter, driven by market appreciation, net flows, and strong investment performance.

The net flows in the quarter of \$4.3 billion included institutional third-party flows of \$4.6 billion driven by mandates across fixed income, private alternatives, and equity, which were partially offset by modest retail third-party outflows.

Our diversified PGIM private alternatives platform, which has assets under management of nearly \$250 billion, experienced over \$10 billion in private capital deployment, up over 60% compared to the prior year quarter. Although deployment was higher across both private credit and real estate, activity slowed towards the end of the quarter due to heightened market uncertainty, which has continued into the second quarter.

Turning to slide 7, our US businesses produce diversified sources of earnings from fees, net investment spread, and underwriting income and benefit from our complementary mix of longevity and mortality businesses.

Retirement Strategies continued to have strong sales momentum, generating over \$10 billion in the first quarter across its Institutional and Individual lines of business.

Institutional Retirement sales of \$7 billion included two international longevity reinsurance transactions totaling nearly \$5 billion. We also experienced our best quarter ever in Structured Settlement with \$600 million in sales.

Individual Retirement posted \$3.5 billion in sales in the first quarter, up 5% from the year ago quarter. Our registered index linked annuities continue to demonstrate the benefits of our product pivots and innovation, while we sustained momentum in our fixed annuity product sales.

Additionally, we continue to reduce market sensitivity by running-off our legacy variable annuities.

Group Insurance sales totaled \$400 million in the first quarter, up 6% from the prior year quarter, driven primarily by strength in our Group Life products. We are executing our strategy of both product and market segment diversification, while leveraging technology to increase operating efficiency and enhance the customer experience.

The benefits ratio of 81.3% in the first quarter reflects favorable underwriting results in the quarter as well as our strategic actions to improve profitability and performance.

In Individual Life, sales totaled over \$200 million in the first quarter, up 26% from the prior year quarter. This growth was driven largely by accumulation-focused variable products, reflective of our pivot to be more capital efficient.

Turning to slide 8, our International Businesses include our Japanese life insurance companies, where we have a differentiated multi-channel distribution model, as well as other businesses aimed at expanding our presence in targeted high-growth emerging markets.

Sales in our International businesses were up 15% compared to the prior year quarter. Sales in Japan are benefiting from our recent retirement and savings product launches, which are gaining traction with customers, resulting in an increase of over 20% in sales of these products compared to the prior year quarter.

In addition, emerging markets sales increased 19% versus the prior year quarter, driven by record sales in Brazil, as we continue to benefit from the strong performance of our Life Planners and Group Life sales.

Turning to slide 9, our significant capital position and strong regulatory capital ratios continue to support our AA financial strength and our ability to expand our market leading businesses.

Our cash and liquid assets were \$4.9 billion, which is above our minimum liquidity target of \$3 billion, and we have substantial off-balance sheet resources.

As we look ahead, we are well-positioned across our businesses to be a global leader in expanding access to investing, insurance, and retirement security.

As Andy mentioned, there are near-term headwinds impacting the earnings across several of our businesses, and we are operating in volatile economic conditions, but we have confidence in the intermediate-term targets outlined last quarter.

And with that, we'll be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And we'll be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Ryan Krueger from KBW. Your line is now live.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. I had a question for Andy. You touched on this a little bit in your prepared remarks, but I noticed also there was a Bloomberg article last night where I think you mentioned that the changing competitive and economic landscape may call for a review of your capital deployment plans at some point. I was hoping you could expand on what you mean by that. And if that was more about where you're organically allocating capital to grow, or if that refers more to things that could involve M&A or divestitures?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

So, good morning, Ryan, and thanks, first of all, for reading the article. My job as the CEO is to ensure that we deploy capital to the highest and the best uses across the entire enterprise. So, we continuously evaluate the various opportunities in front of us. And that obviously includes all various uses, organic, inorganic and their return profile. As we do that, we're working to optimize our balance sheet, our cash flows and our capital. But my statement really is, markets change, businesses change and we're going to need to evolve with that as things evolve.

As we sit here, we like our capital deployment plans, which obviously reflect the current opportunities that we see in the marketplace. But it would certainly be reasonable to expect that uses of capital could evolve over time. So, I think the important thing is this is a continuous discipline that we have.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks. Makes sense. And then on PGIM, you had provided a 25% to 30% adjusted margin target over the three-year period last quarter. Is that something that you think you can get into the range this year, or will it potentially take some time through this three-year period?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

So, as we framed last call, this is an intermediate term target. So we're not going to get into the habit of giving quarterly updates.

Let me just make some comments overall about our margins at PGIM. Obviously, I was disappointed with our Q1 margins. As you know, the first quarter is typically the lowest margin quarter because of the long-term incentive compensation expenses. But this quarter, the volatility affected our seed and co-investments.

So, volatility creates headwinds here in the near-term. Whether that's going to last for months or quarters is very hard to tell. It's been a pretty volatile environment. But long-term our path is clear and I'm confident in it, which is the path towards 30%.

And I would mention the three things I've talked about before. First, we've been consistently investing in a whole variety of growth opportunities. We're coming out the other side of the J-curve on those, and we're seeing earnings produced from those. So that will give us lift.

Second, I think as you're well aware, both the real estate and fixed income markets have had low points here over the last couple of years and we've been seeing those markets recover. That will obviously also create a tailwind for us.

And then finally, we've made expense discipline part of our DNA across our businesses, as we will continue to look for productivity and efficiency opportunities, and that will help us expand our margins. So, we're confident in the path towards 30%, as we stated in our intermediate financial targets.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.



Thank you.

Operator: Thank you. Next question is coming from Tom Gallagher from Evercore ISI. Your line is now live.

Thomas Gallagher

Analyst, Evercore ISI



Good morning. Andy, I appreciate your candor in your opening remarks. So, thanks for that. I know you flagged the – some of the headwinds. And, in terms of the VA and SGUL run-off, I guess one way to reduce the headwind is to meaningfully shrink the remaining exposure of the in force free up capital, and then you don't have that as an earnings drag.

Is that – now, I know you've already cut – significantly cut the size of both of those risks. Is that something though that's on the table, a much more dramatic shrink of those, whether that's through a Prismic transaction or third party. Is that something that that's on the table that we should be thinking about?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.



So, Tom, first, thank you for the feedback on my opening remarks. I appreciate that. As you've said, we've made very good progress in derisking the company. And obviously, we've used the two levers, we see selling traditional variable annuities and guaranteed universal life and put them in run-off. And we've done very successful transactions. So, those were absolutely the right decisions. We're happy we did it.

But let me just share with how I think about this. And you know, we've talked about derisking almost like it's an event. It's not an event. Derisking and really managing risk profile of the company is continuous. So, I've intentionally chosen the words of continuously optimizing our balance sheet, our capital, our cash flows, because that is a discipline that we have consistently evaluating opportunities.

So, I don't see it as something that starts and then we're done. At this point, sitting here today, what I share is there's nothing in the pipeline that's worthy of talking about with you.

Thomas Gallagher

Analyst, Evercore ISI



Got you. Thanks for that. And then, for Yanela, just a question on how you're feeling about capital levels in Japan ahead of the ESR implementation set for next year. Would you anticipate having to contribute capital, or do you feel like you're good enough based on at least preliminary assessment you've done, on how that might impact capital? Thank you.

Yanela del Carmen Frias

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

A

Good morning, Tom. Yeah, with regards to ESR. So, I'll start with a couple of things. First, as we said before, we expect capital levels will continue to be above levels that would support AA financial strength ratings post the implementation. Second, we do not expect dividend capacity to change as a result of ESR implementation. The statutory framework will remain unchanged, and we expect that to continue to be the binding constraint on cash dividends.

And I would add that we are confident in our ability to solve for uneconomic volatility in the ESR framework. We have historically used different tools, including reinsurance, to manage our capital and liquidity positions, and we expect to continue to leverage these tools.

And maybe lastly, I would say that we've had a number of years to plan for this, and we've focused on two things. One is the level of ESR capital and of course the volatility in the framework. And that has influenced our product strategy. We've launched more products that are ESR friendly but also meet customer needs. And it has influenced our reinsurance strategy. And just maybe as a point of reference, as of the end of 2024, roughly 70% of our US dollar liabilities in Japan are reinsured outside of Japan.

Thomas Gallagher

Analyst, Evercore ISI

Q

Got you. That's helpful color. Thank you.

Operator: Thank you. Next question is coming from Bob Huang from Morgan Stanley. Your line is now live.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. Maybe just a follow-up on the questions on Japan and ESR. As you think about reinsurer, like liabilities out of Japan. Can you maybe help us think about just the broader reinsurance market in there, like is Prismic the most efficient way, from a pricing perspective to reinsurer business out of Japan. Or are there other reinsurance opportunities that you can evaluate? Is there a way to think about that?

Yanela del Carmen Frias

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

A

Yeah. Good morning, Bob. So, a couple things. So, let me start by saying that reinsurance is an important tool that we use to optimize capital and to align regulatory reserves and capital requirements to the economics of our products. And we have multiple avenues for where and how we manage risk. So, we use our wholly owned entities, Prismic and external reinsurance, so we have multiple tools.

In terms of where we decide, where to manage the risk, I mean, the decision regarding where to manage it really will be made in the context of our strategy and also in the context of evaluating the implications all the things that we think about and care about, PFI, capital levels, statutory, GAAP, economic and liquidity lenses. So we really

put it through that entire paradigm. And that is how we make the decision as to where to manage the risk. The great thing is that we have multiple tools.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks. And apologies if I missed this, but you did not provide a preliminary ESR ratio at all, right?

Yanela del Carmen Frias

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

A

No. We continue to plan on providing that this summer, which is about a year in advance of the required disclosure.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. No, I really appreciate that. Maybe my follow-up is on the variable investment income. Just given how volatile the market was so far, is it possible maybe to kind of provide some color in terms of how we should think about the VII into the second quarter or maybe the rest of the year from a modeling perspective?

Yanela del Carmen Frias

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

A

Yeah. So definitely, as you mentioned, in the first quarter, we did see lower alternative investment income that was driven by lower than expected private equity returns and lower real estate returns.

With regards to the outlook, I would say that predicting near-term performance in the current environment is challenging due to the heightened uncertainty and volatility. However, it is likely that the decline that we have experienced so far this quarter in equity markets will result in returns below our expected levels at the beginning of the year.

And let me share a sensitivity with you, so if we experience an equity market decline of 10%, followed by 1.25% quarterly recovery, returns on our alternatives would still be positive. But we could see anywhere between a 200 to 250 basis point decline, to our intermediate term expectations of 7% to 9% over a four-quarter period. I would note that this is a more conservative scenario than we have historically observed over the last 25 years, back to 2000.

And I'd also be very clear that we are comfortable with our alternatives portfolio and the long-term target returns. And this has proven out over time. On a cumulative basis, these investments have exceeded expectations over the past decade.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you very much.

Operator: Thank you. Next question today is coming from Suneet Kamath from Jefferies. Your line is now live.

Suneet Kamath

Analyst, Jefferies LLC

Q

Great. Thanks. And Andy, I also appreciate the comments that you made about improving the financial performance of the company. That was good to hear.

I wanted to follow-up on Tom's questioning, but specifically with a focus on the life insurance business. And what I'd like to try to understand is the strategic value of Individual Life. And the reason I ask the question is, we did see earlier in the year, another company effectively exit Individual Life, got a pretty good deal with it. It's about 5% of your earnings. So it's not a huge needle mover. And just based on my experience, it seems like this business maybe more often hurts PRU than helps it. So there must be some rationale in terms of why you've decided to keep the business. And I'd like to understand that a little bit more. Thanks.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah. Suneet, it's Andy. So, first, thank you for your very candid question. Let me talk about our Life Insurance business. And really, when we talk about this, there's two aspects that you should think about when we think about our life business. The first aspect is obviously the legacy Guaranteed Universal Life business. That's in run-off.

But then the second is the go forward product set. And we obviously feel differently about the two pieces. The – we've been working very diligently to reduce our exposure on the Guaranteed Universal Life side, putting it in runoff, doing the transactions. And obviously, you've seen the outcomes that we've been able to produce there.

What we've done is, is made sure we've learned from that experience and are applying these learnings. But your question about the go forward business, we like this business. Obviously, it's a business that's core to Prudential's purpose from a long-run perspective. But there are other reasons I would hit, the product portfolio that we're in the market with today is less interest rate sensitive and more capital efficient than the prior product set, and we're seeing good profitability with that.

Obviously, this is a business that also adds to our mortality, longevity balance, which is important for the company given that we're always managing business mix as part of our accountability. And, when you look to be in a business you're not in a business, you need to look at your strengths and your capabilities. This is a business where we have deep capabilities in our underwriting shop. We're one of the most trusted brands out there with great customer experience. We're seeing a flight to quality. So, when well-managed, which is what every intention we have to do, this is a good business, and it's an important part of the overall mix. And I think that flight to quality you saw this quarter with the great sales that we had.

Suneet Kamath

Analyst, Jefferies LLC

Q

Okay. I appreciate that. Thanks. And then I guess on the Japan surrenders, it sounds like in your prepared remarks you had mentioned that maybe the pressure is abating a little bit. I was wondering if you could provide a little bit more information there. How much more of this is sort of in front of PRU? And when these surrenders happen, is there some sort of a surrender fee or reserve release that helps earnings in the short term, or is it just a kind of a negative when these things happen? Thanks.

Yanela del Carmen Frias

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

A

Yeah. Hi, Suneet, so as Andy noted in his opening remarks, while surrender activity remains a near-term headwind, we are seeing signs that this trend is beginning to stabilize. We've seen improvement in the pace of

surrenders through 2024 and continuing through 2025, and we would expect that the trend would continue given current exchange rates.

But in terms of when it's behind us, it's difficult to predict given that it is a – it is tied to the exchange rate. Again, but that said, the impact of the surrenders has dissipated. I would say that it remains a headwind to this year. And just to give you some quantification, we estimate that the impact to 2025 earnings from the surrenders that we experienced in 2024 will be roughly \$100 million.

To your question about are there offsetting surrender fees, the majority of these contracts are beyond the surrender charge period. Therefore, there is no offsetting impact of a surrender charge fee.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Suneet, I would just add into that, that we've been very proactive in Japan from a business perspective, taking action, to mitigate the effects here. So, you've heard us talk about broadening and diversifying our product portfolio. The fact of the – that 20% of our sales came from products launched in the last 24 months is evidence of that.

We've doubled our yen offerings in the marketplace, 30% of this quarter sales were yen based. And we've added staff both in the distribution organization and in the customer service organization, so that we can work with customers who still have needs for protection to not just drop their coverage, but to find other alternatives. So, we're being very proactive in working to mitigate this.

Suneet Kamath

Analyst, Jefferies LLC

Q

Got it. Okay. Thank you.

Operator: Thank you. Next question today is coming from Joel Hurwitz from Dowling & Partners. Your line is now live.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Q

Hey. Good morning. So, I wanted to touch on the earnings emergence and the retirement businesses. So, we saw individual retirement with a nice pickup this quarter. But institutional retirement earnings have contracted a bit despite the really strong PRT activity last year. Just any color what's going on in institutional. And when do you expect sort of the earnings to pick up.

Yanela del Carmen Frias

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

A

Hi Joel. So, yes. And this is a topic I know we've talked about throughout last year, right. In terms of the fact that we had very strong sales, especially on PRT in 2024 and the fact that the emergence of those earnings happens over several quarters as the timing of the sales is not obviously as of 01/01. And also, we rotate into the portfolio. And the best way to think about this is to look at first quarter 2025 and compare that to first quarter 2024.

Now, the core earnings in institutional retirement in those periods was down by \$24 million. But that does reflect the benefit of the sales. So, let's walk through that. We did have a growth in spread earnings from our strong sales, again, particularly the strong PRT sales that we had in 2024. And the benefit to spread, net of the expected

runoff of the in-force PRT is a runoff business was approximately \$25 million. So that is the benefit of the sales. But that was more than offset by other factors.

Primarily, we had the change in the internal expense allocation that we previously announced. There was a shift of \$50 million of annual expenses to institutional retirement that nets to zero across the company, but it does impact the business. Second, we had lower spread income on cash balances in the business, and that was due to the reduction in short term rates of about 100 basis points in the second half of 2024. As you've heard us say, short term rates don't have a total material impact to the enterprise, but they did impact the business due to cash balances.

And lastly, we had a refinement of accounting methodology for certain derivatives, which resulted in a reclassification out of operating income to nonoperating earnings for retirement. No impact to net, but it did impact the core earnings power. So those were the three drivers that offset the fact that we're seeing our earnings in spread. And we feel good about the growth that we're seeing in spread. It's just being masked by these items.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Q

Okay. That was really helpful. Thank you. Maybe just sticking on PRT. Can you just talk about what you're seeing in the market. And are you seeing any sort of impact just given the legal case out there?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

So, thanks, Joel, for the question. The market size that we've seen all the way through the first quarter is I would frame it as expected. So, we have not seen an effect of the litigation on the willingness and desire for transactions in the marketplace. Nor have we seen any impact, obviously, on our success in that market. That being said, I wouldn't be surprised to see 2025 normalize from a market size perspective. 2024 was a pretty robust year. The reason I feel that way is because of the volatility that's currently going on in the environment.

Volatility impacts decision makers in that most business decision makers slow up on their decision making. Sometimes they pull up on their decision making. So that probably will mean a normalization in the near term. But look I think the important thing is long-term this is a very good growth area. There's \$3 trillion in pension plan assets that haven't transacted. Funded status is at 105%. At the end of the day, volatility creates a higher desire for plan sponsors to want to transact. So, we see this as a good long-term growth area.

Maybe the last thing I'd say is just remember, this is a more transaction-oriented business, not a flow-oriented business. So, transactions will be episodic and you shouldn't expect to see things every quarter.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Q

Okay. Thanks for the answers.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

You're welcome.

Operator: Thank you. Next question today is coming from John Barnidge from Piper Sandler. Your line is now live.

John Barnidge*Analyst, Piper Sandler & Co.*

Q

Good morning. Thank you for the opportunity. My first question is about – the comment about sharpening the focus and growth. Where does inorganic sit within that?

Andrew F. Sullivan*Chief Executive Officer & Director, Prudential Financial, Inc.*

A

John, thanks for the question. So even though you asked the question that way, I will start with organic growth is job one. And we're going to stay very focused on that. That is always our highest priority and the best thing to do. That said, inorganic growth is an important and necessary tool for us to continue to maintain our market leadership and expand our market leadership.

So, you've seen us do this where like in direct lending, as an example, we organically built a business that was very successful. We then complemented that business by the purchase of Deerpath Capital, which was very complimentary but required to continue to build on and maintain market leadership.

What I will share, as I always share, is we're going to be very disciplined, have a high bar for inorganic capital deployment. And you should think of we're leaning into higher growth and capital efficient areas as we've stated in the past. So, no change from that perspective.

John Barnidge*Analyst, Piper Sandler & Co.*

Q

Thank you for that. And maybe my follow-up question on the organic, a number of life insurers that have sizable asset management operations have started to introduce investment options, combining public and private in the same, where do you sit with the opportunity for interval funds for PGIM? Thank you.

Andrew F. Sullivan*Chief Executive Officer & Director, Prudential Financial, Inc.*

A

So, thank you for the question. So, we actually have been bringing our public and private capabilities together, with PGIM and have actually been introducing early days interval funds. As you know, we've been leaning into areas that we think are going to be higher growth and higher fee. And have been expanding those capabilities both institutionally and on the retail side. So, we definitely think that is an area of opportunity that we've invested in.

As with any of these capabilities, I'd go back to kind of my J curve comment earlier. It obviously takes a bit of time for the assets to flow in and for the results to show up on the bottom line.

John Barnidge*Analyst, Piper Sandler & Co.*

Q

Thank you.

Operator: Thank you. Next question is coming from Elyse Greenspan from Wells Fargo. Your line is now live.

Elyse Greenspan*Analyst, Wells Fargo Securities LLC*

Q

Hi. Thanks. Sorry. Good morning. My first question, I guess I want to go back. Sorry, did the EPS guide, right? So, you guys were talking about 3% to 4% drag this year. So, when you think about the 5% to 8% right over the three-year period, should we think about that – some of that coming back in 2026 of the 3% to 4% and then more in 2027, so the earnings growth picks up steam as we go through the three years. And kind of get that average growth over the three-year period.

Yanela del Carmen Frias

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

A

Good morning, Elyse. Yeah. Let me take that. So, going back to when we shared the targets last quarter, we said the 5% to 8% is a three-year view intermediate. And the growth will not be linear. And as you heard in Andy's opening remarks, we faced near-term headwinds.

A couple of thoughts. We are seeing the benefit of our strong sales in earnings coming through. However, in the near term, they are being offset by headwinds that we've talked about. So, the surrenders in Japan due to the weakening yen, which I just quantified, and the impact of the run-off variable annuity. So, I quantified the impact of the weakening yen. I thought it'd be helpful to also quantify our expectations on the impact of the runoff of the variable annuity.

So, as we have previously shared, the quarterly runoff is anywhere between \$3 billion to \$4 billion. Earnings impact will fluctuate with markets from quarter-to-quarter. But we estimate that the annual earnings impact on a cumulative basis is anywhere between \$100 million to \$150 million. So those are the 2025 impacts to earnings.

But we do expect these headwinds to dissipate over time. They're embedded in the intermediate term targets of 5% to 8%. We expect them to dissipate over time as the surrenders stabilize and as the runoff slows down. And of course, as our growth continues to emerge and we continue to demonstrate further growth.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thanks. And then my second question, you guys last quarter, right were talking about capital return as a percent of net income. But obviously that could swing around quarter-to-quarter. And you guys were above 100% last year and again in the Q1. So, are you still kind of gearing folks to think about capital return as a percent of net income, as opposed to operating? How should we be thinking about that for this year?

Yanela del Carmen Frias

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

A

Yeah, Elyse, when I think about the targets that we spoke about. We have the 65% of net income as a free cash flow target that isn't directly linked to capital return, but obviously it is the capital that is available to be returned. And as you noted, it does fluctuate. So, when we think about the free cash flow target ratio, it is an over time measure, not a quarterly view, because cash flows to and from the businesses to the HoldCo, can be – it can be lumpy and are not linear.

That said, we did have strong cash flows from the businesses this quarter. We had \$600 million come up to PFI in addition to other sources and uses. And again, I would just highlight that that ratio is an over time measure and will not be linear.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Next question is coming from Jimmy Bhullar from JPMorgan. Your line is now live.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Hey, I guess it's good morning still. First, I just had a question for Yanela following up on your, the ESR discussion. You didn't obviously give a number, but on what the ESR is. But what do you think is the normal threshold that you would want to run your business given your liability profile in Japan?

Yanela del Carmen Frias

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

A

Yeah. So, I mean, what we would say is, we'll share the preliminary ESR views during the summer. We will continue to manage these entities to a level of capital consistent with our AA targets. And we do think that post-ESR implementation, we will be at those levels.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. But you're not open to discussing what the level is or what the base is. Not asking what your level is. But what do you think is the appropriate base?

Yanela del Carmen Frias

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

A

Yeah. No. Again, we will share the – where we are and what we think the appropriate level is in the summer.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. And then on your flows in PGIM were obviously very strong this quarter. And then annuities flows also benefited from decent growth in the buffer product. How should we assume that both of those businesses are going to hold up in the face of higher market volatility? I'm assuming PGIM obviously is going to see some pressure. But should the annuity business benefit or is it going to be pressured as well, given, higher volatility in a directionally declining market overall?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

So, Jimmy, let me take those one at a time. And I'll start with PGIM and then I'll talk about annuities. So, on PGIM, we were quite pleased with our flows in the first quarter as you mentioned. We had very strong institutional flows that – it was very broad based. We saw that across many clients, which we're happy to see and also across almost all of our asset classes. So, it was very broad based inflows.

We did see obviously volatility really kick up in March. And uncertainty, in the market causes clients to go risk off. The most immediate effect of that is retail clients react first. And we definitely saw that in March and are seeing that continue into April. If volatility continues, I would expect to see it have an impact on institutional flows as well. So, I would frame this as we are off to a great start in 2025. Thanks to all of our hard work and good results, but we're now more cautious.

On PGIM flows, please also though keep in mind the affiliated flows which were in essence flat this quarter. But over time, thanks to our retirement and insurance capabilities, that'll be a good growth opportunity.

On the annuity side, the market's robust. We saw the third record basically quarter at \$100 billion in sales. Obviously, as interest rates go up and down, you can have dampening or enhancing effects. But the important thing is there are significant long-term tailwinds that are driving this business. You think of the aging of the population, the real need to search for yield, to search for higher yield. The fact is volatility creates a higher desire for protected solutions and certainty. So we expect this to remain a robust market. We are pleased with our \$3.5 billion in sales. We've now been very consistent at that. So, I believe that this will be a good growth area for us.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And if I could just ask one more. Andy, can you talk about like some of the key areas where maybe we'll see a shift in strategy or focus on the part of Prudential? And I think you mentioned something along the lines of like uses of capital might evolve over time, but maybe be a little bit more specific on where it is that you'll be different going forward than maybe in the past few years.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah. So, Jimmy, I'll just sort of reiterate what I talked about at the top of the call with Ryan, which is we're going to continuously be evaluating the various growth opportunities that we have in front of us and their return profile as we look to optimize things. As I sit here today, I'm not ready to go deeper. We obviously have a continuous process of assessing the market changes and business changes and how we need to evolve our capital plans. But I think the important takeaway is it's a continuous discipline that we have and will evolve and adjust over time.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks.

Operator: Thank you. Next question is coming from Jack Matten from BMO Capital Markets. Your line is now live.

Jack Matten

Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning. Just a follow up on the individual retirement sales outlook. Any insights on how sales levels are trending so far in April, especially for the RILA product given some of the recent market volatility? I think you referenced is a good environment for sales. But do you think that the \$3.5 billion this quarter is something that you can sustain throughout the balance of the year?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Jack, it's Andy. I'm not going to get that specific about what we're seeing in the month of April. And candidly, we look at this business over the long term, and what the long-term tailwind trends are going to be for us. And obviously, we feel very, very good and very strong about that.

Jack Matten*Analyst, BMO Capital Markets Corp.*

Q

Got it. Okay. Thank you. And, maybe just one on the group business. I think premium growth in the quarter was pretty strong and kind of well above like intermediate term target you've laid out. Just any color on what drove that result and how you view the outlook for growth in that business this year?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Hey Jack, it's Yanela. So yeah, we had strong performance across the board in group, both in group life and disability. The core earnings in the quarter really highlight our continued momentum. And we're executing on our growth strategy and also ensuring that we are maintaining price discipline here. We're making investments in improving our customer experience and claims management capabilities. So, a very good story.

And you could see our focus on profitable growth highlighted really in the overall benefit ratio, which was just over 81% this quarter and right below the target of 83% to 87%. And of course, our segment diversification strategy is also showing up and improving our fundamentals in the business, most notably under the 5,000 lives market, where we had over 50% sales growth compared to a year ago quarter. So all this is showing up in the results, and we feel good about the outlook for the business.

Jack Matten*Analyst, BMO Capital Markets Corp.*

Q

Thank you.

Operator: Thank you. Next question today is coming from Wes Carmichael from Autonomous Research. Your line is now live.

Wes Carmichael*Analyst, Autonomous Research US LP*

Q

Hey. Good morning. I wanted to come back to the EPS discussion real quick. But Andy you reiterated 5% to 8% average core EPS growth over the three-year period. Could you just help us with the baseline with which to measure you to? Because I know there was some change to reported seasonality. But if I look at last quarter slide deck, the 2024 core EPS was \$13.94. So is that the baseline or should we be looking at a different figure?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. Wes, it's Yanela. So if you recall last quarter when we had in the presentation, the core base that you should be working off of is \$13.67, and that's adjusted for all the seasonality and reflecting all those changes.

Wes Carmichael*Analyst, Autonomous Research US LP*

Q

Okay. No, that's helpful. Thanks, Yanela. And maybe just a question on Prismic. I know you announced a \$7 billion transaction in January, but I want to see if you could provide a little more color on maybe just strategically if anything's changed with Prismic. If you're focused on more back book deals or if you're looking towards third party business now.

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. So, I don't think anything has strategically changed. I mentioned in my answer to the prior question that we really have multiple levers that we look at and multiple avenues for where and how we manage risk: wholly owned entities, Prismic and external reinsurance. And we really leverage all of those. We have an active pipeline for Prismic. And really that focuses on financing new business growth, ongoing balance sheet optimization, you heard Andy say that is a constant. We're constantly looking at how do we optimize the balance sheet. And lastly, third party blocks. However these transactions are complex. They're bespoke to each situation and require regulatory coordination. So they do take time. And again, as you said, we just closed the Japan transaction of \$7 billion.

Wes Carmichael*Analyst, Autonomous Research US LP*

Q

Thank you.

Operator: Thank you. Next question is coming from Alex Scott from Barclays. Your line is now live.

Alex Scott*Analyst, Barclays Capital, Inc.*

Q

Hey. First one I had is on the yen hedging program. Just in light of some of the volatility that has been in currency markets. Could you talk about that program? And if you're able to talk at all about how that impacts the potential ESR ratio? I know we don't know what it is. We don't know what the baseline is. But one of your peers had some volatility in their ESR related to this. And just given you guys have a big program as well, I'd just be interested in how that if at all affects the capitalization in the Japan business. Thanks.

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. So, a couple of thoughts there. So, we don't hedge our yen earnings in Japan. So obviously, the percentage of yen earnings in Japan is not significant given that we have a lot of US dollar business and our yen – our expenses are in yen. We do hedge our equity in Japan. And we feel good about that. It's an active program. It is part of our broader capital management framework. So that is all covered there. And with regards to ESR, obviously, when we implement ESR and when we look at ESR and capital levels being consistent with AA levels of capital, we're factoring in the hedging program as well.

Alex Scott*Analyst, Barclays Capital, Inc.*

Q

Okay. Shifting gears, the life insurance segment, you called it out as an area where there's some near-term headwind. And I appreciate the reasons why. But at the same time, the core earnings power. I know there's a lot of volatility in the actual number, but the core number that you guys kind of pointed us to in your release looked stronger. I mean, I think it was the best number you've put out since like 2021. So, I'd just be interested, is that not a sustainable number, or is there some other nuance to the first quarter number that you produced?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Alex, what I would say is, yeah, we did see a slight growth in the core earnings power of the Individual Life business. That is reflective of the really the good business that we're writing. As you heard Andy say, we feel

good about the new business we're writing. It's profitable, it's capital efficient. And over time, the benefit to earnings of those sales are coming through. And obviously it's negatively impacted by the remaining GUL portion that's in that business as well. But that's really what's going on. So if it's in core, it will be sustainable and it is not a one-time item.

Alex Scott

Analyst, Barclays Capital, Inc.

Okay. Thank you.

Q

Operator: Thank you. Next question is coming from Mike Ward from UBS. Your line is now live.

Michael Ward

Analyst, UBS Securities LLC

Thanks, guys. Good morning. I was just wondering if – I appreciate the commentary on the alternatives sensitivity. But wondering if you have an updated view of overall sensitivities for PRU to equity market or interest rate shocks, just given the reduction in market sensitivities you've been working on?

Q

Yanela del Carmen Frias

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

Yeah. Good morning, Mike. We do. So, let me share those. You may recall that following our variable annuity de-risking transactions, we did specify that our earnings sensitivities had been reduced by approximately 20%. So, our earnings sensitivities remain relatively unchanged from those levels. But let me walk through them.

A

From an equity market perspective, if we apply the same equity market shock that I spoke about for alternatives. So, 10% one-time equity market decline, followed by a 1.25% quarterly recovery. We would expect the AOI impact to be a reduction of about \$0.30 per share on an annual basis. So that's the equity market shock. From an interest rate perspective, if we assume a 50-basis point one-time interest rate decline, we expect the AOI impact to be about a [\$0.20] decline in EPS on an annual basis.

Michael Ward

Analyst, UBS Securities LLC

Thanks, Yanela. That's helpful. And then maybe for Andy, just curious how you think about the common dividend in the context of capital priorities. Just it seems like an increasingly significant use of capital and I think double your spend on buybacks. Just curious how that fits into the capital discussion. Thanks.

Q

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Yeah. Mike, I'm going to let Yanela cover how we think about that capital deployment.

A

Yanela del Carmen Frias

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

Yeah. So Mike, what I would say there is our capital deployment priorities and how we think about it hasn't changed. We continue to apply a very thoughtful approach to balancing the preservation of financial strength and flexibility, investing in our businesses for long term growth, and supporting shareholder distributions both in the form of dividends and share repurchases.

A

I would reiterate that we continue to see valuable organic growth opportunities, and I would double click on the financial strength aspect of the priorities, given the macro environment that we're seeing. And we continue to confidently navigate the macro environment with our strong balance sheet. So, we don't anticipate any changes.

Michael Ward

Analyst, UBS Securities LLC



Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Andy for any further or closing comments.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Thank you everyone for joining us today. And I want to give a special thanks to our employees all around the world for their commitment to our customers and to each other. I see tremendous opportunity ahead for our business, and our leadership team is well aligned on the priorities that will get us there, evolving and delivering on our strategy, improving our execution and fostering our high-performance culture. We're confident that we're near an inflection point towards a much stronger company. I look forward to keeping you updated on the progress along the way. Have a great day.

Operator: Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

***Editor's Note: Text in brackets were added as a request by the company to make a clarification on the speaker's statements.

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