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Prudential Financial, Inc. (PRU)

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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 Yanela and Andy 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 a reconciliation of such measures to the comparable GAAP measures and a discussion of factors that could cause actual results to differ materially from those 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, and welcome to the call. Let me begin with my perspective on our progress and performance, and then I'll provide details on our priorities and major actions taken during the second quarter.

Our pre-tax adjusted operating income was \$1.7 billion or \$3.58 per share, up 9% from the prior-year quarter, and our year-to-date return on equity was over 14%. These results reflect more favorable underwriting experience and higher spread income across our global insurance businesses as well as higher fee income in PGIM.

Current quarter results included alternative investment income that was \$60 million below our expectations, driven by lower private equity and real estate returns, and the net unfavorable impact of approximately \$50 million from our annual assumption update process.

Our performance reflects solid momentum across most of our businesses and geographies, and the actions we have taken to diversify our products, expand our distribution and address evolving market demands. I'll highlight a few examples.

Our Group Insurance business continues to demonstrate strength, having one of its best earnings quarters in recent memory. Our efforts to diversify our product and segment mix in this business are clearly paying dividends.

In Individual Life, we produced improved earnings results and grew sales 10% year-over-year with a broader product portfolio. And in Institutional Retirement, we delivered robust longevity risk transfer transactions, leading to \$9 billion of sales for the segment.

Turning to our International Insurance Businesses. In Japan, where our business has traditionally focused on protection products, we are now consistently capturing the growing demand for retirement and savings solutions through the introduction of new offerings, and we continue to see the stabilization of surrender activity, which has been a significant headwind for us recently.

In Brazil, we continued to deliver strong sales, with particular strength in our Life Planner channel. We've expanded our agency network by adding seven new agencies over the last year, increasing our Life Planner head count to an all-time high.

There were two areas where we are looking for stronger, more consistent results. In PGIM, flows were relatively flat as equity market volatility at the beginning of the quarter resulted in large retail outflows, offsetting solid positive institutional inflows. And in Individual Retirement Strategies, we have produced lower core earnings over the last several quarters. Although this was, in part, due to the expected runoff of our legacy variable annuity block, it was still disappointing. We seek to achieve more consistent results going forward as we lean into our further diversified product offering and continue to benefit from managing expenses efficiently and our pricing discipline.

Moving to slide 3. We are making progress against the three priorities I laid out for Prudential in the first quarter call, which will deliver stronger performance and more consistent results over time.

First, we are evolving our strategy. This is required due to the changing needs of our customers, the shifting competitive environment and rapid advances in technology. This is about focus, focusing our management attention and our capital deployment on the areas with the greatest opportunities to deliver profitable and sustainable growth over time. More updates will follow over the next several quarters.

Second, we are determined to execute with more consistency and discipline. This means improving our earnings performance as we refine our mix of businesses and products. We are committed to continuing to improve our cost base and the experience we deliver to our customers. Expanding our use of technology is core to these outcomes.

Artificial intelligence is already being used across the company to enhance how we engage with customers and in our operations, through automated underwriting, claims processing and risk management, and will be further leveraged to more efficiently scale our businesses and support our growth.

Third, we are enhancing our culture by leaning into the talent, expertise and diversity of perspectives that define this company, while building greater speed, ownership and accountability into how we work. This isn't about future actions. We are acting as a team with urgency to drive change and deliver outcomes each and every quarter.

Let me provide a specific example from this quarter. We are fundamentally changing the historical organizational model in PGIM, moving from a multi-manager model with six independent business units to one integrated asset management business. This is a substantive change that will lead to stronger revenues, reduce costs and improve margins over time.

Additionally, we are unifying our multiple institutional sales forces in PGIM into one integrated client team. This will lead to a better customer experience and stronger cross-selling results. In this change, we have combined our public fixed income and private credit businesses to create a single global capability with over \$1 trillion in credit assets under management.

We are one of the largest credit managers in the industry, and this change enables us to provide more value to our clients through a wider range of origination and alpha generating strategies, allowing us to capitalize on the rapidly growing market for broader private credit solutions.

Culturally, this work in PGIM highlights our new focus on speed and accountability. Going forward, you'll see even more from us, greater focus, more follow-through to outcomes and steady progress in how we operate and create long-term shareholder value.

With that, I'll turn it over to Yanela to walk through the financials in more detail.

Yanela del Carmen Frias

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

Thank you, Andy. I will provide an overview of the performance for our PGIM, US and International Businesses. I will begin on slide 4 with the quarterly operating results from our businesses compared to the year-ago quarter. PGIM delivered higher asset management fees, driven by market appreciation, positive net flows and strong investment performance, and margin expansion of 140 basis points, despite higher expenses to support business growth.

Results of our US Businesses reflected an unfavorable impact from our annual assumption update and other refinements relative to the prior year. Excluding this item, current quarter results were higher, reflecting more favorable underwriting results from Individual Life, Group Insurance and Institutional Retirement Strategies. This was partially offset by lower fee income from the runoff of our legacy traditional variable annuity block, which will be a near-term headwind, as mentioned on prior calls.

Our International Businesses demonstrated a favorable impact from our annual assumption update and other refinements relative to the prior year. Excluding this item, current quarter results were up slightly, as favorable underwriting and higher net investment spread results were mostly offset by higher expenses to support business growth.

Turning to slide 5. PGIM has diversified capabilities in both public and private asset classes, across fixed income, equities and alternatives. PGIM's long-term investment performance remains strong, with over 75% of assets under management outperforming their benchmarks over the last 5- and 10-year periods. In addition, their three-year track record, which is an important retail metric, improved notably with 87% of assets now outperforming benchmarks.

PGIM's assets under management increased by 8% to \$1.4 trillion from the prior year quarter, driven by market appreciation, positive net flows and strong investment performance. Total net flows in the quarter of \$400 million included institutional third-party net inflows of \$2.6 billion comprised of broad-based mandates across fixed income, private alternatives and equity, and \$600 million of affiliated net inflows, which were offset by \$2.8 billion of retail third-party outflows, driven by equity market volatility at the beginning of the second quarter.

In addition, we continue to see momentum in our private credit business, which had a strong fundraising quarter and maintained steady, disciplined deployment across direct lending, asset-backed financing and private

placements. We are excited by the opportunity to further expand our private credit offerings as we bring our world-class public and private credit capabilities together in PGIM.

Turning to slide 6. Our US Businesses produced 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 momentum, generating \$12 billion of sales in the second quarter across its Institutional and Individual lines of business.

Institutional Retirement sales were \$9 billion, with over \$5 billion of longevity risk transfer deals, including our second transaction in the Netherlands. Individual Retirement posted \$3 billion in sales, driven by continued momentum in fixed annuity product sales, which benefited from expanded distribution as well as solid sales of registered index-linked annuities. Additionally, we continue to reduce market sensitivity by running off our legacy variable annuities.

Group Insurance sales totaled almost \$80 million in the second quarter, with year-to-date sales of \$477 million, up 13% from a year ago, driven by growth in both Group Life and Disability. 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 improved to 80.9% in the second quarter, excluding the favorable impact from our annual assumption update and other refinements, and underscores favorable life underwriting results as well as our strategic initiatives to improve overall profitability and performance.

In Individual Life, sales of \$223 million in the second quarter were up 10% from the prior year quarter. This growth was driven by higher accumulation-focused variable life and term product sales.

Turning to slide 7. 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 4% compared to the prior year quarter, mainly driven by our continued expansion of retirement and savings products in Japan, as we focus on meeting the evolving needs of customers. While surrender activity has shown signs of stabilization in the second quarter, it will continue to be a near-term headwind that will partially offset new business growth.

Turning to slide 8. Our capital position and strong regulatory capital ratios continue to support our AA financial strength and our ability to grow our market-leading businesses. This includes our Japan operations, where in April, the JFSA implemented its new economic capital standard, with a mandatory reporting date set for March 31, 2026, and the first public disclosure reporting around May of 2026.

Our operations continue to remain well capitalized. As of March 31, 2025, the fiscal year-end for Japan, we estimate that the unadjusted ratios for Prudential of Japan and Gibraltar Life would be between 180% and 200%, well in excess of levels that support our AA rating. These unadjusted Economic Solvency Ratios are consistent with how we would report to the Japan regulator, based on a strict interpretation of the standard specifications.

As I have stated previously, we do not anticipate any changes to our cash flow or dividend capacity, financial ratings or business opportunities in Japan as a result of implementing the new standard.

Our cash and liquid assets were \$3.9 billion, which is above our minimum liquidity target of \$3 billion, and we have substantial off-balance sheet resources. In the quarter, our highly liquid asset balance declined as a result of redeeming \$1 billion of hybrid securities.

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.

And with that, we are happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now 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

Hi. Good morning. Could you talk a little bit more about the changes you're making at PGIM with the unified structure versus the multi-manager model? I guess, is it – it sounds like it's both something that you're doing to try to improve margins and expenses, but also growth. So can you give a little bit more perspective on that? And how we should think about the financial benefit coming through?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah. Good morning, Ryan. Sure. I'm sure, as you know, the asset management industry has been evolving quite rapidly. What we see as institutional customers in specific are wanting to work with fewer and fewer asset managers and do more with those managers, and the consolidation continues with the big getting bigger.

So, more than ever, we believe that scale, breadth of offering and efficiency are really, really important. So we've made this change to improve our competitiveness. We decided to go to market as, what I would call, one PGIM so that we could deliver seamless experience and integrated solutions. It really is a pretty sizable step for us to improve our competitiveness. We've been in the multi-manager model near about 20 years at this point.

On the asset side, the key change to really focus on is really the combination of our public and private credit capability. That's how customers are buying today with integrated solutions. On the distribution side, collapsing from five sales forces to one is key as well. To your point, Ryan, this will have measurable benefits. We still believe that 25% to 30% margin is the right target over the intermediate term. This will help us drive towards the top end of that target at a faster rate.

A couple of key benefits, and you mentioned them. First is obviously expense efficiency as we run this as one P&L versus six separate P&Ls. But the other very clear opportunity is on the revenue side from a cross-sell perspective.

As we sit here today, only 10% of our institutional clients actually buy more than one thing from us in PGIM. So there's a clear revenue opportunity as we bring together more of an integrated model. Over time, this is going to strengthen our business, and I'm quite pleased at the speed that the leadership team is attacking this.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you. And then follow-up is, can you give an update on the US pension risk transfer market and why you think it slowed down? Do you think it's more about the lawsuits that are going on within the industry or the external environment that's causing this?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah. Ryan, thank you for the question. We do believe that the market has softened modestly, is the way I would frame it. We expect that the market will come in around \$30 billion to \$40 billion this year. And it's really a tale of two cities. In the smaller end of the market, transaction volume has remained strong. But in the jumbo space, it has definitely been quieter this year. Remember, that is episodic by nature.

We believe the key driver still remains the uncertainty and volatility that's happening in the environment. Uncertainty always causes business decision-makers to slow down in their decision-making. When you talked about litigation, we think that's potentially having some impact on the industry size, but again, we think the predominant impact is the uncertainty and the volatility.

If you take a step back, though, from that, this is a big market and this will be a big market for years to come. There's \$3 trillion in untransacted liabilities. Funding levels still sit at 105%. And from our interactions with plan sponsors, they still have a high desire to transact. We feel very well positioned. Obviously, we have great underwriting capabilities, very strong asset management organization and strong servicing. That's why we've done 7 of the 10 largest transactions. We're optimistic that the market conditions will improve over time. And when that happens, we'll benefit.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

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

Suneet Kamath

Analyst, Jefferies LLC

Q

Great. Thanks. I wanted to start on Individual Retirement and your RILA sales, which I think were down 23% year-over-year. And if we look at industry data, I think the industry was up 20%. So it's a pretty big difference there. Just wondering kind of what you're seeing in the market. Is it competition or new entrants?

And then somewhat relatedly, Andy, you talked about improving the earnings mix or the earnings quality of Individual Retirement. And I guess beyond just new business, are there other things that you're contemplating when you make that statement?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

So, Suneet, thanks. Thanks for the question. Let me start with the RILA sales. The market for Individual Retirement sales has been quite healthy. Again, the sales this quarter, industry-wide, were over \$110 billion. We believe that the market will remain strong, given the fact that we live with an aging society, that aging society needs protected income. There's \$7 trillion sitting on the sidelines and money market funds. It's going to stay

strong. We're well-positioned, thanks to the work that we've done to broaden the product portfolio and to deepen our distribution. And we've been pretty consistently selling above \$3 billion each quarter.

As to the RILA market specifically, we do believe the market has become more competitive. The fact is, if you look at the market, we've gone from five competitors a few years back to – as we sit here today, there are 25 active competitors in the marketplace, including seeing some reputable broader annuities players that have entered RILA.

By definition, if you think a few years back only five players, the share was very concentrated. So these new entrants are working pretty hard in order to obviously fragment that market share.

As it comes to our – the sales, what you should expect from us is we're going to continue to be disciplined and seek the best returns across this broadened product portfolio. And obviously, we think this is a tailwind environment that we'll be able to participate in.

As to the improvement in Individual Retirement, the predominant effect on our results have been the earnings volatility from our legacy runoff variable annuities block. This is one of the main reasons that we exited that business. The volatility is driven both by the market impacts on fees that we collect, but also on the level of surrenders each quarter. We also obviously have experienced assumption and refinement changes in the business overall, but the plan remains the same. Obviously, we've made very good progress on pivoting the business and de-risking through transactions. We're going to continue, as the legacy rolls off, to replace that, but with new, less complex products. And as we do that, we know that the earnings results and consistency will improve.

Suneet Kamath

Analyst, Jefferies LLC

Q

Got it. That's helpful. And then, I guess, for Yanela, on the 180% to 200% ESR ratio, you made the comment that you feel that's well above AA standards. But how are you calculating that or how are you determining that, because I don't believe the rating agencies have come out with something that kind of gives a standard? So when you say that it's above AA, what – how are you reaching that conclusion? Thanks.

Yanela del Carmen Frias

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

A

Yeah. Hi, Suneet. So, we developed our view of the AA standard considering multiple factors. We included our internal frameworks as well as rating agency considerations. So they haven't come out with a view, but we understand their considerations, and we have an active dialogue. We will officially request approval of the target from our board as part of our normal process later this year. So it would be premature to share that. But I would highlight that we intend to maintain strong ESR levels during normal markets, and that provides a cushion that enables us to meet what we believe are AA levels after a cyclical stress.

So this considers any potential variability in ESR results under different market stresses and is consistent with how we manage under the current solvency margin framework. And I would just finish by saying, as I said before, the implementation of ESR will not impact our cash flows, our dividend capacity, our ratings or our overall operations in Japan.

Suneet Kamath

Analyst, Jefferies LLC

Q

Okay. Thank you.

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

Thomas Gallagher

Analyst, Evercore ISI

Q

Good morning. Couple of questions on Japan. One on ESR follow-up, Yanela. So I think Aflac has put out a range of 170% to 230%. Is that like within the ZIP code of the way you're viewing a potential range that you'd want to operate in? Obviously, 190% would be within that range. But curious on that and whether you can talk about where your ESR is most sensitive to potential macro changes and anything on sensitivity.

Yanela del Carmen Frias

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

A

Yeah. So, Tom, our range, as I mentioned, is 180% to 200% in terms of the – as of 03/31. It is, as I said, well above our AA – what we view as a AA level of capital. So, our target, we'll share it once we speak to the board, but it has not been approved by the board right now.

I would remind you all what we're sharing in terms of an ESR level is consistent with how we would report to the Japan regulator based on a strict interpretation of current specifications. So that is important. Our understanding is that ESRs that are currently being disclosed by other companies are on an adjusted basis, using internal calculations and economic capital models, which may differ from the specifications. We are following the strict specifications. So that's important.

In terms of sensitivities, so we conducted a series of sensitivities on our ESR results in arriving at what we believe is a AA standard. And our ESR level is reflective of that level of variability that we could see. So that is important.

To just give you a sense of sensitivities, it's kind of premature to go through all the sensitivities, but I would say that our ESR results are most sensitive to increases in Japanese interest rates. Our Japanese liabilities are very well ALM match. However, a potential rise in rates could cause lapse risk in some products. So to provide a sense of the sensitivity, if Japanese interest rates would to increase by 50 basis points and equity markets would decrease by 10%, we still do not expect ESR to be binding in terms of impact on Japan capital and cash flows, sorry.

Thomas Gallagher

Analyst, Evercore ISI

Q

That is helpful. Appreciate it. And then just one quick follow-up. I noticed Japan premiums declined around 10% this quarter, despite pretty good sales results, and I think you made positive comments on persistency. Was that due to the Prismic reinsurance deal or something else going on there?

Yanela del Carmen Frias

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

A

Yeah. Tom, it wasn't due to the Prismic reinsurance deal. There were really three primary drivers when you look at the year-over-year variance. The first is the impact of the assumption update on premium. So when you compare year-over-year, the assumption update impact on the premium line had a variance, and that was over half of the change.

The second is the continuing impact of surrenders on our results, as some of the surrenders are recurring pay products and are reflected in that line. And lastly would be our strong sales of retirement and savings as well as single-pay products, which are generally reflected in policy charges and fee in that line versus premium. So related to that third one, we've added disclosure in the QFS for account balances so that detail could be more visible.

Thomas Gallagher*Analyst, Evercore ISI*

Q

I guess – sorry, just one other follow-up to that point, Yanela. That's helpful. Would your view be Japan total top line momentum on an economic basis is shrinking now based on all those factors? Or do you think it's flat or slightly growing? Like, it's just hard to interpret direction of travel here.

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

A

Yeah. I think if you look at the policyholder account balances, on a sequential quarter, they're up by about \$2 billion. And that reflects our strong sales of our retirement and savings products, where we have seen a lot of momentum.

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

A

Yeah. And Tom, I would just add in. I mean, we've talked about our intentional strategy of about broadening the product, deepening distribution. And really, what we're seeing is a lot of sales coming from new product introductions in Japan, things that we've introduced over the last two years, both US dollar and yen denominated, yen's now about 30% of the portfolio. And we've done that work to help us overcome the surrender headwinds and we're seeing that progress.

Thomas Gallagher*Analyst, Evercore ISI*

Q

Great. Thanks.

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

Elyse Greenspan*Analyst, Wells Fargo Securities LLC*

Q

Hi. Thanks. Good morning. I want to start with, I guess, capital return, right? You guys target 65%. And you obviously – you had shifted us a couple of quarters ago to looking at that relative to net versus operating income. We looked so far this year, right, that's running almost 119%, obviously, because the net income has been lower. So how should we think about, I guess, that ratio like moving forward? And if that continues, I guess, to stay high, will that have an impact on forward capital return?

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

A

Yeah. Hi, Elyse. So there are definitely a number of variables to consider here. So let me walk through a few of them. First of all, the primary driver of cash flows is statutory capital. And while we believe that net income is a closer approximation to cash flows, neither net income nor AOI are perfect proxies for cash flow.

Now, in terms of net income, what we see is that net income includes certain items that are excluded from adjusted operating income, but that may still influence statutory capital. So, for example, realized gains and losses from routine portfolio management activities or mark-to-market on hedging instruments, they're both reflected in both GAAP net income and statutory reporting, but not in AOI.

Conversely, there are components of GAAP net income that do not translate directly into cash flow. So there's reconciling items in both directions. This quarter, the difference between net income and after-tax AOI is split roughly evenly between items that impact cash flows and those that do not. And I would remind you that the 65% free cash flow ratio is an overtime measure in cash flows from our operating entities to PFI may and do fluctuate quarter-over-quarter.

And just as an example, this year, we have not taken a dividend from our major domestic entities, yet our holding company cash balances remain strong. We continue to manage capital well above our AA solvency targets, and we have continued to make shareholder distribution.

So I would just summarize by saying that dividends from our operating entities are not linear across the year and will vary, and the cash flow ratio is an overtime measure.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thanks. And then my second one, right, you guys outlined, right, 5% to 8% EPS growth, right, over three years. Through the first half of the year, on a core basis, right, you guys are at around like 3%. Obviously, there's some expense movement and then there's business growth and other things that could impact the back half. But is that the right way to think about, I guess, where you are for this year? And then, would the expectation, based on where things sit today, be to get back or to get within that range next year?

Yanela del Carmen Frias

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

A

Yeah. Elyse, the 5% to 8% target is a three-year target. So, if you remember when we shared the targets, we also identified some near-term headwinds in the form of a variable annuity runoff and Japan surrenders. Those have been incorporated in the target. But as I said a couple of quarters ago, that does mean that the earlier years, i.e. 2025 growth, may be lower and that it is not linear. So the growth trajectory is not linear.

As we said, as the growth of our ongoing businesses and our new sales will kind of outperform the VA runoff, for example, we will see that growth come through more prominently. And so I would just remind you that it's not linear. And as the headwinds dissipate, we will have stronger growth, and the 5% to 8% is an average over the three-year period.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thank you.

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

Thank you for the opportunity. How do you view 401(k) retirement reform and PRU's positioning to benefit from that with the one PGIM unified structure? Thanks.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Thanks, John. We have always been advocates of good retirement reform and we always work hard to stay actively engaged in the dialogue, not only obviously here in the United States but also globally. And as you noted, there are really two big areas of focus as we see them. First is encouraging lifetime income solutions and specifically, by making them defaults in defined contribution plans. Second is really an expanding access to alternative and private type investments in retirement plans.

While you focused on the reform, I would also talk about it's important that we are doing innovation. A prime example of that is the work we've done to pioneer, what we call, active income, which is where we work with financial advisors to add longevity protection to separately managed accounts without moving their assets by adding an insurance overlay. So this is a new lifetime income category that we've created. It's very early, but we're excited about it.

As far as your question around PGIM and our integration to one model, a big part of this is bringing forth solutions that can integrate across asset classes. Obviously, we think that will be an advantage to us as the retail uptake, for lack of a better term, starts to begin to happen in DC plans. Obviously, the other things that we've been doing is on the retail side, expanding the types of vehicles that we can offer to ETFs and SMAs and broadening out our distribution.

So, between the reform and the changes that we're making in the business, we feel that we're well-positioned to capitalize.

John Barnidge

Analyst, Piper Sandler & Co.

Q

Sticking with PGIM, my follow-up question on PGIM, I'd say as you search for greater scale and as this opportunity to present itself, where does inorganic fit within that to leverage that scale even further? Thank you.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

John, probably you won't be surprised to hear me say, organic growth is always job number one. And we feel we have a lot of opportunity to grow organically. In particular, with these recent changes, we think we're unlocking some additional opportunity. So I would start by saying M&A is not required to meet our intermediate term financial targets.

That being said, as it pertains to M&A, we do feel it's important to consistently consider a range of things, from smaller capability bolt-ons to larger, more holistic things that can bring scale. We obviously look to globalize the business and are very interested in building on our leading positions in credit and in alternatives and in real assets.

As we think about that, M&A can be an accelerant to what we want to do, but, again, not required to meet the intermediate term targets. As always, we're going to be disciplined. And what I mean by that is, it will absolutely have to align very strategically and provide the right returns to the shareholder over time.

John Barnidge*Analyst, Piper Sandler & Co.*

Thank you.

Q

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

Thanks, John.

A

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

Jack Matten*Analyst, BMO Capital Markets Corp.*

Hey. Good morning. Just a question, whether there's been any update or change to your thoughts around risk transfer, especially for the runoff VA business? I mean, we saw a pretty sizable VA deal a couple of months ago that was well received by the market. So just curious about your thoughts there.

Q

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

Jack, good morning. First, I always start by saying we need to recognize, we've made very good progress on de-risking. Between the work we've done to pivot the portfolios and the transactions that you referenced, we've reduced the exposure to traditional variable annuities by about 60%. And we don't view this as sort of starting or stopping. We view it as always looking to optimize the balance sheet, the capital, the cash flows.

A

To your point, there is a large market that's available for transactions, which is a good thing. There's plenty of capital, plenty of counterparties that are finding value in these legacy insurance blocks. So we will continue to assess opportunities over time. And if and when we have something to share, we will post you on it.

Jack Matten*Analyst, BMO Capital Markets Corp.*

Got it. Thank you. And then just a follow-up on like the Japan persistency kind of outlook. It's good to see that things have been stabilizing or improving there. I mean, just like, I guess, the past month or so, we've seen the yen weaken again and rates have been rising. I know it's not like a simple formula, but I guess just curious with that kind of backdrop, are you seeing any, I don't know, shift in kind of those trends and how you're thinking about that for the rest of this year?

Q

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

Sure, Jack. I'll take it. As you know, surrenders remain a near-term headwind for us, but we do see that they're continuing to improve and stabilize. And unless there's a large change in the end, we expect the impact is going to lessen over time.

A

Additionally, we've also taken steps to counteract the effects. First and foremost, we put additional resourcing into our distribution and into our service areas to work with customers to adjust their coverage levels. Second, we've expanded our product offerings, doubling our yen offerings and leaning into retirement and savings, all of that is helping us counteract the headwinds that we're feeling. While we're seeing improvement, as we sit here, we still expect about \$100 million impact to 2025 consistent with what we said last quarter.

Jack Matten

Analyst, BMO Capital Markets Corp.

Got it. Thank you.

Q

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

Wes Carmichael

Analyst, Autonomous Research US LP

Hey. Thank you. Good morning. Andy, I think you began your prepared remarks highlighting group and definitely good underwriting in the period. But if I kind of zoom out a little bit, I think group's maybe 5% or so of the overall enterprise earnings. So I guess, is this a segment that you think can really move the needle and are you really pushing to grow that contribution overall to PRU?

Q

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Wes, thanks for the question. And I was hopeful that we would get to talk about Group Insurance. We're really pleased with the results, both in the quarter and year-to-date. As I said in my prepared remarks, this is literally the second best quarter on record with strong life and solid disability.

A

We laid down a strategy several years back to diversify both our product mix and our segment mix. And that's been paying off. We see it in the premium growth with sales up 60% year-to-date and in our persistency at 96%. We see it in the underwriting from sitting here with a benefit ratio of 80.9%.

So, this has been a business that we've invested quite steadily in. It has been growing for us nicely. It's been a consistent performer. So our plans are to continue to stay the course on the strategy within the business, continue investing in the business and to have it become a larger percentage of what we do over time.

Wes Carmichael

Analyst, Autonomous Research US LP

Thanks. That's helpful. And maybe for Yanela, on the assumption review, particularly in Individual Retirement. I think there's a one-time impact in the quarter, but there's also some ongoing impact of \$20 million or so a quarter. Just hoping you could unpack what the driver of the assumption review in that segment was and why there was an ongoing impact.

Q

Yanela del Carmen Frias

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

Yeah, Wes, so the AOI impact in Individual Retirement, the one-time and ongoing, is due to reserve refinements for some fixed annuity products that we've been selling. Now, these refinements have no impact on statutory results, capital or cash flows, and they don't impact our expected lifetime economic outcome. However, the

A

change will accelerate the timing of the GAAP reserve recognition, and we're really taking that GAAP reserve closer to when we expect the payments to happen.

Wes Carmichael

Analyst, Autonomous Research US LP

Thank you.

Q

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

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Yeah. So, first, just a question on your comments around competition in the RILA market. Is it more that there – because there are more competitors, you're just having a hard time differentiating yourself? Or is it, are you seeing companies actually either pay more in commissions or offer more generous terms and conditions that you're not willing to match, in terms of just the details on what you meant by increased competition?

Q

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Yeah, Jimmy, I guess the way I would frame it is, and the way I think about it is, any time you have any marketplace where you go from five people competing for a piece of business to 25, by definition, you start to see market share start to get split up. And what I would tell you is, with 25 competitors in the market, there's a lot of levers to try and accelerate sales, whether that be leaning in on pricing or leaning in on the commissions that are being paid. So without any specific comments around that, you should expect that all those levers are being utilized by competitors and that creates just a more competitive environment, and I think it's natural to see that the market will fragment over time, given all that new competition.

A

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Okay. And then on ESR, seems like you're comfortable where you are, but should we assume that you would actually, over time, try to get the number higher than 200%? Or is this where you are is consistent with your long-term target as well?

Q

Yanela del Carmen Frias

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

No. So I would remind you, Jimmy, we intend to maintain an ESR level during normal markets that provides a cushion for cyclical events and stresses. So we are very comfortable with the level with where we are.

A

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Okay. All right. Thank you.

Q

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

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

Q

Hi. Good morning. Most of my questions are answered. Maybe just one on Brazil. Obviously, you've had a pretty strong momentum in most of your international markets. But can you maybe help us understand, like, what is the latest trend that you think would be good growth opportunities in Brazil? I mean, how should we think about that market going forward from here?

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

A

Yeah, Bob, thank you for the question, because Brazil has been going quite well for us and it dominates our EM portfolio. In Brazil, sales were up 10% year-to-date versus the prior year. And really, the story of where you see us accelerating is we're showing particular strength in our Life Planner channel. Obviously, the Life Planner model has served us exceptionally well over decades in Japan. We've been building that capability over a long period of time in Brazil. And we have a lot of geography, I call it room to run, a lot of geography that we can expand that Life Planner system out into. That's why our head count is up 12% year-over-year. We've added seven new agencies and 300 life planners in the last 12 months.

I would also mention that we're continuing to diversify other aspects of distribution. And as an example, we've done great work with Mercado Libre, and we now are seeing – we won the ability to do credit life in that relationship. And we're seeing the sales levels and the number of policyholders, we're now serving over 600,000 people. So there's just a number of different elements around distribution, in particular, that's enabling this pace of growth and we would expect to have the ability to keep going.

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

Q

Okay. Thank you very much. That's all I got.

Operator: Thank you. Our next question is coming from Michael Ward from UBS. Your line is now live.

Michael Ward*Analyst, UBS Securities LLC*

Q

Thanks, guys. Good morning. Andy, I'm just thinking through your comments last quarter about the evolution of capital uses. And now that we have a manageable range on the ESR, I'm just wondering how you might – if you're able to sort of rank your priorities on the capital use front.

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

A

Yeah. Mike, let me start with that. So our capital deployment priorities haven't changed because our capital plan hasn't been impacted by the implementation of ESR. So back to – I think I've been saying for three quarters, we don't expect the ESR implementation to impact our dividend capacity, our cash flows. And we've had a long time to plan for ESR. So when we developed our capital plans, we had ESR in mind. And our capital allocation prioritization still continues to be – the way we think about it is that we are balancing the preservation of financial strength and flexibility with investment in our businesses for long-term growth and supporting shareholder distributions. And we like the way we've been approaching that allocation and it will not change due to the implementation of ESR.

Michael Ward

Analyst, UBS Securities LLC

Q

Okay. And then maybe on longevity risk transfer, it seems like you guys have had ongoing success there. I'm just wondering if you could help us understand how to think about that versus pension risk transfer and how you think about sort of the evolution of longevity with medical advancements and whatnot.

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah. Mike, let me start, and longevity risk transfer is a very good opportunity for us. If you look globally, pension plans are very well funded. We participate in two core markets, the UK and the Netherlands. The UK, the pension transfer market is somewhere between \$50 billion and \$55 billion a year quite reliably, with about 80% of those transactions seeking reinsurance. In the Netherlands, given the DC reform and the transition from DB to DC, many of those plans, and there's about \$300 billion of market opportunity sitting there, we'll seek pension risk transfer and seek longevity reinsurance.

So it's an area that is a very good growth area where we're a leader in. That's why you saw us do three transactions for \$5.6 billion this quarter. It gives us healthy returns and gives us a lot of room to grow. So, maybe Yanela could jump in and talk about kind of how the financials look versus PRT.

Yanela del Carmen Frias

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

A

Yeah. So a couple things. From a medical advances perspective, we track medical advances very closely as we have large longevity and mortality businesses. I would remind you that our mix of businesses provides a natural offset between mortality and longevity. And I would highlight that our risk and capital frameworks include stress testing for mortality improvement under severe scenarios that reflect conditions changing for many reasons. So we're monitoring all trends that influence mortality, and we'll continue to update our actuarial assumptions each year as we review emerging internal experience and industry studies.

Michael Ward

Analyst, UBS Securities LLC

Q

Thanks. I guess, just I meant like on the – how did the earnings – or the margins compare on LRT versus PRT?

Yanela del Carmen Frias

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

A

Yeah. So LRT and PRT are different businesses. Obviously, we're reinsuring longevity on both, but LRT is essentially a longevity swap that is fee-based and PRT is spread-based earnings that not only has longevity risk, but also asset risk. So LRT has fee-based, but also has lower capital requirements. So earnings on both are consistent with our targeted return.

Michael Ward

Analyst, UBS Securities LLC

Q

Thanks.

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

Alex Scott

Analyst, Barclays Capital, Inc.

Q

Hi. It was mentioned earlier that you're expanding distribution and that's part of your strategy to begin growing in a bigger way organically. And just wanted to see if you could run us through that. I think you commented more on like the PGIM and some of the things you're doing there with the transformation. But maybe just thinking more broadly across your businesses, are there any important spots where we should be aware of, things that you're actively doing on distribution?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yeah, Alex, and I've already mentioned several of these. So maybe let me just start with on the international side. We think it's very important to have a mix of distribution capabilities. And whenever I think about that, I think of having captive, which, obviously, in international would be things like our Life Planner or Life Consultant to have bank distribution in these international markets and then other third-parties working with independent agencies and agents.

So, as you think about that, that work is about consistently trying to expand your geographic reach and the number of captive agents that you have and trying to work more – with more banks in the market, not just the nationals, but the regionals.

So from an international perspective, it's very consistent, methodical work to build that and make it broader, and make sure you're covering the entire market opportunity. Similar, depending which business you're talking about in the US, we're doing the work to make sure that we have distribution leadership and resources in all the right places and all the right spots, whether that's expanding our captive capability with Prudential Advisors or working through the intermediaries that we work with in our Group Insurance business or in our Retirement business.

And then, yes, obviously, we talked about PGIM and specifically focusing on Europe and Asia as areas that we are putting more feet on the street and looking to access more intermediaries, but it takes consistent effort and energy every single day to build it out. The great news is once you have it built out, it really is differentiating and it's hard to replicate.

Alex Scott

Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. A follow-up question I had is just if you could provide some comments on the sort of transactional environment for real estate and where you see that heading as you look out over the next year?

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

A

Yes. So, obviously, the real estate business is a business that we're quite proud of. We're number three worldwide by assets under management. We have strength in equity and debt, and it's been something for decades that we've delivered strong returns.

The industry clearly hit a rough patch back in 2023 due to the change in the interest rate environment. We did see, and I said this on previous calls, that the space was starting to recover, starting to come out of the trough, but then candidly, that recovery has been delayed due to the uncertainties that's in the environment, specifically around – obviously, all the conversations around tariffs.

That said, we are seeing signs of life. So the bid-ask spread between buyers and sellers has narrowed substantially. We are increasingly able to sell assets at acceptable prices. And a big part of that is valuations have improved modestly from the trough. So, we expect a slow recovery to be in front of us, and we know we're well-positioned to capitalize on that. And that's obviously another key reason, as that market recovers, that will help contribute to our improving margins in PGIM as well.

Alex Scott*Analyst, Barclays Capital, Inc.*

Q

Got it. Thank you.

Operator: Thank you. Next question is a follow-up from Wes Carmichael from Autonomous Research. Your line is now live.

Wes Carmichael*Analyst, Autonomous Research US LP*

Q

Hey. Thank you for taking the follow-up. Just hoping if you have any – could you provide any color on the PGIM flow pipeline in the second half of the year, particularly on third-party?

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

A

Sure. Yeah, absolutely. When it comes to flows, we always assess our success by looking at total flows, that's affiliated and third-party, and we look over a longer timeframe, and the way I frame that is 12 months. From that lens, we clearly see a successful picture over the last 12 months. We've had nearly \$25 billion in flows, \$16 billion on the affiliated side and \$9 billion on the third-party side.

As Yanela said in her opening commentary, we've seen consistent success on the institutional side. So we're – and that's across asset classes. Retail has absolutely been more pressured, given the market uncertainty and volatility. As we look forward, we're optimistic the track record on institutional will continue. We're more cautious on the retail side. Given there's a lot of money on the sidelines, we're not yet seeing it really come back into fixed income. And as long as there's uncertainty around the interest rate environment, that's going to continue to be true.

What we do know is, if you look over longer timeframes, 12 months or even longer, with the capabilities that we have and the changes that the leadership team are making, we'll be a net winner over time.

Robert McLaughlin*Head-Investor Relations, Prudential Financial, Inc.*

A

And hey, Wes, this is Bob. I just wanted to jump in and clarify your prior comment regarding group sales. I think Andy may have stated, the year-to-date group sales are up 60%. That's actually the current quarter over last year second quarter. Year-to-date sales are actually up 13%.

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

A

Yeah. Thanks for clarifying that Bob.

Wes Carmichael

Analyst, Autonomous Research US LP



Got it. Thanks, Bob. And maybe sneaking one more in just on – I guess, on slide 7 for the International Businesses, one of the key priority bullets says optimized capital. And I guess I just wanted to maybe get a little bit more color about what you're thinking. I don't know if that relates to ESR or not. But in terms of any recent reinsurance activity affiliated or – what are you kind of contemplating as you think about optimizing capital for international?

Yanela del Carmen Frias

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



Yeah. So I mean, look, I would say that that is always important in all of our businesses, like we seek to optimize capital, I think, for international. Given the fact that we've been in this period of assessing ESR, preparing for ESR, optimizing capital has been really important. As you've heard me say before, we've reinsured about 70% of our US dollar business out of Japan. We've been utilizing reinsurance for a long time, and the optimization of capital also plays into the products that we sell.

So it's just good housekeeping to make sure that we're optimizing capital in all our businesses, especially in Japan and yet that had obviously line of sight into the ESR implementation.

Wes Carmichael

Analyst, Autonomous Research US LP



Thanks so much.

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

Andrew F. Sullivan

Chief Executive Officer & Director, Prudential Financial, Inc.

Thank you, all, for joining us today and for your very thoughtful questions. We appreciate it. I also, as always, want to extend my sincere appreciation to our employees around the world for their dedication and their commitment that they show every single day to our customers.

Looking ahead, I'm confident in the opportunities that lie before us. And our leadership team remains very focused on evolving our strategy, executing with consistency and discipline and fostering our high-performance culture so that we deliver the long-term value for all of our stakeholders. We appreciate your continued support, and we look forward to keeping you updated on our progress. 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.

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