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# Prudential Financial, Inc. (PRU)

Q3 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 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 the 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 the 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](http://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. We had a strong third quarter. Our pre-tax adjusted operating income was \$1.9 billion, or \$4.26 per share, a record high, up 28% from the prior year quarter, reflecting earnings growth in every business. And our year-to-date adjusted operating return on equity was over 15%. These results reflect higher spread income and more favorable underwriting experience across our global retirement and insurance businesses, as well as higher fee income in PGIM. Current quarter results benefited from alternative investment income that was above our expectations as well as other favorable one-time items. Higher alternative investment income was driven by stronger private equity and hedge fund returns, partially offset by lower real estate returns.

Our third quarter performance reflects sustained momentum across our businesses. Let me highlight a few examples. PGIM remains focused on delivering strong investment performance and strengthening core capabilities, while continuing to invest in the business to drive future growth. This quarter, we achieved positive net inflows across both third-party and affiliated channels. In Institutional Retirement, we closed a jumbo pension risk transfer transaction, reinforcing our market leadership and complementing the robust longevity risk transfer activity so far this year.

Our Individual Retirement, Individual Life and Group Insurance businesses are benefiting from our differentiated distribution and the actions we've taken to broaden our product portfolios and diversify our market segments.

Individual Retirement delivered over \$3 billion in sales for the seventh consecutive quarter. In Individual Life and Group Insurance, we delivered double-digit year-to-date sales growth.

Turning to our international insurance businesses. In Japan, where our business has been traditionally focused on protection products, we continue to expand our retirement and saving solutions, leaning into the changing nature of this marketplace. And in Brazil, we set a new sales record in the Life Planner channel. In addition, we continue to expand our third-party distribution network and deepen our strategic partnerships.

While business performance was strong for the quarter overall, let me bring one area of pressure to your attention. Jennison, our active equity manager, continued to experience outflows, consistent with broader industry trends. These outflows are dampening our organic growth and earnings momentum in PGIM. We are encouraged by the third quarter results and remain committed to delivering stronger and more consistent earnings growth that creates long-term value for our shareholders.

Moving to slide 3. I've been clear on my three priorities as CEO. First, we are evolving our strategy to focus on opportunities that will deliver the most profitable growth over time and are allocating our capital accordingly. Specifically, we're looking to focus on areas with large and growing addressable markets in which we have highly differentiated capabilities and can earn attractive returns. Accordingly, in the third quarter, we completed the sale of our PGIM Taiwan business to focus resources on higher growth opportunities.

Second, we are determined to execute with more consistency and discipline. We are quickly evolving to a unified asset manager model in PGIM, and have taken actions to deliver run rate savings that will drive margin expansion in 2026. Client response to our new organizational structure, which includes a centralized distribution capability for institutional investors, has been overwhelmingly positive. In fact, we now expect to double the percentage of clients engaging with two or more of our asset management businesses, which will drive additional margin growth over time.

The sales momentum in our global retirement businesses underscores how we're meeting evolving customer needs around the world. In US Retirement Strategies, year-to-date sales of over \$30 billion demonstrate our leadership in the growing retirement market and contributed our highest earnings in the last five quarters.

Additionally, over the past three years in Japan, we've launched seven new products, reflecting our commitment to meeting the evolving needs of our customers through a comprehensive suite of protection and retirement solutions. As a result, sales in Japan have increased by about 35% over this period, with yen-denominated sales increasing by over 50%.

And third, we are enhancing our culture with a focus on speed and accountability. As an example, we accelerated our succession plan in Japan, appointing Brad Hearn as CEO, reporting directly to me. This move ensures we have the right leadership in place to drive our growth strategy in Japan.

Brad brings a strong track record of driving results and scaling distribution networks from his time leading our domestic Prudential Advisors business. His experience is directly relevant given the shifting nature of Japan's market towards retirement. He will continue working closely with Caroline, Jacques and the entire leadership team to share best practices and collaborate across businesses, ultimately helping us better serve customers and capture opportunities in this rapidly evolving market. We extend our thanks to Hamada-san for his 33 years of service in Japan.

Before I turn it over to Yanela, I want to emphasize that across the enterprise, we're taking clear and decisive action to address these priorities. I look forward to sharing more in the quarters ahead as we continue to build on our momentum.

With that, I'll hand it over to Yanela.

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## 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, U.S. 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; higher other related revenues from strong Fannie Mae and Freddie Mac originations and gains on seed and co-investment. Third quarter results also included \$40 million in reorganization charges from integrating PGIM's multi-manager model, partially offset by a \$25 million gain from the sale of our Taiwan business.

Results of our U.S. Businesses reflected higher net investment spread income in Retirement Strategies, including the benefit from stronger alternative investment income, coupled with more favorable underwriting results from Individual Life and Group Insurance. This was partially offset by lower fee income resulting from the runoff of our legacy variable annuity block and higher expenses to support business growth.

In our International Businesses, we also experienced higher net investment spread results, including the benefit from stronger alternative investment income and more favorable underwriting, partially 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 70% of assets under management outperforming their benchmarks over the 5- and 10-year periods. In addition, the three-year track record, which is an important metric for the retail channel, has 80% of assets outperforming benchmarks. PGIM's assets under management of \$1.5 trillion increased 5% from the prior year quarter, driven by market appreciation, positive net flows and strong investment performance.

Total net inflows in the quarter of \$2.4 billion included affiliated net inflows of \$1.8 billion and third-party net inflows of \$600 million. Third-party institutional and retail inflows were both \$300 million, mainly driven by fixed income inflows, partially offset by Jennison equity outflows, as previously noted.

Before I move on from PGIM, I want to expand on Andy's commentary regarding the rapid progress we have made reorganizing, including early financial impacts. The actions taken thus far will drive operating efficiencies and create reinvestment capacity, enabling us to continue expanding capabilities, enhancing client experience, and strengthening our competitive position to support future growth. We expect to realize approximately \$100 million in annual run rate savings by the end of 2026, and plan to reinvest about a third of these savings to bolster sales and distribution. Compared to 2025, we now anticipate over 200 basis points of margin expansion in 2026 from these actions and are well-positioned to reach our 25% to 30% margin target.

Turning to slide 6. Our U.S. 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 momentum, generating \$10 billion of sales in the third quarter across its Institutional and Individual lines of business. Institutional Retirement sales of over \$6 billion included a

\$2.3 billion jumbo pension risk transfer, and was complemented by \$1.5 billion of longevity risk transfer transactions. Individual Retirement posted over \$3 billion in sales, driven by continued momentum in fixed annuities as well as solid sales of registered index-linked annuities, reflecting the actions we have taken to broaden our product portfolio.

Group Insurance sales totaled almost \$80 million in the third quarter, with the year-to-date sales of \$555 million, up 14% 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 customer experience. The benefits ratio of approximately 83% remains at the low end of our target range, reflecting favorable life underwriting results and less favorable disability experience, driven by an uptick in severity and lower claim resolutions, which can vary quarter-to-quarter.

In Individual Life, sales of \$253 million in the third quarter were up 20% from the prior-year quarter. This growth was driven by higher accumulation-focused variable life, including record sales in our differentiated FlexGuard Life product suite.

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 down 6% compared to the prior-year quarter. This was primarily due to strong US dollar-denominated single-pay sales in Japan that benefited from the yen appreciating sharply in the prior-year quarter. Year-to-date, International sales remain solid and are up 4% versus prior year, driven by growth in both Japan and Brazil.

As we previously stated, while surrender activity in Japan continued to show signs of stabilization, it remains a near-term headwind that will partially offset new business growth. We also anticipate approximately \$30 million of higher expenses in the fourth quarter, primarily due to timing, consistent with what we've observed in prior years.

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. 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.

Also of note, our board approved an economic solvency ratio operating target of 150% as part of our annual capital planning process. Prudential of Japan and Gibraltar Life remain well above this level. 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're 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 Wilma Burdis from Raymond James. Your line is now live.

**Wilma Burdis**

*Analyst, Raymond James & Associates, Inc.*

Q

Hey. Good morning. Just first question on the PRTs. We saw you had a large jumbo pension risk transfer this quarter, which has been a slow market this year. Maybe just give a little bit of commentary on that. And then also the longevity market in the UK, we've seen a couple of entrants there, so just if you can give us an update on what you're seeing. Thanks.

**Andrew F. Sullivan**

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

A

Sure. Good morning, Wilma. So, we still believe that the pension risk transfer market will be softer in 2025 versus 2024, but we've seen an uptick in the pipeline for the second half of the year is proving to be more robust than what we saw earlier. Remember that, especially in the PRT market, it's an episodic market, particularly in the jumbo space. That said, this is going to be a big market for years to come, with \$3 trillion in untransacted liabilities, funding level sitting at 105%. We're very well-positioned to win and to remain a leader, given the strength of our brand, our underwriting, our asset management and service. So, we're happy to see that the market's strengthening here in the back half of the year.

When it comes to the LRT market, this is a very good opportunity as well. Globally, pension plans are even more well-funded than they are here in the US. We focus on two core markets, the UK and Netherlands. In the UK, we're seeing about \$50 billion to \$55 billion of pension risk transfers per year, with about 80% of that volume seeking longevity reinsurance. In the Netherlands, there's about \$330 billion in defined benefit pension money that's, given the reform, looking to transition to defined contribution. Much of that will seek pension risk transfer and reinsurance.

Similar story to PRT. We're a leader in the space. We did two deals this quarter for \$1.5 billion. That puts our year-to-date sales over \$11 billion. So, this is also just a very good market with healthy returns and plenty of room to grow. So, we like the dynamics that we're seeing in both of the spaces.

**Wilma Burdis**

*Analyst, Raymond James & Associates, Inc.*

Q

Sounds great. And then, PGIM flows have been improving. Could you just talk a little bit more about the drivers? And do you think this is an inflection point? Or what are you kind of seeing? Do you think this is an improvement that's going to continue? Thanks.

**Andrew F. Sullivan**

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

A

Yeah, certainly. And we've discussed this before. As it comes to flows, we assess success by looking at total flows, both affiliated and third-party, and we look at it over longer time frames. So, if you look at it from that lens, over the last 12 months, we did over \$20 billion in total inflows. This quarter, we did \$2.4 billion in total inflows. And in the third-party in particular, we were positive and split evenly between retail and institutional.

What we saw this quarter was very strong inflows across public fixed income, privates and alternatives. That was offset by Jennison equity outflows. This is systemic in the industry, and we're not immune, given what's happened with the active to passive pressure. That said, active equity plays a very important role in our clients' portfolio and is important in the mix.

As we look forward, as far as an outlook perspective, given the consistent strength we've been showing in institutional, we're optimistic. We're more cautious on the retail side, as that is more volatile and clients tend to react quicker to changes in the environment. And we are working to lessen and overcome those equity outflows.

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**Wilma Burdis**

*Analyst, Raymond James & Associates, Inc.*

Thank you.



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

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**Suneet Kamath**

*Analyst, Jefferies LLC*

Great. Thanks. Good morning. I guess, Yanela, in the past, you've talked about this 3- to 4-point drag on EPS growth from the legacy VA and the surrenders. Can you maybe just give us some color on how you expect that to play out over the next few years? And then, somewhat relatedly, you've been putting on all this new business growth, but is there a lag between when you write this business and when it actually shows up in the EPS results?



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**Yanela del Carmen Frias**

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

Yeah. Hi, Suneet. Yeah. So, let me start. Recall, when we provided the intermediate target of 5% to 8%, I did speak about these near-term headwinds being incorporated in the target, and therefore, the growth not being linear. As these headwinds dissipate, we will see the earnings power of the new annuity sales and the Japan business continue to emerge. Specific to the two items, with regards to the VA runoff, we expect to continue to see the \$3 billion to \$4 billion quarterly runoff, which, as I said, has about a \$10 million to \$15 million AOI impact per quarter compounding, hence the \$100 million to \$150 million that we've talked about before. As that block continues to run off and the account values of the new products grow, we will have a crossover point and the earnings headwind will be reduced.



With regards to the higher-than-expected surrenders in Japan, we do continue to see stabilization. Given the stabilization, as we look forward beyond 2025, we would expect a more moderate impact of surrenders. With regards to the second point of your question, I would say we are seeing the benefit in EPS when we look at the core earnings growth in both Individual and Institutional Retirement this quarter. And as I said, over time, as the headwinds dissipate, that earnings growth will continue to grow.

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**Suneet Kamath**

*Analyst, Jefferies LLC*

Got it. And then just shifting gears, I wanted to ask about the private credit asset class, just given some of the headlines that we've seen over the past couple of weeks. Given your strength in fixed income asset management, in general, I figured you'd have a good read on what you're seeing in the market and maybe more specifically what you're seeing at PRU. Thanks.



**Yanela del Carmen Frias**

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

A

Yeah. So, let me talk about the general account for sure. Obviously, we're monitoring this very closely, as we do with all markets. With regards to private credit and our portfolio, we've been in the private credit space for decades. Our private credit portfolio is largely private placements with strong covenants and other downside protections. And this portfolio has consistently performed better than equally rated publics during economic downturns, and we've seen this consistently.

Approximately 90% of our corporate private credit securities are investment grade. Roughly half of the below-investment-grade private placements are in the BB category and are very well underwritten. And lastly, our growth in private credit has been modest. So, we've been doing this a long time and we are very comfortable with the portfolio.

**Suneet Kamath**

*Analyst, Jefferies LLC*

Q

Okay. 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*

Q

Good morning. A couple of questions about Japan. The 150% ESR target, can you guys kind of get into why you think that's the appropriate level? I think there's some confusion around what peer targets are, how they're higher than PRU's, and generally the domestic insurers in Japan are running at around 200% plus. And why 150% is like a fine number for you and is that something you've gotten blessed by the rating agencies and regulators? Thanks.

**Yanela del Carmen Frias**

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

A

Yeah, Tom. Let me explain what the 150% ESR target is and what it isn't, because I agree with you, there may be some confusion. In terms of what it is, it is the level that we would hold after a market stress occurs. So, this is the level we would not want to go below. And this type of stress includes shock to markets, rates, and credit. This is how we set our targets across all our legal entities. And as you've heard me say before, we have capital resources to manage these stresses as well as to manage more severe stresses, including our contingent capital sources. So that's what it is.

In terms of what it isn't, it is not what we would aspire to hold in normal times. So in normal times, we would hold higher levels, as you saw at the March 31 date, where our ESR level was between 180% and 200%. So, we plan to hold a level of capital above our target to provide a cushion that can withstand a market stress, and that is very consistent with how we manage our other businesses. And further, and to some of your questions, these ratios are a result of considerable thought, considerable modeling outcomes, and does include dialogue with key constituents, including the rating agencies.

As far as regulators, they're more focused on the threshold level for them, which is 100%. And relative to peers, different companies do have different business mix, and we believe that is a big driver of the difference in the levels. So, I would just close by saying that our operations in Japan remain well-capitalized. Our June results

were well above our 150% target, just like our March 31 results were, as we discussed last quarter. And our ESR is not a binding constraint when it comes to cash flows from Japan.

**Thomas Gallagher***Analyst, Evercore ISI*

Q

That's all helpful. I appreciate it. Just my follow up is, so you had the recent abrupt departure of your CEO in Japan. I guess, my perception is it's somewhat related to some regulatory issues that have occurred in the market that have impacted Prudential of Japan. Can you elaborate what's happening there? And I just want to make sure you don't think there's going to be any impacts to sales revenues when we think about things going forward in that business. Thanks.

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

A

Yeah. Good morning, Tom. So, succession planning is something that we take really seriously here at PRU and do very well. So, this change from Hamada-san to Brad was planned. So when you use the words abrupt departure, this was a planned succession change. We did accelerate it. And Hamada-san stepped down, given some operational and compliance considerations, as you mentioned. Hamada-san felt, and I felt as well, it was a good time to give Brad Hearn what I would call the driver's seat. I want to – as I did in my opening remarks, to thank Hamada-san for all he's done for the company. But Japan's in great hands.

Brad Hearn is a 30-plus-year veteran of the industry. Brad oversaw our Prudential Advisors capability here in the US. He was the architect and key driver of the strategic relationship with LPL. He saw the US market go from independent insurance agent over time to financial planners, which is a very similar trend to which we're beginning to see in Japan. So, he is the right leader to lead forward, capitalizing on this changing nature of the market.

As far as, like, what this might mean from a go-forward perspective. From a revenue perspective looking forward, I'd just say, keep in mind two things. One, the market is changing. It is rotating towards retirement and savings. And then, recognizing our results, you're still seeing the surrender headwinds. We're pleased with sales year-to-date in Japan. They're up 4%. And we've seen our new product introductions are really taking hold. About 20% of our sales are from products that we've introduced in the last 24 months. And a majority of the sales are from retirement and savings.

So, this was a plan change that we accelerated. If you look at the – Brad is the leader, the breadth of our product portfolio, the depths of our multichannel distribution, we know that all of that will help us overcome these headwinds over time and will help our growth.

**Thomas Gallagher***Analyst, Evercore ISI*

Q

All right. Thanks, Andy.

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

**Jimmy S. Bhullar***Analyst, JPMorgan Securities LLC*

Q

Hey. Good morning. I had a couple of questions. First, if you could just talk about what you're seeing in terms of claims trends and price competition in the disability market. And then I had one on another product line.

**Andrew F. Sullivan**

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

A

Yeah. So, thanks, Jimmy, and maybe I'll take this overall from both perspectives. So, first, we are pleased with the quarter that we had in Group, and we're very pleased with our results year-to-date. As you saw in the quarter, we saw very strong life performance, so very happy about that. We did see headwinds on the disability side. There's really three things that I would talk about when it comes to the higher disability ratio that we saw in the quarter. First, we saw an increase in the average size of new claims for both short term and long term. As you know, that will naturally vary quarter to quarter.

Second, we saw lower LTD resolutions. Remember, last quarter for us was an exceptionally strong quarter and it was exceptionally strong as a resolution quarter as well. So, it's quite natural for that to step down after such a strong quarter. And then, third, we had unfavorable experience in our New York Paid Family Leave book. That's very consistent with the industry. And I would note that New York recently raised pricing in Paid Family Leave, which is going to help offset that headwind.

Pricing remains rational. We obviously closely monitor new business pricing, and we're not seeing anything different than we would expect to see. We also obviously spend a lot of time monitoring our book experience at the block and case level, and we've been quite successful at placing renewal increases where they've been warranted. So, our group business is very well led. We have a very experienced team that stays on top of changes in the outside environment, and we have a good deal of confidence in the path forward.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just on competition in the RILA market, your sales, I think, sequentially were up, but they have slowed from what they were last year, and you've been citing competition as one of the reasons. And I just wanted to ask you for more details on what type of – are you seeing competitors or are you just seeing a more crowded market? Or is it that companies are offering terms and conditions which you feel you don't want to match?

**Andrew F. Sullivan**

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

A

Yeah, Jimmy, thanks for the question. This is consistent with what we've discussed about – discussed last quarter. It has become more competitive, and you can use the word more crowded. I think that's a great way to frame it. We went from 5 competitors a few years back to 25 today. That includes some broader annuity players that have entered more recently. When you only had five, the share was very concentrated, so it's quite natural for new players to work very hard to fragment that concentration. We expect it and have seen that there will be some aggressive pricing in the marketplace.

What you should expect from us is disciplined growth, right? Capitalizing on the strength of our brand, the strength of the product portfolio, and our wide distribution, we're going to always make sure we're growing, but we're also achieving the right level of profitability. And that's what you're seeing show up in the sales. If you look at that business in general, we've done greater than \$1 billion of sales per month every single month of 2025. That is very consistent success. And that's what we would expect going forward.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

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

**John Barnidge**

*Analyst, Piper Sandler & Co.*

Q

Good morning. Thanks for the opportunity. My question is about the Partners Group partnership. How meaningful do you envision it? And are there other partnerships that could be added beyond Partners Group, as we've seen life insurers not just stop at one for product creation? Thank you.

**Andrew F. Sullivan**

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

A

Yeah. Good morning, John. We're very excited about the partnership with the Partners Group. PGIM and the Partners Group are highly complementary and obviously bring to the table best-in-class capabilities from both sides. Really, this partnership is about working together to bring forth multi-asset solutions to wealth, retirement, and insurance clients, particularly in the retail space. If you think about it, Partners brings capabilities that we don't have, like primary private equity, and we bring credit and real estate capabilities that are very additive to their strengths. So, you should expect that one of the ways we'll look to grow our asset management capability and success is using partnerships. It's additive to help us grow, but it's not new. You saw us do this as we launched Prismic as well.

**John Barnidge**

*Analyst, Piper Sandler & Co.*

Q

Okay. Thanks for that. And then, with the board approving the ESR, what is the opportunity for Prismic as you see it in the coming year? Thank you.

**Yanela del Carmen Frias**

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

A

Hi, John. With regards to Prismic, I would say Prismic continues to be an important tool in our toolkit. Reinsurance is key to our business. It allows us to manage products in the most capital-efficient manner by matching capital and reserving regimes with economics. And to accomplish this, we use reinsurance with wholly-owned entities, Prismic, and third-parties. And you've seen us do that in order to manage ESR volatility, as we've talked about in the past. And we continue to work on an active pipeline with Prismic. That includes ongoing balance sheet optimization, financing new business growth as well as working on third-party capital – third-party blocks, sorry.

So, the one thing I would say that is new about Prismic is that we did recently launch our first forward flow transaction with Prismic, covering US retail fixed annuities. It's in small quantities because we just began that, but it is our first forward flow transaction.

**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

Hi. Good morning. My first question is on Individual Retirement. Your core earnings growth there took a nice step-up this quarter. It looks like at least part of that was on kind of like better spread earnings. Just wondering if you can discuss further the earnings growth outlook for that business, are there ways you can keep offsetting the

headwinds from VA runoff and any impacts from fed rate cuts that we should be thinking about in the coming quarters?

**Yanela del Carmen Frias**

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

A

Yeah, Jack. So, a couple of things. Yeah, to your point, we did have nice core earnings growth there. So, there were two things. We did have higher spread income as well as higher fee income in the business, and that is a result of both business growth and favorable markets. With the continued strong sales that we have seen, we did have an increase in spread earnings. There was also some reinvestment benefit, as reinvestment yields continue to be above portfolio yields. So, that's the first driver. And in addition to that, the benefit from market appreciation did more than offset the runoff of our legacy variable annuities, increasing fee income. So, that is definitely a driver that we're seeing.

With regards to offsetting the runoff, obviously the earnings here are going to be driven by both markets and spread. In terms of rate cuts and the impact on spreads, there is no material impact of changes on short-term rates for us. As I mentioned, our reinvestment yields continue to be higher than our portfolio yields. And so from a long-term perspective, we do have our sensitivities that we shared on interest rates. And so, I would remind you, if we had a one-time 50-basis-point decline in long-term interest rates with no recovery after 12 months, we estimate an annual AOI impact of approximately \$0.20 per share.

**Andrew F. Sullivan**

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

A

Hey, Jack, I would just add that this is a market with a lot of tailwinds. It's a market that's now consistently over \$110 billion per quarter. If you think about the aging society, that aging society's need for protected income, the fact that there's \$7 trillion in money markets on the side and \$40 trillion in unprotected retirement assets sitting in retirement accounts, there's just a lot of tailwind, and we're well-positioned to capture share in the market given the strength of our capabilities. So, we like what we see and we expect to see growth here.

**Jack Matten**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thank you. And the follow-up is on expenses. I think we're lower this quarter across the company, I think, both in corporate and other, and the operating segments. I guess, could you just talk about any kind of expense efficiencies that we're driving across the organization? And looking forward, should we think about whether it's a certain expense ratio or level of savings next year, and whether that maybe is in corporate or the operating segments?

**Yanela del Carmen Frias**

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

A

Yeah, definitely. And I would start by saying that for us expense discipline is a lifestyle, not necessarily a diet, so we don't think about specific initiatives. We're constantly looking for continuous improvement, and that provides resources to continue to invest in the business as well as potentially falling to the bottom line. We do have an intermediate target for operating expenses of 10.5% to 8.5%. And when we did set the target at the end of last year, we were already at the top end of the range, and we do expect to continue to make progress with regards to that target.

**Jack Matten**

*Analyst, BMO Capital Markets Corp.*

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

Hi. I wanted to come back to PGIM and just some of the comments you made about the margin improvement over time. I'd be interested in the restructuring, reorganization charge that you had this year, and how much of that directly translates into more immediate savings on expenses? And will you have any more of those kind of reorganization charges as we think about going into year-end and early next year?

**Andrew F. Sullivan**

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

A

Yeah. Thanks, Alex. Maybe let me take that in two different steps. Let me talk a little bit about the integration and then talk about the margin. Just to keep front and center, the integration, the reason we did that was really driven by customer behavior and the way that we see customers buying. They absolutely want to work with fewer asset managers that have more breadth. That's why we decided to go to market as one PGIM. I'm very proud of Jacques and the leadership team at the rapid progress they made, that they already fully changed and leaned into this new model.

And the change is being well-received in the marketplace by our clients. We're already seeing early signs of cross-sell momentum. And as Yanela talked about in the opening, this will lead to real bottom line savings and strong efficiencies. That absolutely is going to be helpful from a margin perspective. Our margins in the quarter were 23.7%. That was impacted by really two different, I'll call them, one-timers, the \$40 million of severance, but also the Taiwan sale. Without those, the margin in the quarter would have been 25.9%, so in our 25% to 30% range.

The path to getting towards the high end of that range at 30% is very clear. We are starting to see the beginning of the improvement in the fixed income and real estate market. That certainly will be helpful. We are seeing traction in our major growth initiatives with real progress across ETFs, asset-backed finance and direct lending.

And to your point, we will maintain a laser focus on expenses. And that means both looking for lower priority areas that we can shift investment out of, as well as just across the entire company. We have a fantastic opportunity with AI and new technology to become more productive. So we are confident in our ability to achieve the high end of 25% to 30%, and the changes that we're starting to make more rapidly are giving us good momentum.

**Alex Scott**

*Analyst, Barclays Capital, Inc.*

Q

That's really helpful. Next one I had is on capital management. Just in light of seeing some better growth coming through, could you update us on just capital management priorities overall and mix between sort of growth capital versus redeployment and thoughts on M&A outlook?

**Yanela del Carmen Frias**

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

A

Sure, Alex. So, I would start by saying that our capital deployment priorities have not changed. We remain focused on achieving our growth objectives and take a very disciplined approach towards capital deployment to

support this. Our top priority has and continues to be to invest in our businesses at attractive returns, while continuing to pay a healthy dividend along with share buybacks. And we are comfortable with our current level of capital deployed to shareholders, which was over \$700 million in the quarter. And we feel that we maintain a balanced mix. And as you know, our guidance and our intermediate target is a 65% free cash flow ratio after investing in the business.

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

A

And I would just jump in on the M&A side. We've talked about we're evolving our strategy to recognize the changing world around us and leaning into the best areas for growth and return. As we do that, obviously, as I've always said, organic growth is always job one, and we think we have some very good organic growth opportunities. But we do view M&A as an important tool to be utilized over time. You've heard me on many calls now. I'm a deep believer in being very proactive in the marketplace. I've used the words in the know and in the flow. That means across our very best growth opportunities. So, things like asset management, being very active and always being aware. As always, though, we're going to be very intentional, methodical, and disciplined in what we do in the M&A space.

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**Alex Scott***Analyst, Barclays Capital, Inc.*

Q

Great. Thank you.

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**Operator:** Thank you. Next question today is coming from Ryan Krueger from KBW. Your line is now live.

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**Ryan Krueger***Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Hey. Thanks. Good morning. In regards to the headwind from variable annuity runoff, I guess one alternative that could limit that would be pursuing more variable annuity risk transfer. I know you've already, of course, done a couple of transactions already, but I was hoping to get an update on if that's something that you'd be – at least consider pursuing again.

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

A

Good morning, Ryan. I'm going to raise this up and not just focus it on variable annuities, because there's other areas that this would apply to. Recognize we've made very good progress on our product pivots and on the reinsurance transactions, we're pleased that we have those behind us. And we have reduced the exposure to traditional variable annuities and guaranteed universal life substantially, by greater than 60%. As I said last quarter, we don't view this as a start or a stop. We're always seeking to optimize our balance sheet, our capital, our cash flows.

And as we sit here, there is a healthy market available for transactions. There's plenty of capital available. There are plenty of counterparties that are seeing value in these legacy books of business. So we are and we will continue to assess those opportunities. Obviously, we will keep you informed when we do something.

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**Ryan Krueger***Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thank you. And then in January, you had announced that you were pursuing a strategic partnership with Dai-ichi. Is there anything you can provide in terms of an update on that and what that could potentially include?

**Andrew F. Sullivan**

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

A

Yeah. Absolutely. The partnership is off to a very good start. And I would just say, recall from what we announced, there are two major aspects to Phase 1. First, we will distribute Dai-ichi's Neo First cancer product through our Life Planner system. That demonstrates the strength and the value of that Life Planner system, and others recognize that strength. The second part of it is we will manage material assets over time for Dai-ichi, and in particular, including private credit. The assets – we have begun to manage assets for Dai-ichi, it's steadily growing and will soon reach \$1 billion in assets under management.

This is a very important partnership for us, and the Dai-ichi CEO, Kikuta-san, and I meet with regularity. And we do have a menu of looking at things of how we might expand this relationship. But we're also both very clear that job one is doing these current things very, very well to earn the right to do the next set of things.

**Ryan Krueger**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thank you.

**Operator:** Thank you. Next question today is coming from Cave Montazeri from Deutsche Bank. Your line is now live.

**Cave Montazeri**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you. First question is on tech and AI. You've been investing in technology and big data analysis for a long time now. Do you think that the new generation of AI tools are adding more urgency to invest even more in tech right now than, let's say, three years ago, or do you view it as being just business as usual in terms of technology investments?

**Andrew F. Sullivan**

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

A

Yeah, Cave, we do believe that AI is going to have a profound impact on Prudential over time. And to your point, we have been investing in this for quite some time, and we're obviously going to keep doing that. Investments are ramping up, and they're ramping up because we see the value of that enhanced level of investment, I think, as many do. They're also ramping up, though, because the quality of the tools available to use are much better than they were even a year ago.

Where we're focused is two core areas. First is improving our customer and advisor experience and using AI to personalize the process and to have faster decision-making. And then second, there's just a very strong opportunity to improve the efficiency of the organization, both accelerating employee productivity at the individual level as well as simplifying processes across the company. So, this is an area where investments are ramping up, and it will enable and inflect our performance over time.

**Cave Montazeri**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you. My follow-up question, and maybe there's a bit of a competitive sensitivity around there, so feel free to not answer it. But how much do you spend on any given year on these investment in AI and growth initiatives from a technology standpoint?

**Andrew F. Sullivan**

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

A

Well, Cave, you nailed it. We're not going to provide that figure, but maybe I'll just kind of frame it that we believe technology is intertwined and is core. There's no difference between business and technology today. So, the level of investment is significant, and we feel it's appropriate and provides great return to the shareholder.

**Cave Montazeri**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks.

**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. Good morning. My first question, I know you guys provided a little bit of forward guidance for next year, right, just within PGIM and margin improvement. And then just based on how you see other things sitting today, do you guys expect to get back or to get within that 5% to 8% EPS target that you guys laid out next year?

**Yanela del Carmen Frias**

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

A

Hi, Elyse. Again, if you recall, when we talked about the targets, we said it wouldn't be linear. We talked about the near-term headwinds. And over time, as those dissipate, we would have higher growth. The actions we've taken in PGIM obviously will produce operating efficiencies and create reinvestment capacity and drive growth. We are not, at this point, updating the targets, and it is too early to provide an update. So, I would just say we still are targeting the three-year growth to be between 5% to 8%.

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

Thanks. And then my second question, I guess, goes back on to the ESR, right? I know you guys are now laying out this 150% target, right? And last quarter, you guys had given us the range, that 180% to 200%, where you were at the end of the fiscal year. And I believe you said that you're well above the 150%. So, can you give us a sense, like, are you still within the 180% to 200%? And I know the disclosure will start to come next year, but would you, I guess, disclose if you fall outside of that 180% to 200% range, or if you could just give us a sense of just what the disclosure is going to be from now into next year?

**Yanela del Carmen Frias**

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

A

Yes, you could – between now and next year, you could think about our disclosure being very consistent with how we talk about RBC for PICA. RBC for PICA is published on an annual basis. And in the interim quarters, we talk about our level relative to that target. It will be the same for the rest of the year until we are publishing in Japan the quarterly RBC. And so, what we said on March 31 is that at the fiscal year-end, we were at 180% to 200%.

That is well in excess of the 150% target. What we said this quarter is as of June 30, we are well in excess of that target.

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. Thank you.

**Operator:** Thank you. Next question is coming from Tracy Benguigui from Wolfe Research. Your line is now live.

**Tracy Benguigui**

*Analyst, Wolfe Research LLC*

Q

Thank you. I have a follow-up on private credit. I get that the traditional place life insurers like to be is private placements, and you have a long track record in this space, and many of the private placements are rated. But the market is evolving and new private credit asset classes have emerged in recent years. So, my question is on an allocation perspective, what is your appetite for some of these newer type of private credit assets like residential mortgage loans, asset-backed lending, middle market loans, and infrastructure?

**Yanela del Carmen Frias**

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

A

Yeah, Tracy, what I would say is we have a strong portfolio constructed to be resilient and perform well. We always evaluate new asset classes, so absolutely there are new asset classes in private credit, and we're looking to evaluate the asset classes that offer attractive relative returns and diversification opportunity, but this is always done in the context of our robust risk and capital frameworks, and we will continue to do that.

**Andrew F. Sullivan**

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

A

Yeah, Tracy, I would just add in, obviously, that's from a general account perspective, but these are important businesses in PGIM, and we've been expanding our capabilities from an asset class perspective in the credit space. And you'll recall, we just brought together public and private credit together into a \$1.1 trillion manager, because that's how customers are buying. But we have leaned in and really strengthened, I'll give two examples, direct lending. You'll recall a couple of years back, we bought Deerpath Capital. And between our organic growth in direct lending and Deerpath, we're now over \$14 billion in assets under management.

We're also leaned into asset-backed finance, which is part of our \$145 billion securitized products business. We're one of the leading players out there in public and private ABF. These are capabilities that grew out of the general account. But it's important both to have the right capabilities for RGA, but also to get real commercial success out of them as well.

**Tracy Benguigui**

*Analyst, Wolfe Research LLC*

Q

Thank you. My next question is on the VUL growth. It was nearly 20% this quarter. It is a more market-sensitive product. And you're the market leader in the space. I was looking at Wink data, looks like you're number one and you have nearly 30% market share. So, it seems like you like the product more than others? And I'm wondering, what is it about the product that you like and what's the earnings profile of VUL that maybe others are missing?

**Andrew F. Sullivan**

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

A

So, thanks, Tracy. Maybe let me start by saying VUL is less market-sensitive than the product set that we moved away from. You'll recall that we pivoted away from guaranteed universal life to variable universal life, in particular, variable universal life accumulation products.

As far as why we're seeing such great success in the marketplace, I'd just say a couple things. First is the strength of our distribution. We have one of the strongest distribution capabilities in the marketplace between our Prudential advisor capability and our third-party relationships. We also have a relatively new product in the marketplace, FlexGuard Life, and that product is a VUL product and had a record quarter.

To be clear, though, others are entering the space. They do see the attractiveness, and it is becoming more competitive. We feel we have everything that we need to remain a leader, but we would expect to see more pressure as more of our competitors are getting into this part of the market.

**Tracy Benguigui**

*Analyst, Wolfe Research LLC*

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 had a broad question on longevity. If I think back a number of years, I remember Prudential had a slide in the deck that showed, call it, the balance between mortality and longevity risk. It seems to me with some of the divestitures on the life side and growth in PRT, retail annuities, longevity re, I'm just trying to wonder how you're thinking about the balance of longevity. And I guess, I ask in the context of Swiss Re is calling for a significant improvement in mortality and morbidity from GLP-1 drugs, so I wonder if that's a risk, if you're shifting more toward longevity products.

**Yanela del Carmen Frias**

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

A

Yeah, Wes. So, a couple of thoughts there. I would say, number one, LDTI had significant changes to how that risk emerges in our balance sheet and our earnings, so that's one of the reasons we don't provide that anymore. We do obviously look at longevity and mortality. We track all drivers of mortality improvement and not just GLP-1, so it's something we look at very carefully. We feel we're well-balanced and we have a significant capacity, actually, to take on more longevity. So we're very comfortable with where we are today.

**Wes Carmichael**

*Analyst, Autonomous Research US LP*

Q

All right. That's helpful. And a question on Individual Life, maybe it's a little bit specific, but last year you guys announced the transaction with Wilton, but in that press release you also announced some restructuring of the life captives, and I think that improved run rate earnings power. Are there any additional opportunities for captive restructuring? And we've heard that financing charges for some of those older captives have kind of increased substantially. So just wondering if that's still an opportunity.

**Yanela del Carmen Frias**

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

A

Yeah. I mean – so obviously last year we had, what I would call, a big project where we restructured those. It was very helpful and it improved our profile. What I would say is we're constantly looking at how we optimize our balance sheet and ultimately how we match the economics of our products to the reserving and capital standards. So, we will continue to do that, whether it's with captives or other areas of our balance sheet, but we're not actively looking to do anything else at this point.

**Wes Carmichael**

*Analyst, Autonomous Research US LP*

Q

Thank you.

**Operator:** Thank you. Our final question today is coming from James Koehne from Morgan Stanley. Your line is now live.

**James F. Koehne**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey. Good morning. This is James Koehne on for Bob. On Group Insurance, how should we think about the total benefits ratio going forward given that it's been trending at the low end/below the target range for the last couple of quarters? Thank you.

**Andrew F. Sullivan**

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

A

So, James, it's Andy. So, first, I just will say we look at that annually. So we will at the end of this year be looking at our benefit ratio range because we obviously recognize what you're saying. I made comments earlier in the call, we're very pleased with the performance of the business. Really benefit ratio comes from discipline in pricing, really strong underwriting, and then on the disability side, having top-notch claims management. We feel we have all three of those. And the business has really been operating well on both the life and the disability side.

We have a very experienced team there. They're obviously watching the environment. If unemployment were to tick up, we would expect not just for us, but for others, the benefit ratio to increase. But at this point in time, we like where the business is running. We'll reevaluate at the end of the year what the right range should be.

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

**Andrew F. Sullivan**

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

So, thank you again for joining us this morning. Before we close out the call, as I often like to do, I want to take a moment to recognize the Prudential team. Our employees are doing the hard, essential work of serving our customers as we sharpen our strategy to deliver the long-term growth that we expect. I look forward to updating you on our progress in February. Thanks, and 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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