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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'll now turn the call over to Mr. Bob McLaughlin. Please go ahead.

Robert McLaughlin

Vice President-Investor Relations, Prudential Financial, Inc.

Good morning, and thank you for joining our call. Representing Prudential on today's call are Charlie Lowrey, Chairman and CEO; Rob Falzon, Vice Chairman; Andy Sullivan, Head of International Businesses and PGIM, our Global Investment Manager; Caroline Feeney, Head of US Businesses; Yanela Frias, Chief Financial Officer; and Rob Axel, Controller and Principal Accounting Officer. We will start with prepared comments by Charlie, Rob and Yanela, and then we will take 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 and the quarterly financial supplement, both of which can be found on our website at investor.prudential.com.

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

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thank you, Bob, and thanks to everyone for joining us today. Our results for the quarter reflect accelerating momentum across all our businesses, including significant positive net flows in PGIM, our global asset manager and strong sales in our US and International insurance businesses.

During the quarter, we made substantial progress in shifting our business mix and growing our market-leading businesses to become a higher growth, more capital efficient and nimble company.

We also maintained our disciplined approach to capital management by making further investments in our businesses and returning additional capital to shareholders. Our rock-solid balance sheet, business mix, and distinct strategy position us to deliver long-term growth for our stakeholders.

Turning to slide 3. I'll now begin this morning with a few recent examples that demonstrate how we are growing our market-leading businesses. PGIM achieved robust third-party and affiliated net flows in the quarter, notably in our fixed income business, underpinned by continued strong investment performance. These flows reinforce the benefits of our large and strategic global client relationships and the power of our mutually reinforcing business system to grow our asset management fees.

Our Institutional Retirement Strategies business reported strong sales and record account values, including the benefits of two large pension risk transfer transactions in the quarter. As a result, we delivered a record first quarter of PRT sales.

Meanwhile, our Individual Retirement Strategies business recorded its best sales quarter in more than a decade. This reflects the continued diversification and expansion of our product offerings, as well as strong demand in the market. Strong growth in our Group Insurance [indiscernible] (00:03:24) our product and segment diversification strategy, leading to increased sales across life, disability and supplemental health.

Meanwhile, our Individual Life Insurance business continues to shift towards more capital efficient products and broaden solutions through newer offerings like FlexGuard Life, which had its highest sales quarter since launching in 2022.

Internationally, we continue to benefit from our broadening product portfolio in Japan and from our actions to expand our distribution to new customers in emerging markets. Prudential of Brazil saw strong momentum across all distribution channels, most notably in our Life Planner channel, which reported record sales for the quarter.

We achieved these milestones while continuing to pivot away from more capital-intensive and lower-growth businesses. We successfully closed a reinsurance transaction for a portion of our Guaranteed Universal Life block, further advancing our strategy to reduce market sensitivity and increase capital efficiency.

We also announced an agreement to sell Prudential of Argentina, a move aligned with our strategy of focusing on fewer high-growth emerging markets where we have an opportunity to achieve scale.

And finally, we initiated the process to exit our Assurance business, so that we can focus our efforts and resources on core businesses and capabilities. We also continue to strengthen our operating model through technology and strategic partnerships to generate efficiencies that can be reinvested to fuel growth and deliver exceptional sales, service, and claims experiences.

This ongoing focus on improving the ways we work and supporting our customers continues to be recognized outside the company. As just one example, Prudential of Japan recently ranked number one for life insurance service in a J.D. Power customer satisfaction survey for the 9th year in a row. We are proud to be recognized for the value we provide to our customers.

Turning now to slide 4. Our disciplined approach to capital deployment enables us to invest in our market-leading businesses to support long-term growth and return capital to shareholders.

In the first quarter, we returned over \$700 million to shareholders and increased the quarterly dividend by 4%, our 16th consecutive annual dividend increase. We will continue to focus on creating sustainable, profitable growth that will benefit all stakeholders.

Moving to slide 5. Our growth strategy is supported by Prudential's rock-solid balance sheet and robust risk and capital management framework. Our AA rated financial strength represents a strong capital position, including approximately \$48 billion of unrealized insurance margins, over \$4 billion in highly liquid assets at the end of the first quarter, a high-quality, well-diversified investment portfolio, and a disciplined approach to asset-liability management.

We've entered the second quarter with confidence in our strategy to be a global leader in expanding access to investing insurance and retirement security for people around the world.

And with that, I'll turn it over to Rob to provide more details on our first quarter business performance.

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

Thanks, Charlie. I'll provide an overview of our financial results and business performance for our PGIM, US, and International businesses I'll begin on slide 6 with our financial results for the first quarter of 2024.

Our pre-tax adjusted operating income was \$1.5 billion or \$3.12 per share on an after-tax basis, up 16% from the year ago quarter. These results reflect the continued execution of our strategy to grow our market-leading businesses. Strong sales and robust net inflows and the benefit of higher interest rates and equity markets have resulted in higher spread income, fee income, and underwriting results. These diversified sources of earnings were partially offset by higher expenses to support business growth and one-time costs of closing the Guaranteed Universal Life reinsurance transaction.

Turning to the operating results from our businesses compared to the year ago quarter. PGIM, our global investment manager had higher asset management fees, driven by equity market appreciation, positive third-party net inflows, and contributions from the Deerpath Capital acquisition.

Additionally, higher incentive fees and seed and co-investment income resulted in an increase in other related revenues. This was partially offset by higher expenses to support business growth.

Earnings growth in our US businesses reflected higher spread income driven by business growth and the benefit of higher interest rates and variable investment income, as well as more favorable underwriting results. This was partially offset by higher expenses, including the one-time charges associated with the closing of the Guaranteed Universal Life reinsurance transaction and by lower legacy traditional variable annuity fee income, as we intentionally continue our pivot to less market-sensitive products.

Earnings growth in our International businesses was primarily driven by higher spread income, including the benefit of higher interest rates and more favorable variable investment income and higher joint venture earnings due to the favorable [indiscernible] (00:08:33) performance in Chile. This was partially offset by less favorable underwriting results, primarily reflecting policyholder behavior.

Turning to slide 7. PGIM, our global investment manager, has diversified capabilities in both public and private asset classes across fixed income, equities and alternatives. PGIM's strong investment performance continues to improve with 80% of assets under management exceeding their benchmarks over the past year. This has contributed favorably to attractive long-term performance with over 80% of assets under management outperforming their benchmarks over the last five and 10-year periods.

PGIM's assets under management increased by 6% to \$1.3 trillion from the year ago quarter, driven by market appreciation and positive third-party net flows. Robust third-party net inflows in the quarter totaled \$26.6 billion, institutional inflows of \$26 billion included a large fixed income client mandate, and retail flows also turned positive, reflecting building momentum in public fixed income.

Additionally, strong affiliated flows were driven by retirement strategy sales during the quarter. As the investment engine of Prudential, the success and growth of PGIM and of our US and International insurance and retirement

businesses are mutually reinforcing. PGIM's asset origination capabilities, investment management expertise, and access to institutional and other sources of private capital, including through the recently launched reinsurer Prismic, are a competitive advantage, helping our businesses bring enhanced solutions and create more value for our customers.

Our insurance and retirement businesses, in turn, provide a source of growth for PGIM through affiliated net flows, as well as unique access to insurance liabilities. In addition, our diversified PGIM Private Alternatives platform, which has assets under management of approximately \$240 billion experienced strong private credit activity driven by our organic growth and the first full quarter benefit from acquiring Deerpath Capital.

Turning to slide 8. Our US businesses produced diversified earnings from fees, net investment spread and underwriting income and benefit from our complementary mix of longevity and mortality businesses. We continue to focus on growing our market-leading businesses by transforming our capabilities to improve customer experiences and expanding our addressable market with new financial solutions leveraging the capabilities across Prudential.

Retirement Strategies generated strong sales of \$14.3 billion in the first quarter across its institutional and individual lines of business. Institutional Retirement sales of \$11 billion in the first quarter included two large US funded pension risk transfer transactions of nearly \$9 billion, driving the strongest first quarter in market history. We have now completed 6 of the 10 largest transactions on record.

Individual Retirement posted \$3.3 billion in sales, our best quarter in sales in over a decade. Our product pivots have resulted in continued strong sales of FlexGuard and FlexGuard Income, which increased nearly 60% from the year ago quarter and fixed annuity sales have nearly tripled, while we continue to reduce market sensitivity by running off our legacy variable annuities.

Group Insurance sales increased 18% compared to the prior year, driven by growth in life, disability and supplemental health. We are executing our strategy of both product and client segment diversification, while leveraging technology to increase operating efficiency and enhance the customer experience.

In Individual Life, we continue to execute our strategic pivot to more capital-efficient products with the closing of the Guaranteed Universal Life reinsurance transaction. Total sales in Individual Life increased 12% from the year ago quarter, including the benefit from the recently launched FlexGuard Life product. Variable life products represented approximately 70% of sales for the quarter.

Turning to slide 9. 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. In Japan, we're focused on providing high-quality service and expanding our distribution and product offerings. Our needs-based approach and protection product focus continue to provide important value to our customers as we expand our product offerings to meet their evolving needs.

In emerging markets, we're focused on creating a selective portfolio of businesses in regions where customer needs are growing, where there are compelling opportunities to build market-leading businesses and where the Prudential enterprise can add value.

Sales in our International businesses were up 5% compared to the year ago quarter. Higher sales in Japan are benefiting from the recent product launches, including a new yen-denominated variable life product offered through our life consultant and independent agency channels beginning in the first quarter.

In addition, emerging market sales were higher, driven by growth in Brazil as we continue to expand third-party distribution and benefit from the strong performance of our world-class life planners.

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. We continue to focus on investing in growth businesses and markets, delivering industry-leading customer experiences and creating the next generation of financial solutions to serve the diverse needs of a broad range of customers.

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

Yanela del Carmen Frias

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

Thank you, Rob. I will begin on slide 10, which provides insight into earnings for the second quarter of 2024 relative to our first quarter results. As noted, pre-tax adjusted operating income for the first quarter was \$1.5 billion and resulted in earnings per share of \$3.12 on an after-tax basis.

To get a sense of how our second quarter results might develop, we suggest adjustments for the following items. Underwriting experience was below expectations by \$85 million in the first quarter, and we expect \$10 million of favorable seasonality in the second quarter.

We also include an adjustment of \$50 million for expenses and other items. This includes adjustments for typical seasonality of expenses and premiums as well as the one-time expenses related to our Guaranteed Universal Life reinsurance transaction. These adjustments combined get us to a baseline of \$3.43 per share for the second quarter.

I will note that if you exclude items specific to the second quarter, earnings per share would be \$3.50. The key takeaway is that we continue to drive underlying earnings power momentum as we invest in the growth of our market-leading businesses and pivot away from capital-intensive and lower growth businesses. While we have provided these items to consider, please note that there may be other factors that affect earnings per share in the second quarter.

Turning to slide 11. Our capital position continues to support our AA financial strength rating. Our regulatory capital ratios are in excess of our AA objectives. Our cash and liquid assets were \$4.2 billion within our liquidity target range of \$3 billion to \$5 billion, and we have substantial off-balance sheet resources. We remain thoughtful in our capital deployment, investing in our businesses for long-term growth, and returning capital to shareholders.

Turning to Slide 12. And in summary, we are becoming a higher growth, more capital-efficient and nimble company. We are maintaining a disciplined approach to capital deployment and our growth is supported by our rock-solid balance sheet.

And with that, we will be 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 is coming from Ryan Krueger from KBW. Your line is now live.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey good morning. My first question was on Prismic. Can you talk about the outlook for reinsuring additional in-force blocks to Prismic. And do you expect more activity on this in 2024?

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

A

Hey Ryan, it's Rob. I'll take your question. As we've shared before, we and our Prismic investors, who are a group of very large global institutional investors that operate and scale, have aspirations that go well beyond the initial \$10 billion transaction that we completed this last year.

We're continuing work on an active pipeline. That pipeline includes ongoing balance sheet optimization. It includes flow or new sales that are solutions across our businesses and working on third-party blocks where we believe we can provide our reinsurance and asset management capabilities to other insurers.

To maybe state the obvious, these transactions are complex. They're bespoke to each situation and they require regulatory coordination, and all of that takes time. Our decision to use Prismic for this pipeline has contrasted to the opportunity to also use our own balance sheet or to partner or reinsure with other third parties is unique to each of the opportunities. And it's driven by looking through a lens of commercial priorities, statutory considerations, GAAP outcomes, and economic considerations, and that includes implications to earnings, ROE, capital, and liquidity.

If I could step back and sort of more broadly, address it, we see extraordinarily interesting growth opportunities at the intersection of what we're calling the intersection of asset management and insurance. Private institutional capital is coming into the insurance space, insurance and retirement sector. It helps to finance the growth and to meet customer and client needs.

And in addition, the investment options that are available to the industry are expanding and they're providing opportunities to grow investment capabilities, while enhancing portfolio diversification and generating greater output from our portfolio as well.

We're excited about what this implies for our ability to create avenues of growth across our insurance, retirement, and asset management businesses. And we believe that our brand, scale, and the quality across our businesses gives us a highly competitive platform to execute against the opportunity and Prismic is an important expansion of that platform.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you. And then separately, I had a question on G&A expenses. I think they were up around 7% year-over-year on a consolidated basis. And previously, you had talked about taking expense actions that could keep G&A relatively flat in the near-term. So, I was hoping for an update on that.

Yanela del Carmen Frias

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

A

Hi Ryan, this is Yanela and I will take your question. We are committed to keeping expenses flat, while investing in our businesses. And as you noted, we did see an increase in G&A this quarter, but keep in mind that G&A includes expenses to support growth, including non-deferrable sales expenses in support of our very strong sales this quarter as well as one-time expenses like the cost related to the GUL transaction. So that's what you're seeing in terms of the increase.

With regards to the strong sales, especially in Retirement Strategies, please note that the incremental earnings from those sales are not all fully reflected in the quarter. And there's two reasons, the timing of those sales as well as the fact that we leg into the final asset portfolio supporting the PRT sales over a period of time. So as a result, we expect that the full incremental earnings benefit to emerge in subsequent quarters. And Caroline, I don't know if you wanted to spend a minute on Retirement Strategies' fundamentals.

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

A

Yeah, sure. Of course, Yanela. Thanks. And Ryan, clearly, Yanela just went through some of the earnings drivers. So now let me share with you how we're thinking about the fundamentals in our growth story. So overall, we're very pleased with the strong sales growth across our Retirement Strategies business with over \$14 billion in sales this past quarter.

In Institutional, we achieved \$11 billion in sales led by nearly \$9 billion of pension risk transfer, not only our best first quarter, Ryan, but also the best first quarter in market history, further demonstrating our leadership in the market.

And then on the Individual side, we had our best quarter in over a decade with almost \$3.5 billion in sales, nearly doubling our volume from the year ago quarter. And that success comes from our work over the past few years to diversify our annuity portfolio and broaden our distribution, which allows us to meet more of the consumer needs for protected savings and for income than ever before. And as Yanela mentioned, these strong sales will continue to increase core earnings over time as we realize the full impact of these sales.

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

Thomas Gallagher

Analyst, Evercore ISI

Q

Good morning. First question is just on the, I think, what was it, jumbo PGIM inflow that you got from a single client this quarter. I think that might have been \$25 billion or \$26 billion. And if that's not right, can you please sort of clarify what that amount was? And then what was the mandate in? Was that public fixed income? And any kind of sense for what kind of fee rate you would have had on that?

Andrew F. Sullivan

Executive Vice President, Head of International Businesses and Global Investment Management, Prudential Financial, Inc.

A

Hey, Tom, it's Andy. Good morning. So this mandate was a significant portion of the \$26 billion that we saw in institutional positive net flows. Obviously, we don't disclose fee rate on individual mandates. That said, this is a large mandate from a key pension client for a high-quality fixed income portfolio. So the fee rate is lower than our

overall average fee rate across our asset classes. We were very pleased with our flows overall this quarter, and we're obviously very proud that we have so many large clients that place their trust in us.

Thomas Gallagher

Analyst, Evercore ISI

Q

And Andy, just as a follow-up, how does a pipeline look? Any other sizable large mandates you think might get funded this year?

Andrew F. Sullivan

Executive Vice President, Head of International Businesses and Global Investment Management, Prudential Financial, Inc.

A

Yeah. So maybe, Tom, let me just bring it up and I'll end with the outcome. So overall, on the institutional side, we're obviously very pleased given that large mandate, we feel that reinforces our position as a leading partner in the marketplace. And I'd also add that we've been consistently adding new clients to our roster on the institutional side every quarter, every year.

On the retail side, we saw positive flows of about \$0.5 billion. We're beginning to see early momentum in the retail fixed income space, consistent with industry trends and improving client sentiment.

I would reiterate what Rob said at the top of the script as well that we had significant positive affiliated flows this quarter driven by pension risk transfer, showing the strength and importance of the synergies in the business system.

As far as specific to your question, the outlook looking forward, we like the fundamentals that we're seeing as the environment is clearly improving and our investment performance is very, very strong. But we also know that a sticky inflationary environment will keep money on the sidelines a little while longer and that our large client flows can remain episodic. But the key punchline is, over time, we are very confident that we'll be a net winner and a net grower.

Thomas Gallagher

Analyst, Evercore ISI

Q

Great. Thanks for the color. And Rob, just if I could slip one more in about a follow-up to what Ryan asked about Prismic. Have you guys done any additional fundraising beyond the first \$1 billion for Prismic.

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

A

Yes.

Thomas Gallagher

Analyst, Evercore ISI

Q

And if you haven't, any thoughts on how much you would be looking to raise in a potential next fundraising?

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

A

Yes, Tom, the investors that we have in Prismic and our conversations with them have indicated their desire to put a significant amount of capital to work and the strategy that we've outlined to them. And so expectations are that, these are firms that deal on the billions, not the millions or hundreds of millions. And they've indicated that

their desire is to scale the initial investment that they've made, which is, frankly, small by their standards and would be uneconomic if it were not for their anticipation that it was going to be followed by investments that would be multiples of what they've contributed up front.

That having been said, this is not a fund. It is a collaborative of investors that have committed to working with us in this strategy and they will fund as we develop and execute against pipeline.

Thomas Gallagher

Analyst, Evercore ISI

Okay. Thanks.

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

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Hey, good morning. So I want to go back to the Individual Retirement sales, so very strong quarter, including sizable growth in fixed annuity sales. Can you just talk about the pivot to fixed annuities? And I guess, what's your plan to grow in this product line?

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

Yeah. Of course, Joel. Good morning. It's Caroline, and I'll take your question. So first of all, the individual annuities market had a record year last year with about \$380 billion of sales, and fixed annuities were a key piece of that, given the rapid rises that we did see in interest rates. We're seeing continued momentum for fixed annuities this year, as the value proposition remains strong, driving industry sales of over \$100 billion in the first quarter, putting the industry on track for another record year.

In terms of our own growth, Joel, fixed annuities represented almost half of our sales last quarter, mirroring the broader market shift we've seen over the past few years – past year, excuse me. Our sales growth is a testament to three things. First, our successful expansion of our product portfolio to include more fixed annuity solutions such as our WealthGuard MYGA, allowing us to meet more customer needs across a broader set of channels.

Second, our brand and our distribution strength, which enables us to scale quickly to meet increasing market demand. We continue to expand our partnerships across multiple channels and platforms, which also had a significant impact on our business this past quarter.

And finally, our dynamic and proactive pricing process, which allows us to react quickly to changing market conditions, to maintain competitive pricing, while maximizing shareholder value. So overall, Joel, we're pleased with our ability to meet the increased demand while maintaining favorable returns. We like the diversification these products bring to our business mix and the role they can play as a strong complement to our FlexGuard suite of solutions.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. So it sounds like this will be a core product in your line of going forward then?

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

Absolutely, Joel. Yes, we see it as a core product as we broaden our portfolio.

A

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. And then just moving over to pension risk transfer, just any update on your outlook and obviously a very strong start to the year, I guess, how should we think about your desire to grow this business year-in, year out?

Q

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

Yes. So as you said, Joel, and rightly so, we had a very strong start here. We finished, actually, the strongest first quarter ever in PRT, leading the market, including two transactions with Shell and Verizon totaling nearly \$9 billion.

A

In terms of our outlook on growth, last year's market volume was roughly \$45 billion, and we expect to see that healthy pipeline continue this year, supported by favorable funding positions of over 100%. And although the market is highly competitive, very few carriers have actually executed transactions exceeding \$1 billion. And I should call out that our expertise and our ability to handle large complex transactions, along with our financial strength, position us to continue to be a leader in the space.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. I guess, just how do you balance the capital strain from growing that business? Just how should we think about your appetite for overall growth this year after doing \$9 billion in Q1?

Q

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

Yes. So I'd say, in general, Joel, obviously, each large transaction naturally consumes its appropriate share of capital. We believe these deals are a very effective way of deploying capital and we like the returns that we're generating.

A

First, PRT remains a great source for organic growth. It represents one of the few products that can allow us to originate billions of insurance liabilities in a single transaction. And as a market leader in the space, we continue to see, as I mentioned, a strong pipeline of those large-size opportunities.

I'll also add that the success of our PRT business benefits PGIM. As we continue to originate these deals, PGIM can match our insurance liabilities with a high-quality portfolio of assets. So with all that being said, Joel, we do expect to continue to opportunistically deploy capital in the space and we feel good about the returns as well as the benefits PRT brings to Prudential.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Make sense. Thank you.

Q

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

Wes Carmichael

Analyst, Autonomous Research US LP

Q

Hey, good morning. Thanks for taking my question. Rob, on your answer on Prismic, you mentioned the transactions require a regulatory coordination as one of the considerations here. I'm just wondering, if you can give us an update on the regulatory environment in Bermuda and how that's changed, if at all, over the past year, if the BMA is more involved in improving potential deals or influencing the structure of transactions.

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

A

Yeah, Wes, happy to do so. So, we've actually been highly engaged with the BMA throughout the consultation process that it recently went through and provided feedback on the proposed enhancements to their regime directly with the BMA as well as in coordination with the broader industry. I think what I would characterize is that while the BMA's updates to its regulatory regime are generally going to result in a more conservative level of capital required and reserving than what they had prior to their consultation process, that's going to vary significantly by product type.

And the BMA is committed to continuing to maintain a principles-based economically-driven regime. And we believe that the combination of that approach to managing insurance assets and liabilities along with its status with reciprocal jurisdiction in the US and equivalency in Europe is going to continue to make it a very attractive jurisdiction to do business for insurers.

Wes Carmichael

Analyst, Autonomous Research US LP

Q

Thanks. And maybe just a quick follow-up on that. But do you think PRT is a good liability for Prismic. Does that make sense there?

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

A

PRT can be done economically, both within the US statutory regime and within the Bermuda statutory regime. We've advanced, adopted a set of principles that are under consideration for pension risk transfer type liabilities in coordination with our New Jersey supervisor, and so our ability or desire to use Bermuda versus the US statutory regime is less driven by differences in the regimes per se and more driven by the source of investors coming into it.

So obviously, for our own balance sheet, operating within the US statutory regime works well for us. But to the extent we want to bring third-party capital into that, that capital has a desire for a number of reasons. Those institutions providing that capital to come into jurisdictions like Barbuda and that would be more of the primary driver as to why we would be funding some of PRT through a Bermuda framework as contrasted to a US framework.

Wes Carmichael

Analyst, Autonomous Research US LP

Q

Thanks. That's really helpful. And then maybe just one more on the regulatory front. But can you give us just an update on the transition to ESR in Japan, we're getting closer to the implementation date here. So, has there

been any movement particularly on how long duration FX products are treated or anything else? Any other color might be helpful.

Yanela del Carmen Frias

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

A

Hi, Wes. This is Yanela. Let me give you an update on where we are with ESR. On ESR, we believe our Japan businesses are well-capitalized and financially strong and that would be evident under any reasonable capital standard. We have been working with regulators and advocating for reasonable and responsible standards. And we have strategies to adapt to the potential new regime and to better match the economics of our business.

And these strategies include reinsuring business internally in the US or Bermuda or reassuring externally. And as an example of these strategies, during the first quarter, we reinsured \$3 billion of US dollar-denominated whole life products from Japan to our Bermuda affiliate, Gibraltar Re, which allows us to manage capital for that block on a more economic basis. So we're looking at this very carefully. The proposed regulations are still subject to change, but are expected to be finalized later this quarter ahead of being effective on April 1, 2025.

Wes Carmichael

Analyst, Autonomous Research US LP

Q

Thank you.

Operator: Thank you. [Operator Instructions] Our 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. My first question, I guess, is on the M&A side, right? Can you just give us an update on the pipeline and things that you're looking at? And given the action to exit Assurance IQ, how is that going to impact future M&A decisions?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure, Elyse. This is Charlie. Thanks for the question. We've executed on many transactions over time that have significantly grown the company. And we have pursued these transactions or acquisitions for a variety of reasons, such as expanding our capabilities, broadening our distribution, increasing scale, and/or adding key talent.

In every acquisition, there are things that have gone right as well as lessons we have learned. And certainly, we anticipated a different outcome when we purchased Assurance, and we've incorporated these lessons into our M&A approach, which gets to your question.

As we look forward, we will focus on acquisitions of more established businesses that present opportunities to expand our capabilities and scale in our existing market-leading businesses. And you've seen that – we've seen us do that with Deerpath Capital, Montana Capital Partners and [ph] Green Harvest (00:36:21) as three examples. And we're going to continue to be really thoughtful and very disciplined about how we execute with the goal of creating value for our shareholders.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thanks. And then my second question, within group, good results in the quarter, you guys were towards the lower end of the target range for that business for the year. How do you – just anything you want to point out, especially in the disability side, results seem good in the quarter. And how you expect the benefits ratio in that business to trend over the other three quarters of the year?

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

A

Sure. Of course. Elyse, it's Caroline, and I'll take your question. So first of all, we're very pleased with our first quarter sales for group overall, which are influenced by the momentum we've seen in executing on our strategy to maintain our core product leadership while growing in the under 5,000 lives and association markets and further diversifying in disability and supplemental health.

Our capabilities continue to resonate in the disability marketplace, where our earned premiums were up nearly 15% compared to the prior year quarter. In terms of drivers of our success, we're continuing to expand our value proposition by enhancing our customer experience, including streamlining our claims process with simplified language, with more efficient technology. That outcome is enabling customers to better understand their benefits.

And then beyond these investments, Elyse, and our core capabilities, we also remain highly focused on maintaining strong pricing discipline, only accepting those cases that make economic sense. So looking ahead at this year, as you know, most of our new business premiums are effective in the first quarter. So in general, the first quarter is when you will see the majority of the impact from new sales, renewals, and enrollment on existing business.

However, as we continue to grow in the under 5,000 lives in association market, we will see that sales season extend more into the second half of the year with business growth consistent with what we saw last year. So overall, we're very excited about the growth trajectory that we're seeing, not just in disability but across the board and in our group business.

And you asked about benefits ratio, Elyse, and so I'll just finally add that our overall – our group underwriting results this past quarter were strong. We've recorded a total benefit ratio of just under 85%, which is our best first quarter benefit ratio ever and is within our recently lowered target range of 83% to 87%. Specifically, with regards to the disability underwriting results, it does reflect our focus on effective claims management and the continued tailwinds of strong employment as well as a high interest rate environment.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

A

Thanks, Elyse.

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

Suneet Kamath*Analyst, Jefferies LLC*

Q

Thanks. Good morning. Let me start with Individual Retirement. Caroline, you'd mentioned the strong sales, and I think you're expecting that will persist going forward for you in the industry.

Caroline A. Feeney*Executive Vice President & Head-US Business, Prudential Financial, Inc.*

A

Yes.

Suneet Kamath*Analyst, Jefferies LLC*

Q

I just want to get a sense of where that money is coming from. Is this new money coming to the industry, maybe from the qualified market? Or are we seeing 1035 exchanges from existing annuities? Just wanted to get a sense of where that demand is coming from?

Caroline A. Feeney*Executive Vice President & Head-US Business, Prudential Financial, Inc.*

A

Yes, Suneet, it's a great question. Thanks so much. I don't think it's really one thing. I think it's the dynamic of individuals thinking more clearly as we have over 11,000 individuals turning 65 every single year over the next several years and 30 million Americans going to be turning 65 between now and 2030. And I think, unfortunately, many realizing that they have more work to do on retirement and understanding that protected income and protected savings is now increasingly more important to them and a priority. We're seeing that.

And I think that is why we have seen two consecutive record years in the annuities market. It's also why, as I mentioned earlier, we very much see that we're on track for now a third consecutive record year of sales. And so I think it's really customer need and broader solutions that we as an industry are able to offer. And certainly, we're very proud of the work that we have done in terms of expanding our portfolio, the strength of our distribution and our brand that continues to resonate very well and positions us to be able to help many of these consumers with this growing need.

Suneet Kamath*Analyst, Jefferies LLC*

Q

Got it. Okay, that makes sense. And then I guess, one for Rob, if I could. I think in your script, Rob, you keep referencing this \$48 billion of insurance margins I don't know what that means. Like how was that calculated? And if that's such a big number, is there a way that you can start to monetize that rather than just wait for it to flow through the income statement?

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

A

I'll take a first stab at that, Suneet, and then – I'll answer and then I'll ask Yanela to jump in if she wants to clarify anything I'm about to say. So, with the change in accounting for long duration under LDTI, we now have the ability to actually calculate and share those margins and that's what we've been doing since the adoption of those updated GAAP standards.

Think about that as the present value of profits in the individual products that we have over the remaining life of those products on a gross basis, it doesn't include sort of net of expenses. So, think of that as sort of just on a

product basis before corporate expenses that might be associated with continuing to maintain and administer those blocks. As we think about that, that will naturally manifest over the life of the product as our experience then shows that those margins become realized net income over the remaining period of time.

There are opportunities to accelerate that. Reinsurance generally is a tool in which we can use to do that, a large percentage of those margins and reserve that we have exist within our Japan businesses. And within those Japan businesses, as we look to do, reinsure some of that business out of Japan and into either the US or Bermuda as we regularly do, that gives us opportunities to accelerate the realization of some of that margin. But Yanela, I don't know if you would like to add anything to that.

Yanela del Carmen Frias

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

No, Rob, that was a great explanation, nothing to add.

Suneet Kamath

Analyst, Jefferies LLC

Got it. If I could just sneak one more in for Yanela. On Holdco cash, are there any big movements that you're expecting as we move through the year in terms of capital structure, either issuances or repayments? Or are we kind of at a steady state at this point?

Yanela del Carmen Frias

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

No. We had the hybrid issuance in the first quarter, that was a prefunding of a 2025 maturity, so we issued \$1 billion, we also did redeem \$500 million of a previously issued hybrid. So from an issuance perspective, nothing more expected. Our HLA balance did increase modestly during the quarter. As you saw, we did have net positive cash flows from our businesses after funding very strong growth, as you noted and as we've talked about, and the net proceeds of this hybrid issuance. These inflows were offset by shareholder distributions and net interest expense.

Also important to note is that due to the timing of the closing of the GUL reinsurance transaction, those proceeds are in PICA and they have been factored into our capital plans for the year and that's worth about eight RBC points. So again, from an HLA perspective and a Holdco cash perspective, we had strong inflows, we had the expected outflows, and we are at \$4.2 billion, well within our liquidity objective of \$3 billion to \$5 billion.

Suneet Kamath

Analyst, Jefferies LLC

Okay. Thank you.

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

Hi. First question, just on the Assurance IQ business. Should we just assume that you're shutting down the business? Or is it reasonable to assume that you'll be able to sell it for like a decent consideration?

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

A

Hi, Jimmy, it's Yanela. I'll take your question. And as we stated, we've begun a wind-down process for Assurance and have moved the results to divested businesses. First of all, let me acknowledge that these decisions are always difficult and our utmost focus is caring for the people involved.

That said, this wind-down will not have a material impact on earnings. Assurance has not been material to our results. We have accrued all wind-down costs this quarter in divested businesses. And we do have assets on the balance sheet, such as commission receivables, which will convert to cash over time. And beyond that, as we go through the wind-down process, we certainly will assess whether there is any incremental value to the assets and to the extent that there is, we will seek to monetize that value.

Jimmy S. Bhullar*Analyst, JPMorgan Securities LLC*

Q

And I would have thought that it would be – the exit would be slightly accretive to earnings, given that Assurance IQ wasn't really making much money. And in most of the years when you were reporting it standalone, it was actually losing money. But is that not correct?

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

A

Well, that's the point. We had moved it to corporate and other, because it was not material. Now it's in divested and it's just not material to the bottom line.

Jimmy S. Bhullar*Analyst, JPMorgan Securities LLC*

Q

Okay. And then on the CRE portfolio, it seems like on commercial mortgage loans, most of the credit metrics are fairly stable with what they had been recently. But if you just talk about what's going on there and give us some insight into the percentage of loans or the number of loans that are maturing this year and what's happened with loans that have matured, like are you having to extend more of them? Or are they just paying down? Or just anything to give us more color on how the portfolio has been performing?

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

A

Okay. Jimmy, let me start at a high level and then end with your specific question on maturity. So actually, there has not been a material change from year-end. We've got a \$51 billion portfolio. It's about 14% of our investments. The portfolio remains resilient. It's high quality. It's broadly diversified, looking at both geography and underlying property types.

And as we pointed out before, we benefit significantly from PGIM's direct origination of these loans, their deep knowledge of local markets and the proven track record they've had through prior cycles. It's a management team with over 25 years of average industry experience. LTVs and debt service coverage ratios really did not change for the entire – on a portfolio-wide basis from the end of year through the first quarter, we're at 58% on a loan-to-value basis and almost 2.5 times on a debt service coverage ratio.

The office, as you might expect, Jimmy, had some negative trends. Just pointing out, that's about \$7 billion of our portfolio or about 14% of the mortgage portfolio. LTVs there were up, it gets lost in the rounding and the overall. So our LTV for the overall portfolio didn't rise, within the office sector, we went up from 71% at year-end to 74%,

but our coverage ratios remained the same at just over 2.5 times. So feel good about where we are in the overall portfolio.

From an outlook standpoint – and I'm sorry, I'm not sure if you asked the question up, but reserves in the real estate portfolio, we added modestly to those from the first quarter experience, so they're up – they're at \$414 million up from about \$370-plus-million as of year-end. So a modest increase there.

As we're looking forward, expectation across industry is that, there'll be another 5% to 10% valuation decline across the industry. Office is a subsector to that, will probably be more like around 15% decline. And while our portfolio won't be immune to further declines in value, we do expect it to continue to be resilient, given its construction, the institutional quality of our underlying properties, and the conservative loan underwriting that we've got in those LTVs and debt service coverage ratios that I shared with you.

With respect to loan maturities, during 2023, we had about \$2 billion worth of maturities. There were four modifications for under \$400 million of that with long-term extensions. The remainder were resolved favorably through refinancings, payoffs, or short-term extensions, which were then subsequently paid off.

For the remainder of 2024, we've got \$2 billion or about 4% of the portfolio that's maturing. And then years after that, think of it as about being plus or minus 10% per year, so around \$5.5 billion a year through 2028. We expect that there'll be episodic issues that we'll need to deal with in the way of ongoing loan modifications and extensions, but overall, we are quite comfortable with the quality and resilience of the portfolio.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Thank you.

Q

Operator: Thank you. Next question is coming from Wilma Burdis from Raymond James. Your line is now live.

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Hey, good morning. Given the high level of retail sales, could you talk about the competition levels in annuity and life products? We would expect pricing to rationalize somewhat this year, given regulatory changes in Bermuda. So have you seen any evidence of this? And maybe give us some broader color. Thanks.

Q

Caroline A. Feeney

Executive Vice President & Head-US Business, Prudential Financial, Inc.

Yeah. So good morning, Wilma, it's Caroline. So I'll take your question. So if I think about life for a moment and our sales results and our outlook going forward, I'll take that first.

A

We are very pleased, Wilma, with our first quarter results with over \$165 million in sales, an increase of more than 10% from the prior year quarter. That's driven by our term and variable products, and we continue to write that new business at healthy returns, continuing the trend we saw throughout the year in spite of competition. As we look to this year, we continue to see positive momentum for our portfolio. That does include core products like variable universal life and term, where we are already a market leader.

In addition, Wilma, and I think this is part of how we're staying ahead and continuing our market leadership position with competition, is we've rolled out new solutions. Like our FlexGuard Life indexed variable universal life

product to further penetrate the accumulation market and be able to reach new customers. And we achieved our highest quarterly sales of FlexGuard Life this past quarter, so that we're very confident that with these products, our pricing disability – discipline, excuse me, and our distribution strength, we will remain and continue to be a leader in the life market.

In terms of the annuities market, yeah, certainly, there is significant growth across the annuity space and increasing competition with the record industry sales that we've seen in each of the past two years. But as I shared earlier, and I think this is important to reiterate, we've been able to achieve the strong results, thanks to our brand and our industry-leading execution and distribution. We've maintained a distinct focus on our end-to-end customer and advisor experiences, using automation and process enhancement to make it easier than ever to buy a Prudential policy.

We also have deep and expanding partnerships across multiple distribution channels. And this enables us to scale quickly to meet increased market demand and allows us to expand distribution. And finally, we combine all of that with our world-class asset management capabilities through PGIM. So we believe we're in a very strong position to continue to build on our growth and meet the market demand even with rising competition in the space.

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you. And given the exit in Argentina, could you discuss, which regions you're thinking about scaling? And more broadly, could you give us an update on the market for bolt-on opportunities? Thanks.

Andrew F. Sullivan

Executive Vice President, Head of International Businesses and Global Investment Management, Prudential Financial, Inc.

A

So Wilma, it's Andy. So our emerging market strategy is to focus on a few select high-growth geographies that offer us the opportunity for significant scale. So at this point, what I would tell you is, we're in the countries that we want to be in, so there really are no direct implications from the sale of Argentina for the rest of our portfolio. And we remain highly committed to Latin America as part of our emerging market growth strategy.

I think the second part of your question was around programmatic bolt-on acquisitions. Job one is always organic growth for us, so that's where the majority of our focus is. But we will always be in the know and in the flow of potential acquisition opportunities, but as always, we'll be patient and we'll be disciplined.

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Q

Thank you.

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

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Okay. Thank you again for joining us today. We are pleased by the progress we've made in growing our market-leading businesses, including leveraging our mutually reinforcing business system and optimizing capital to deliver sustainable long-term growth.

We will continue to lead the way in expanding access to investing insurance and retirement security across the globe as we help current and future generations live better lives longer. Thank you again for joining us, and have a good day.

Operator: Thank you. That does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day.

We thank you for your participation today.

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