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MANAGEMENT DISCUSSION SECTION

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

It's now my pleasure to turn the call over to Tina Madon. Please go ahead.

Tina Madon

Global Head-Investor Relations, Prudential Financial, Inc.

Thank you. Good morning, everyone, and thank you for joining us. Representing Prudential on today's call are Andy Sullivan, Chairman and Chief Executive Officer; and Yanela Frias, Chief Financial Officer. Before we begin, please note that today's call has been extended to 90 minutes.

Andy and Yanela will begin with the discussion of Prudential's refreshed strategy and long-term vision, followed by a review of our second quarter earnings results. We will then open the call for Q&A. We have also posted slides on our website at investor.prudential.com which provide context for today's strategy discussion.

I want to remind you that today's discussion may include forward-looking statements. It's possible that our actual results may differ materially from those statements. This includes, among other things, any statements regarding the company's strategy, objectives, goals, priorities, expectations, plans, initiatives or anticipated future performance, all of which should be considered forward-looking statements and are subject to risks and uncertainties.

In addition, remarks made on today's call and in our quarterly earnings press release, earnings presentation, quarterly financial supplement and Strategy Update presentation, which can be found on our website, include references to non-GAAP measures. For a reconciliation of these measures to the most comparable GAAP measures, and a discussion of the factors that could cause actual results to differ materially from those in our forward-looking statements.

Please see the slides titled Forward-Looking Statements and Non-GAAP measures in the appendices to our Strategy Update presentation, earnings presentation, and quarterly financial supplement.

With that, I'll now turn the call over to Andy.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Good morning, everyone, and thank you for joining our call. I'd like to start by outlining our refreshed strategy and vision for Prudential's future, which is grounded in a clear view of where we can win and how we create value.

Since stepping into the CEO role, I've said that delivering the performance our shareholders expect requires a simpler company, fewer priorities and execution excellence. That remains the standard and the status quo is not an option. Prudential is a uniquely integrated financial services company, differentiated by a formidable global brand and trust earned over more than a century.

At its core is a powerful ecosystem, industry-leading liability generation and a world class asset management platform that reinforce one another. Few companies have the customer relationships and distribution reach to originate liabilities across retirement and protection products globally. Even fewer compare those liabilities with an investment platform capable of sourcing and allocating capital across public and private markets. These advantages create a powerful competitive moat.

Our insurance businesses generate a steady flow of liabilities, while PGIM's investment expertise, particularly in credit and real assets, enables us to deliver differentiated solutions and attractive risk adjusted returns for our asset management clients across market cycles. We have a strong foundation in businesses and markets with favorable structural growth. And we will drive performance by leaning into our advantages.

Our strategy is about building on those advantages to produce leading outcomes, exceeding our potential, anchored by four priorities, designed to deliver top quarterly earnings growth, excluding the earnings from our legacy variable annuities business, increased cash flow conversion and sustained strong returns on capital over time.

The first priority is narrowing our geographic footprint. We are operating in a fragmented global environment where capital moves less freely across borders. Success requires more than market presence. It demands scale and leadership. Our strategy is clear, concentrate our capital, talent and management attention on large developed markets where we have the clear ability to win. With that in mind, we are making deliberate geographic choices.

Today, our retirement and insurance businesses operate in more than a dozen countries. We plan to reduce that footprint by roughly half and concentrate liability generation in the US, Japan, and select European countries. Large markets with attractive retirement and protection growth. This means exiting emerging markets, while managing those exits to maximize value.

We will rotate the supporting capital, expect it to be well north of $3 billion, to these geographies and to our asset management business, which we expect to be a larger, more strategic driver of enterprise value. It also means increasing the proportion of earnings from our businesses in the US and Europe relative to Japan. But a smaller footprint is not the objective. It is the enabler. It creates the capacity to invest in our highest conviction opportunities and to advance our second priority, scaling our chosen businesses to lead.

We are concentrating on global retirement, asset management and select protection businesses; areas with long-term structural demand where our capabilities are most differentiated. We intend to lead in these businesses as the strongest returns accrue to the top tier market leaders. We are targeting both organic and inorganic sources of growth to strengthen our asset management platform, expand our retirement footprint in the US, Europe and Japan, and enhance our group insurance product diversification in the US.

We will evolve from a portfolio of good businesses to a company built around category leaders, powered by an integrated model that drives compounding value over time. To do this, we must also optimize capital deployment, our third priority. As we execute the strategy, we will intentionally increase the earnings contribution from capital-light businesses, including asset management and group insurance, while continuing to pursue disciplined growth in retirement. Our objective is for PGIM to become 25% of PFI's AOI, more than double its current contribution to the portfolio.

In addition to the overall portfolio mix, we will actively manage product mix within each business to improve capital efficiency and drive stronger growth. This leads to our fourth priority, leveraging our global scale to become more efficient. As we further integrate our businesses, simplify structures and processes, and use technology to raise productivity, we will not only reduce costs, but improve operating efficiency and speed of execution. This work is expected to result in approximately $750 million in pre-tax run rate benefits by yearend 2028, up from our original target of $150 million in 2027, and drive sustainable improvement in earnings and free cash flow growth.

Taken together, these four priorities: focusing our geographic footprint, leading in chosen businesses, optimizing capital deployment and enhancing enterprise efficiency will position Prudential to scale, perform and win. For shareholders, these priorities translate into three objectives. First, we expect to deliver top quartile earnings growth, excluding VA, through a deliberate, sequenced capital rotation strategy. Second, we intend to increase free cash flow conversion through a greater contribution from fee-based earnings and highly cash generative businesses. And third, we will continue delivering strong returns on capital by concentrating investment where we have a clear edge. That is the destination.

Let me walk through how we get there, starting with global retirement. This is a large and durable growth market. Retirement assets in OECD countries are expected to grow to roughly $75 trillion by 2029, with more than 75% concentrated in the US, Japan and key parts of Europe, our priority markets. We intend to enhance our capabilities, increase market share and expand operating leverage across our retirement businesses.

In the US, we are building a leading position in retail annuities, where we see a clear opportunity to materially strengthen our position, while meeting the growing need for protected income and retirement solutions. Our brand, product breadth, distribution and differentiated service model have more than tripled our addressable market in the past three years, and our expansion into the IMO channel has meaningfully increased our reach.

We will continue expanding products and distribution to capture the most attractive opportunities. PGIM fuels this growth by enhancing pricing power, while we improve returns through asset mix, scale and efficiency. On the institutional retirement side, pension risk transfer remains a significant opportunity, as defined benefit plans de-risk and outsource asset liability management.

We have a premier market position in PRT, driven by our brand, underwriting and execution. We will remain a market leader in PRT transactions in the approximately $3 trillion US corporate pension market, which is expected to continue transacting over the next two decades. We will also leverage this leadership to build our European capabilities.

Our retirement expertise extends well beyond the US. Japan is a core element of our global retirement strategy, where we serve nearly 6 million customers through businesses with leading market positions. Japan is one of the world's largest retirement markets, shaped by aging demographics, new government initiatives, and rising demand for products that help customers save and convert assets into secure income.

Retirement and investment products now comprise roughly 75% of our new business production, reflecting this structural shift, although we will also continue to meet the protection needs of Japan's society. We are moving our captive distribution force of over 10,000 financial professionals to a stronger relationship-based model focused on long-term customer value.

Additionally, we are broadening how we go to market, including strengthening third-party distribution in banks and independent agencies. Prudential of Japan will be an important driver of this outcome. While the sales recovery will take time as we reset the operating model, the business should emerge better positioned for the long term. Combined with Gibraltar and PGFL, we have a well-established franchise in Japan with broad capabilities and a strong competitive position.

In Europe, we are deepening our presence in large, mature retirement markets such as the UK and the Netherlands. These markets have strong demand for de-risking and retirement income solutions; and our capabilities, particularly in longevity and asset management, are well aligned with these needs.

Now, turning to PGIM. PGIM scaled, highly integrated global asset management platform anchored by a $1.2 trillion in credit assets, is central to our strategy and foundational to how we win. Our objective is to further advance our market-leading franchise by leveraging strength in areas where we have led for decades including credit, infrastructure, debt and real assets.

At the same time, we will expand in priority areas including asset-backed finance and direct lending. These asset classes support stronger returns, competitive pricing in our retirement businesses, and improved enterprise performance. We will also look to enter adjacent areas increasingly important to our third-party clients, including infrastructure equity and primary private equity, building on our deep client relationships.

Growth in higher fee asset classes, combined with expansion into new geographies and client segments, will further improve asset management performance. We see significant opportunity outside North America which makes up roughly half of the $147 trillion global asset pool. Only about a quarter of our third-party assets under management are sourced internationally today.

We also have substantial runway to diversify our client base by expanding in retail and institutional segments, where demand for private market solutions is accelerating, including insurance, sovereign wealth and family office channels. Serving these clients with our highest value products will gradually shift PGIM's business mix and help drive margins above our current 30% multi-year target.

As we expand, PGIM's origination expertise will remain a key differentiator, allowing us to syndicate more of what we originate, deepen client relationships and increase the scalability of our platform. PGIM is among a small group of managers that can address borrowers' needs at scale across the liquidity spectrum. This advantage will help broaden our investor base, increase third-party capital, and generate additional earnings.

Alongside retirement and PGIM, our US protection businesses, Group Insurance and Individual Life, generate strong earnings and cash flow, and provide important diversification benefits to the enterprise. That diversification enhances resiliency, supports more consistent profitability, and helps fund our strategy. We are allocating capital to the most attractive opportunities and growing where we can generate compelling returns.

We will achieve this by expanding our reach, broadening our solutions, and leveraging Prudential's differentiated capabilities and relationships. In Group, we see a meaningful opportunity to increase its earnings contribution given the large addressable market and the capital efficiency of this business. Our strategy is anchored in product and segment diversification.

Maintaining our leadership position in the national account market while expanding in the middle market, where selective inorganic opportunities could accelerate growth, and in disability, absence management and supplemental health. In Individual Life, we are building on a leading market position and a portfolio of differentiated products and solutions.

We will grow where we can achieve attractive returns supported by disciplined pricing, targeted product innovation and prudent capital allocation. This business generates important strategic synergies across Prudential, and we expect it to continue generating resilient earnings and meaningful value. We will also evaluate de-risking opportunities, where the economics are compelling and the long-term value creation is clear.

Let me close by saying that driving sustained improvement across an organization of this scale takes time and will not be easy. But our strategic direction is clear and our momentum is building. My leadership team and I have firm conviction in the path ahead.

With that, let me turn it over to Yanela, who will walk through the financial implications of this strategy.

Yanela del Carmen Frias

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

Thank you, Andy, and good morning. Let me build on Andy's remarks by providing perspective on what our strategy means for Prudential's financial profile. At its core, it is designed to deliver a stronger, more predictable stream of earnings supported by a balanced mix of capital-intensive and capital-light businesses. It will also enhance our ability to grow free cash flow over time, reflecting a targeted business mix, lower capital intensity and improved flexibility, further strengthening our financial profile and reinforcing the AA ratings position that we maintain today.

Executing this strategy will take time, and we do not expect progress to be linear or measured in quarters. Realizing our ambitions will require consistent execution and disciplined capital allocation. While the full financial benefits will take time to emerge, including the execution of the portfolio actions Andy outlined, and the resumption of sales at Prudential of Japan, we have clear objectives. We are reshaping Prudential around category leading businesses that generate durable earnings, strong cash flow and attractive returns, while redesigning the enterprise to operate more efficiently. There are three drivers that anchor this outcome. The first is stronger earnings growth and a higher quality mix. Retirement will remain our largest contributor to earnings with multiple levers to support future expansion. We expect results to benefit from steady growth in account values, improved pricing and increasing operating leverage as the business scales. Importantly, we will build on PGIM's growing capabilities in higher yielding private alternatives to enhance both pricing power and investment returns.

At the same time, access to third-party capital solutions will increase capital efficiency. These actions position Retirement to remain a core driver of enterprise results while supporting attractive returns on capital. Japan will also remain an important contributor to Prudential's earnings and cash flow profile. We have a diversified franchise in Japan that provides exposure to both retirement and protection growth opportunities.

As Prudential of Japan recovers and customer demand continues to shift toward retirement and investment products, we expect Japan to remain a meaningful source of long-term value creation. PGIM represents about 12% of our annual AOI today, and as Andy noted, we expect that contribution to increase to roughly 25%. That is an important outcome of our strategy, not only because it drives growth, but because it improves the overall quality of Prudential's financial profile.

Asset management businesses generate stable, fee-based earnings that are highly scalable and relatively capital-efficient, making them attractive contributors to long-term value creation. Beyond revenue growth, we see substantial opportunity to improve profitability. As assets under management and average fees increase and we continue to realize the synergies from our consolidated platform in PGIM, operating leverage should improve meaningfully. Combined with ongoing efficiency initiatives within the business and the impact of the client diversification that Andy highlighted, we see the opportunity to expand margins above 30% over time.

Our US Protection businesses are also contributors to our evolving earnings mix. Group Insurance combines attractive growth characteristics with strong cash generation and relatively low capital intensity, making it one of the highest quality sources of growth within our portfolio. We also expect to benefit from operating leverage as investments in claims management, underwriting and customer experience continue to mature.

In addition, we plan to grow Individual Life thoughtfully. This business generates attractive earnings and cash flow and supports enterprise diversification. Taken together, PGIM, Group Insurance and Individual Life are expected to account for a larger share of enterprise earnings over time, improving both growth and quality while creating a better balance of risk and return through the cycle.

The second driver is structural efficiency. Our prior expense and efficiency programs have delivered meaningful benefits and contributed to a stronger operating model. But Prudential remains a complex company in how we're organized, how work gets done and how resources are allocated. As we focus on a more targeted set of priorities, we see additional opportunities to simplify the organization, improve execution, and enhance structural efficiency. To realize those benefits, we are taking a comprehensive approach that combines organizational simplification with a more efficient workforce model, greater use of technology and a streamlined operating infrastructure.

These actions will help us operate more effectively, improve productivity, and better align resources with our highest conviction opportunities. An important component of this effort is optimizing where work gets done across the enterprise. We see a significant opportunity to expand the use of captive talent hubs in global locations with highly skilled workforces and structurally lower costs than the United States.

Bringing our utilization closer to industry norms will lower our cost base, while increasing flexibility and scalability. We're also simplifying our organizational structure by continuing to reduce management layers, recalibrating our workforce footprint, and aligning resources more directly to the businesses and capabilities that will drive our future growth.

Technology will be another important enabler. We are consolidating and simplifying applications, streamlining workflows, and using data and analytics more effectively to improve productivity throughout the enterprise. As Andy noted, these actions are expected to result in approximately $750 million in pre-tax run rate benefits by year end 2028, up from our original target of $150 million in 2027 with the full benefit reflected in our 2029 operating results.

More importantly, these actions structurally lower our fixed cost base. They improve operating leverage, increase organizational flexibility, and allow us to reinvest in the areas that matter most to our future growth. Our adjusted operating expense ratio improved approximately 100 basis points year-over-year in 2025 to about the midpoint of our current target of 8.5% to 10.5%.

We expect to improve that ratio by an additional 150 basis points over the next three years. Please recall that we exclude PGIM from the ratio because we measure this business based on adjusted operating margin. That improvement reflects not only disciplined expense management, but a fundamentally more efficient operating model. The third driver is creating a better balance between capital-intensive and capital-light businesses. The first two drivers, higher quality earnings and greater structural efficiency naturally lead to the third.

A better balance between capital-intensive and capital-light businesses. As we execute our strategy, we expect a greater proportion of our earnings to come from fee-based and capital-light businesses. At the same time, Retirement in Japan will remain important sources of growth and long-term value creation.

We will also continue to use access to third-party capital and balance sheet optimization as strategic tools to improve capital efficiency across the enterprise. This evolving mix and improved capital efficiency should improve free cash flow conversion by increasing earnings generated by highly cash generative businesses.

In addition, we will further optimize efficient capital deployment across PRT, annuities and our Retirement and Protection businesses in Japan to support growth. We expect these actions, together with an ongoing focus on expense efficiency, will enable us to support growth while requiring less capital, creating greater financial flexibility, and continued strong returns over time.

Before I turn the call back over to Andy to begin the review of our second quarter results, let me highlight three key takeaways. First, this is a multi-year plan. Execution will be sequenced, and the benefits will build progressively as we reshape the portfolio and improve operating efficiency. Second, the repositioned Prudential will be a more focused and resilient company across market cycles. A simpler, better balanced business mix should enhance the consistency and durability of our financial profile over time.

Third, we expect these actions to translate into strong financial outcomes, including top quartile earnings growth, excluding VA, and improving free cash flow conversion and to drive compounding benefits over time.

In closing, this is not about any one quarter or initiative. The choices we're making today, how we deploy capital, allocate resources and operate the business are designed to strengthen our financial profile over time and position Prudential to drive strong value creation for shareholders.

Let me now turn the call back over to Andy to review our second quarter results.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thanks, Yanela. Our second quarter results were strong as we continued to execute with discipline and build momentum. The quarter reflected greater focus across the enterprise. While there's more work ahead as we advance the strategy outlined today, we are building on a strong foundation and making solid progress against our priorities. After-tax adjusted operating income was $1.4 billion or $4.08 per share, 14% higher year-over-year, while year-to-date operating return on average equity increased 110 basis points to 15.5%.

These results reflect the strength and resiliency of our businesses and the progress we're making to operate more effectively and consistently.

Let me now turn to our business level results, beginning with PGIM. PGIM generated another quarter of strong investment performance and made steady progress in integrating its operating platform, resulting in a solid year-over-year increase in margins and earnings. We continue to see strong momentum in private capital deployment, which grew by nearly 60% on a sequential quarter basis.

The increase was driven primarily by asset-backed finance origination, which comprised roughly $7 billion of the nearly $21 billion deployed in the second quarter driven by affiliated demand for this asset class. Investment-grade private credit assets were another driver of the increase as was real estate debt driven by third-party and affiliated demand.

Direct lending origination remained solid during the quarter, and our positioning in this asset class will be enhanced by PGIM's recently announced acquisition of the remaining interest in Deerpath Capital. With the addition of Deerpath's lower middle market platform, PGIM is among a select group of asset managers with capabilities across the direct lending spectrum, which better positions us to serve sponsors, borrowers and investors. PGIM's active ETF retail offering continued to grow extremely well with AUM increasing nearly 21% on a sequential quarter basis, approaching $35 billion as of quarter end.

We have seen meaningful improvement in our ETF market share over the last two years, and we're in the top 10 in quarter-to-date and year-to-date net flows. PGIM's suite of fixed income funds drove the majority of active ETF inflows with 4 ETFs now exceeding $1 billion in assets under management. PGIM's total flows were strong in the quarter. Institutional and retail third-party net flows totaled $4.6 billion driven primarily by strong public credit inflows. This result was achieved despite having to overcome equity outflows of approximately $5 billion in the quarter as the broader industry rotation from active to passive equity management continues.

Affiliated net outflows were $3 billion, driven by our variable annuities runoff. In our US businesses, we saw additional benefits from the actions we've taken to broaden our reach and deepen our capabilities. Our investments in distribution and product diversification are helping US meet evolving customer needs, while supporting growth and improving the quality of our retirement and insurance franchises. In Retirement, second quarter results were solid year-over-year. Retail annuity sales reached $3.6 billion in the quarter, a 14% increase driven by ongoing strength in RILA as our FlexGuard 2.0 product continued to be well received in the market.

This result also reflected strong sales in fixed annuities, such as our fixed rate products with income. Our distribution reach and innovative product design are differentiated competitive advantages, enabling us to target areas of the market that prioritize customer solutions over price. On the institutional side, we completed $1 billion of longevity reinsurance sales, but PRT sales remained muted in the quarter, with a notable absence of jumbo transactions in the US market in the first half of this year.

While we expect industry activity to accelerate in the second half, as is typical, we anticipate that transaction volumes this year will remain below the record levels seen in recent years. Although activity remains episodic, this market represents a significant forward opportunity both here in the US and in Europe as I noted in my strategy remarks, and these transactions should drive strong earnings growth over time.

Our brand, underwriting expertise and execution capabilities will enable us to maintain our leadership position as these markets continue to transact. Our Group Insurance business delivered record quarterly earnings as initiatives to strengthen the business and diversify its growth profile translated into results. Performance was led by our national account life business, where we continued to benefit from our market leading position. We also saw increasing contributions from a broader mix of products and customer segments, demonstrating the benefits of our diversification strategy.

Sales remained strong, driven by growth in our premier middle market segment and demand for supplemental health solutions. Our brand strength and deep distribution relationships remain key competitive advantages in supporting growth across the business. Individual Life generated strong sales and earnings in the quarter, building on its momentum in the variable accumulation market. Over the last several years, we have transformed this business by diversifying our product portfolio, building a deep distribution bench, and targeting strong, profitable growth.

Our progress has resulted in increased earnings power, improved cash flow generation, and greater capital efficiency. The life insurance market is showing durable tailwinds with application submissions at record levels and premium growth above historical norms. Aging demographics and increased interest in accumulation-oriented solutions are reinforcing demand. And digital integration, automated underwriting and faster decision-making are further supporting growth. We expect Individual Life will have healthy and durable core earnings growth that is driven by a strong combination of underwriting fee and spread income.

Now, turning to international. Earnings this quarter were strong despite the impact of the voluntary sale suspension in Prudential of Japan, reflecting the resilience of the underlying business and continued growth in Brazil. Sales increased in Brazil, resulting from growth in our life planner channel, and strengthened performance in the third-party channel.

Our Japan businesses continue to demonstrate the benefits of our diverse platform and the economic tailwinds in Japan, delivering a strong earnings quarter despite the impact on sales of the POJ sales suspension. Third-party channel sales remained resilient, driven by robust independent agent channel performance supported by expanded retirement and savings products offerings, which comprised more than 75% of sales in the quarter, including our recently launched single-pay products.

Our Yen denominated products are also experiencing strong momentum. Within POJ, we made solid progress during the quarter on the actions needed to resume sales and are on plan, including advancement of governance and agency redesign measures that will begin a phased rollout in the fall. We are also making good progress on the design of a new compensation structure to be launched once we go back into the market, and retention of life planners has been strong.

We remain committed to ensuring that the changes needed to resume sales in POJ are implemented by November 5th. This quarter demonstrates the progress we are making across Prudential and highlights the durability of our business model in a dynamic environment. Our results reflect both the underlying strength of our franchise and our ability to capitalize on emerging opportunities.

We will continue to execute with discipline, deliver for our customers, and build on the momentum we've established across the business. We are pleased with our performance, confident in our trajectory, and focused on delivering sustainable growth and value creation over time.

With that, I'll turn the call back over to Yanela.

Yanela del Carmen Frias

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

Thank you, Andy. Our results this quarter demonstrated that our actions to strengthen Prudential's financial performance are translating into results. We reported after-tax adjusted operating income of approximately $1.4 billion, or $4.08 per common share, up 14% year-over-year, driven primarily by higher spread income, a net favorable assumption update, and higher asset management fees.

These increases were partially offset by higher operating expenses, mainly related to the Prudential of Japan sales suspension and variable costs in support of sales. Underlying expenses were essentially unchanged year-over-year, as we improved efficiency and created capacity to invest in enhanced distribution and service capabilities.

We remain on track to realize our previously communicated $150 million in pre-tax run rate benefits in 2027. Before turning to our segment results, let me touch on our annual assumption update. We recorded a one-time pre-tax net benefit of $65 million to AOI at the enterprise level, and we do not anticipate material ongoing impacts to AOI. The total pre-tax GAAP impact was a $379 million loss, primarily related to unfavorable laps in mortality assumption updates in Retirement, and unfavorable mortality and claims incidence updates in long-term care within divested businesses.

Now, turning to second quarter segment results. Except for PGIM, comparisons include the impact of our annual assumption updates in the current and prior year periods. PGIM reported pre-tax adjusted operating income of $294 million, up 28% year-over-year, driven by higher asset management fees from equity market appreciation and strong investment performance, as well as higher net service, distribution and other revenues.

These benefits were partially offset by affiliated net outflows, primarily from variable annuity runoff and the impact of higher interest rates in the year-over-year period on asset management fees. PGIM delivered a 28.2% adjusted operating margin, up 470 basis points year-over-year, primarily from asset management fee growth and strong equity market.

Also contributing to this result were strong other related revenues, agency production, and higher incentive fees in the quarter. PGIM remains on track for more than 200 basis points of margin expansion in 2026, as it moves toward its 25% to 30% target.

Now, turning to our US businesses, which generated pre-tax adjusted operating income of approximately $1 billion, essentially unchanged versus the prior year quarter. Excluding the favorable impact of our annual assumption update, these results reflected increased spread income, which was more than offset by higher distribution expenses, less favorable underwriting results, and lower fee income. Our Retirement business delivered pre-tax adjusted operating income of $392 million, essentially unchanged year-over-year. Higher spread income from retail annuity growth was offset by less favorable underwriting, PRT runoff and increased distribution expenses.

Longevity reinsurance sales were roughly $1 billion across three UK middle market transactions. We had no material PRT activity during the quarter. As we've noted before, this market is episodic in both the US and Europe. Net account values were $363 billion at quarter end, up 4% year-over-year, reflecting favorable markets and growth across our diverse product portfolio. Retail annuity account values rose more than 30% to $66 billion, supported by nearly $14 billion in sales over the last 12 months.

Now, turning to Group Insurance. Group (sic) [Group Insurance] delivered a record quarter with pre-tax adjusted operating income of $155 million, up 24% versus the prior year period. Excluding the favorable impact of our annual assumption update, the quarter was also a record. The year-over-year increase, excluding the benefit from the assumption update, reflected favorable life underwriting and higher spread income, partially offset by expenses related to new business growth and less favorable disability underwriting amid macroeconomic uncertainty. Targeted investments continued to improve claims and service efficiency.

The Group's total benefits ratio improved to 80.4% in the quarter, below our 83% to 87% target range driven by favorable working age mortality in Group Life and higher long-term disability resolutions as our investments in claims management delivered positive results. Year-to-date sales totaled $599 million, increasing 26% from the prior year period.

This result was driven by continued momentum in our premier segment as we executed on our market segment and product diversification strategy. Individual Life delivered pre-tax adjusted operating income of $176 million in the quarter, more than doubling year-over-year. Excluding the favorable year-over-year impact of our annual assumption update the increase primarily reflected favorable underwriting results and higher spread income, which benefited from attractive new money rate. Sales of $237 million set a second quarter record, reflecting sustained demand for variable accumulation products where our distribution reach and service model differentiate us in the market.

Our flagship product, Custom Premier II achieved record sales, demonstrating our success serving clients seeking cash value accumulation and retirement protection. This capital-efficient product produces strong returns. The US Legacy Products segment generated pre-tax adjusted operating income of $234 million, down 33% year-over-year. Excluding the unfavorable year-over-year impact of our annual assumption update, results primarily reflected less favorable underwriting related to the GUL block, lower variable annuity fee income from runoff, and lower spread results, partially offset by market appreciation.

Our international businesses generated pre-tax adjusted operating income of $855 million, up 12% year-over-year. Excluding the favorable year-over-year impact of our annual assumption update, the increase primarily reflected higher spread income and stronger emerging markets results, including growth in Brazil, partially offset by expenses and less favorable underwriting related to the Prudential of Japan sales suspension.

The impact of the sales suspension totaled $105 million, coming in below expectations, primarily due to lower life planner compensation and better than expected surrender activity. Roughly $70 million related to the life planner compensation. The remainder reflected lost sales and surrenders. We continue to expect that the aggregate impact on our full year 2026 pre-tax adjusted operating income will be approximately $525 million to $575 million.

Now turning to capital, ESR and cash flows. Our strong capital position and regulatory capital ratios support our AA financial strength ratings and provide flexibility to invest in our core businesses. Cash and liquid assets were

$4.2 billion at quarter end, well above our $3 billion minimum liquidity target, and we have substantial off-balance sheet resources.

Our Japanese entities remain well-capitalized and are managed to levels aligned with our AA objective. Under Japan's ESR regime, Prudential Holdings of Japan reported a 192% consolidated ESR ratio as of March 31, Japan's fiscal year end. We estimate that Prudential Holdings of Japan's consolidated ESR ratio as of June 30 was in the range of 170% to 190%, well above our 150% operating target.

As previously communicated, we do not anticipate any material impact to capital, ESR or cash flows over 2026 and 2027 from the sales suspension. Before closing, an update to our corporate and other guidance. We are lowering our expected 2026 loss from $1.65 billion to $1.55 billion, primarily reflecting the benefit of one-time items. In closing, we delivered a strong quarter and outlined a clear strategy for Prudential's future.

As we look ahead, we remain focused on disciplined execution, sustainable growth and long-term value creation for our shareholders.

And with that, I will now turn the call back to the operator to begin Q&A.

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 Tom Gallagher from Evercore ISI. Your line is now live.

Thomas Gallagher Q
Analyst, Evercore ISI

Hi. Thanks for that strategy update. I just wanted to focus my questions there. So, Andy, the exit of the emerging markets that you had indicated, I think, there should be five or six of them, if I'm following what you said correctly, and $3 billion of related capital. How would you expect the capital freeing up to occur over what period of time, would they mainly be sales or would they – would some of these be shutdowns of existing businesses? Thanks.

Andrew F. Sullivan A
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. Tom, thanks for the question. So, when we look at our emerging market exits and you're right, I'm not going to do the quick math. It's about six or seven. Our priority is maximizing the value on the exit of these properties. We're not going to comment on any specific market around sales process, timing or sequence. This will take us some time in each process.

We are going to focus on making sure that we're taking care to get the best outcome for our customers, our employees and the shareholder. That means it'll take time to find the right buyers. But you should be thinking of it that this is in general, and for the most part, sales of businesses versus shutting down businesses because our emerging markets across every one of them are valuable platforms and businesses that we believe the value maximization strategy will be through sale.

Thomas Gallagher Q
Analyst, Evercore ISI

Got you. Thanks. Thanks for that. And then I guess my follow-up is and you mentioned I think repositioning or repurposing the $3 billion into your going concern businesses or your areas of focus. So, should we expect that to be kind of the level that you would probably deploy into inorganic M&A, or would you consider going with anything bigger, more strategic when you think about inorganic opportunities?

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

A

Yeah. Tom. So, two-parter there. Let me take it. But let me start kind of rotating back to one point on your first question. and I just want to emphasize that we expect the amount to be freed up to be well north of $3 billion, so you shouldn't have that $3 billion number in your mind. As we're looking at deploying that, where we would highlight would be first and foremost PGIM. Obviously, we're looking to expand our private alternatives capability as you heard on the script grow in retail and globalize.

Second would be in Group Insurance, looking to accelerate the product and segment diversification that we've been executing against. And third, for Retirement, really selectively building out our retirement capabilities further in Europe. I also would not directly tie the $3 billion to the exact amount that we're going to be investing in these three areas.

We obviously have other ways of generating and raising capital over time. But importantly as you think about this strategy and this capital rotation and I would say the strategy in total, this is a longer-term aspirational strategy. So, you should be thinking about the period of five years to execute across this.

Thomas Gallagher
Analyst, Evercore ISI

Q

That's great. Thanks for that.

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

A

You're welcome.

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

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

Q

Hey, thanks. Good morning. I guess, first question is on in terms of shifting business mix. I get the emerging markets and some of the inorganic things you're looking to do. Are there any other areas that you're looking to pull back from that you're current – in terms of businesses you're currently in or should we just think about the emerging market exit and business mix mostly shifting due to different sources of organic and inorganic growth?

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

A

Yeah. Ryan. So, it's Andy. I think, we're quite detailed and thorough in the strategic update. Obviously, we focused on the emerging market exits as the predominant source of capital raising. But as we've said, our go-forward chosen businesses that we intend to lead in, are global retirement, global asset management and select insurance businesses in the US. And in particular, that means Group Insurance and Individual Life Insurance. So, that is the footprint. Obviously, you also heard as part of that, Japan is a very, very important part of our future.

But we see that market more and more rotating to a retirement orientation, which we think plays directly into our strength. So, that really is the footprint.

And, as we look at those businesses, we feel very much that we have a leading position and have the credible opportunity to be a long-term leader and winner in those markets. And that's why we use the words category leader.

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

Q

Thanks. Understood. And then anything you can help us with to think about free cash flow uplift. I know that's one of the key priorities you're targeting, but I don't know if there's any way you can frame either whether it'd be free cash flow conversion or some metric we can think about in terms of how you think that could progress over time.

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

A

Yeah. Ryan. I mean, look, as we said, we expect that our strategy will result in improved balance between capital-light and capital-intensive businesses, right. That's one of the key objectives. And we do see a great opportunity to scale our capital-light and fee-based businesses, specifically in areas like PGIM as we grow PGIM. That is a high cash generative business. And also growing our fee-based earnings in our other businesses. That will support free cash flow generation and enterprise capital efficiency as well. So, we do – that is how we expect to increase free cash flow generation over time.

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

Q

Okay. Thank you.

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

Suneet Kamath
Analyst, Jefferies LLC

Q

Great. Thanks. I wanted to start with the $750 million of cost savings. Should we expect that those savings will fall to the bottom line as we get to 2028 and 2029? Or is that freed up capacity going to go – going to be part of the reinvestment into the growth businesses? Thanks.

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

A

Yes, Suneet. So, what we're doing here with the $750 million is we're taking a comprehensive approach really to simplify and optimize the organization. I highlighted a number of levers in my prepared remarks that we expect to utilize. But this is really about the what, the where and the how of our work. So, it is fairly comprehensive. This isn't just about expense reduction.

So, we do view it as a source of capacity and capital that will allow us to invest in growth over time. So, I would encourage you to focus on our operating expense ratio and the PGIM margin. Ultimately, that is how we measure success here. It is the best way to measure our progress and how the saves are flowing through the bottom line, net of cost to growth. So, we don't have a specific ratio of what falls to the bottom line and what will we reinvest.

As I said in my prepared remarks, we expect a 150 basis point improvement to our operating expense ratio over the next three years. That is from the 12/31/25 ratio, which was already in the midpoint of our target of 8.5% to 10.5%.

Suneet Kamath
Analyst, Jefferies LLC

Q

Okay. And then sorry for the nitpicky question, but I just want to understand the growth outlook here because the EPS growth target was 5% to 8% sort of all-in. And now you're saying top quartile ex-VA, which was – and VA was in that 5% to 8%. So, I guess, I'm just trying to get a better sense of like, what range are you talking about in terms of EPS growth? Are you saying 10% to 12%? Is that kind of the top quartile, just any – I just want to get a better sense of what you're aiming for. Thanks.

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

A

Yeah. So, a couple of things, Suneet. The 5% to 8% was EPS growth rate just to be clear. What we're talking here about is top quartile earnings growth. Obviously, EPS is impacted by share buybacks and capital deployments. So, we didn't want to get into that level of detail. In today's terms, top quartile earnings growth is around high-single digits. That's how we think about it.

But I do want to be clear, a couple of things. We're not setting a new earnings growth target today because obviously the strategy will build progressively. It does take time to execute. and we need to resume sales in POJ. So, we don't necessarily – are not putting a target in place. But we talk about the top quartile being an objective of the strategy, not to anchor to a specific target, but to communicate our ambition to perform alongside leading companies in the industry over time.

Suneet Kamath
Analyst, Jefferies LLC

Q

Okay, thanks.

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

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC

Q

Hey. Good morning. First one, I wanted to touch on the results in the quarter and hit on the POJ sales impacts. Can you just unpack the drivers of the better than expected impact in the quarter, both from LP compensation and then the impact from sales and surrenders. And I guess, why wouldn't that translate to something below your full-year range of $525 million to $575 million?

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

A

Yeah. Hi, Joel. So, the total cost this quarter were $105 million, as I mentioned. They were down from $130 million in the first quarter. The majority of the decline was due to the customer reimbursement accrual that we booked last quarter, which was $45 million, approximately $70 million of the impact this quarter related to LP compensation.

And we did have surrenders moderate in the quarter below our expected heightened surrender levels. But, it would be premature to lower the guidance of $525 million to $575 million. And I'll remind you what I mentioned last quarter, which is that these impacts are not linear. And there's really two drivers of that. The impact of the lost sales and surrenders will compound through the year.

And second, LP compensation grows through the year because the LPs are paid based on a percentage of new business, and the longer they don't sell, the higher the payments we make to them. So, this is not linear, and the expectation is that it grows over time. We did have better surrenders than we anticipated, but it is premature to update that guidance.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Yeah. And Joel, it's Andy. You had also asked about sales in the quarter. So, obviously sales were down year-over-year predominantly due to the POJ suspension. But, we've been very impressed with the resiliency and the strength of our product portfolio and our distribution system overall in Japan.

Obviously, we highlighted the significant uplift we saw in the independent agent channel, and that was really driven by a lot of the new product introductions that we did from a retirement and savings perspective. But we're also liking the strength we're seeing in other areas like the bank channel. Now, I recognize sales were down, sales were down double digit though industry-wide in the bank channel due to the change the FSA made with the – or the industry made with – working with the FSA around secondees.

But, we've actually gone up in our number of bank partnerships and depth of our bank partnerships over the last 12 months. So, we have a really strong franchise when it comes to Japan that is broad and deep, and you're seeing that show up in how the results are holding up.

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC
Q

Got it. That's helpful. And then just back to the strategy and on group benefits, I get the attractiveness of the business. But it's been a very small part of your overall business. So, I guess, how big of an earnings contributor do you think this business can become for PRU? And I guess, as you look to grow down market – I mean, what do you think gives you the right to win down market? We've heard others try to move down market. It's usually pretty challenging.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So Joel, thank you for the question. So, first and foremost, let me just reinforce why we're focused on Group Insurance. It is a highly cash generative business and a source of capital-light growth. And yes, we recognize that the market is mature, but we see a market that is going to continue to grow in the low-single digits. I mean, employers are very committed to providing robust benefits offerings to their employees.

And we're very confident that we can expand both our product capabilities, but also diversify down market over time. That confidence comes from, this is a strategy that we've already been executing against and we see positive indications in our sales and in our growth over the last 12 to 18 months, where we are obviously retaining leadership in national accounts. But we are seeing an accelerated growth rate in the Premier segment, and we are seeing accelerated growth in diversifying into disability, absence and supplemental health.

So, that is a key reason. It is a very good market. And while it's lower growth, we believe that we will grow in our market share. Last thing I would say, it's an important diversifier in the mix overall. It clearly enhances the resiliency of our business mix. It helps fund the strategy over time. So, this is a business that we've been in for a century. We know how to operate it, and we're confident in the trajectory.

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question today is coming from Wes Carmichael from Wells Fargo. Your line is now live.

Wes Carmichael
Analyst, Wells Fargo

Q

Hey, thanks. Good morning. Just on the strategy. I know, Yanela, you said you didn't want to really get into buybacks, but maybe a question just a bit more broadly. But when you think you step back – like, is there any other change to your philosophy around capital management, whether that's buybacks, common dividends? I mean, even issuing some equity to fund a bigger deal. I just wanted to get your thoughts on that.

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

A

Yeah. Wes, I think in terms of our capital deployment philosophy and priorities, we've been very consistent, right? So maintaining financial strength, investing in the growth of our businesses and then redeploying capital back to investors. As you've heard from the strategy, we are committed to growing our businesses through both a combination of organic and inorganic means.

So as we execute the strategy, we will rotate capital to our chosen businesses in our focus markets to build and sustain leadership positions. So, we do not expect to change our capital deployment philosophy or priorities. In terms of bigger deals and capital raises, the bar is really high on issuing equity or adjusting the buyback strategy. So I just want to be really clear about that.

It would require a clear and credible path to value creation and would need to generate a return that would justify dilution. So, we're very mindful about that. And obviously, we have clear objectives to deliver top-quartile earnings growth ex-VA, and increase free cash flow. So, all that has to really come together.

And then the last thing I would say and Andy alluded to this a bit, but we have other ways to source capital beyond the exits, right? So, balance sheet optimization as we realign the portfolio could be a source. The better balance between capital-light and capital-intensive businesses over time generates higher cash flow. And we have the ability to leverage reinsurance to enhance capital efficiency and source capital as well. So, we have multiple tools at our disposal.

Wes Carmichael
Analyst, Wells Fargo

Q

Thank you. That's very clear. And then, maybe a more micro question. On the assumption review, I think, Yanela, you mentioned there was a charge for guaranteed universal life that I think was offset by a couple other items. And I'm just wondering what drove the negative impact in GUL in the quarter? How big was that? And are you expecting any statutory impact as you look towards the yearend?

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

A

Yeah. So, a couple things there. So, on the assumption update related to GUL, there was – yeah, so we had a small update related to surrenders. So, policyholder activity in GUL that was reflected in AOI. And in terms of the STAT impact, so obviously that comes through at the end of the year. It's a regular process.

The impacts on STAT and GAAP frameworks can vary based on the difference in methodologies. And so, what we can tell you today based on what we see through the second quarter, we do not expect a material STAT impact from the changes in the assumptions that we've made. Now, the STAT impact will vary through the year based on equities and rates for example, so market conditions. But again, as of what we see today we do not expect a material STAT impact.

Wes Carmichael
Analyst, Wells Fargo

Q

Great. Thank you.

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

A

Operator?

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

A

Sorry, folks. We're checking on the operator.

Operator: Apologies for the delay. The next question is coming from the line of Tracy Benguigui with Wolfe Research. Please proceed with your question.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Thank you. Going back to your free cash flow aspirations. If conversion is one of your objectives, can you help me understand how much of a drag on free cash flow conversion is that north of $3 billion of emerging markets capital that you want to redeploy?

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

A

So Tracy, the north of $3 billion of emerging markets obviously comes from dispositions of emerging markets. What I could say is, emerging markets is not a major contributor to our cash flow generation today because they've been growing businesses and they've been actually consuming capital.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Okay. Got it. I heard what you said earlier that it would be a high bar to change your capital return strategy. But I guess, how do you address the concern that capital that's unlocked from emerging market exits could sit idle for a while potentially over five years as you search for the right targets? I'm assuming you'll be disciplined on M&A.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So maybe, Tracy,...

Tracy Benguigui
Analyst, Wolfe Research LLC
Q

Yeah.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

...let me start, and where I'll start where you ended. Yes, we will be disciplined. That is very, very important to us. That said, my earlier comment was not to imply that it'll be five years before we do anything. I want to be very intentional here. We're going to be patient and persistent, but we are very active in the marketplace. You've heard these words from me before in the know and in the flow. So, we will be looking to deploy capital over this period of time. It's not back ended in any way. So, I just wanted to be specific about that.

And Yanela, I didn't know if you wanted to add anything.

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

No. The only thing is that, I think we've said multiple times, it will be a thoughtful, intentional rotation of capital. So, we will just be very thoughtful, careful about it. It will take time, but that is how we will approach it.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

And maybe just one final comment, Tracy, a difference here that I think you're also hearing is, I'll use the words, we've opened the aperture of areas that we're looking to grow in from an inorganic perspective. So, in the past what you would have heard is, all about asset management and not about the two other areas, Group Insurance or Institutional Retirement. So, that obviously is a broader aperture that we're looking at and that's a key difference as well.

Tracy Benguigui
Analyst, Wolfe Research LLC
Q

Got it. Thank you.

Operator: Thank you. Our next question today is coming from Josh Shanker from Bank of America. Your line is now live.

Joshua Shanker
Analyst, BofA Securities, Inc.
Q

Thank you. When we talk about the $750 million, how much of that is coming from streamlining operations where you are dedicated to continuing and growing, and how much is from areas where you think it'd be more prudent to exit?

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

A

Yeah. Josh, obviously, as I've mentioned, we are looking at the entire organization, right? Looking to simplify, remove complexity, et cetera. So, there's – I'm not going to get into how much is coming from each business. We will obviously invest in the growth of our chosen businesses. That's a key part of the strategy. And the other thing I would say is we're looking very hard at our corporate functions and that level of fixed costs and making sure that we're as streamlined and efficient as possible.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

And then, look, it's hard to execute, but easy to cut in terms of making those plans. But it's much harder to grow. What is the timeline, do you think, before you're comfortable giving us timelines about what this all means for revenues?

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

A

Are you referring – I'm sorry, Josh, are you referring to just the general strategy or the expense?

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Yeah, the strategy. So, we are knee-deep in the strategy, and we can now talk about how – what we plan growth looks like going forward. How long – are we two years away from being able to make those comments? Are we, is that a six months out sort of a trajectory? When will you sort of know when your feet are solid on the ground, and you're able to make some sort of guidance about the future?

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

A

Yeah. So, Josh, it's Andy, I'll start, and obviously if Yanela wants to jump in, she can. What I would say is, we're already seeing evidence, but we have milestones that we're looking to achieve. The clearest evidence is going to flow from the four priorities that we talked about. And we know that's going to result in a consistent improvement in the financial results over time. So, we need to be looking at milestones. So, like the first priority, seeing continued execution in reducing the footprint. So, as investors, as analysts, you should be looking for tangible evidence of sales and maximization of value in those sales.

Obviously, this is a path that we've already been on as we've sold Kenya and Indonesia. Second, as we're looking to advance leadership and grow more quickly in our chosen businesses, you should look for capability expansions and continued growth over time. And this is never a quarter-to-quarter thing, but growth in sales, margins and earnings.

Clearly, the milestone in Japan is resumption of sales in POJ, but on the final priority around the expense work, it's all about improving OpEx ratio. We've already seen a 100 bps improvement in that OpEx ratio. We've given you that we're going to see another 150 bps. So, you need to look for milestones as we go. We're highly confident though that the actions we're taking will turn into those results over this multi-year journey.

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

A

Yeah, Josh.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Wish you the best of luck. Thank you. Yeah. Go ahead. Yanela, please.

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

A

Yeah. Sorry, a couple more things. So, obviously this OpEx, the 150 basis points will happen over the next three years as I've mentioned. And I said earlier, we're not setting a new earnings growth target for two reasons. It will take time to execute the strategy. and we need to resume sales in POJ. But I would remind you that we're still managing to the other financial targets that we have out there through 2027. So, ROE OpEx of 8.5% to 10.5% we just spoke about further improvement and free cash flow conversion as well.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Thank you.

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

Wilma Burdis
Analyst, Raymond James & Associates, Inc.

Q

Hey. How would you describe the strategy as different from your prior strategies? And I guess, what gives you confidence that you can execute on it? Thanks.

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

A

So, Wilma, thanks. It's Andy. I would tell you that we think, it's – there are significant differences between the stated strategy and execution of the past and the way that my leadership team has made decisions and is operating today. And I would summarize it really in two words, focus and execution. The most important differences, candidly, are showing up in what we choose not to do.

In the past, the organization sought to continue expanding our footprint at Prudential across a wide range of markets. What you're seeing us do today is we're making the difficult decisions to narrow our focus, to concentrate our capital, our talent, our investment, where we know that we could scale and win. I would not underestimate the degree of capital, investment dollars and management attention that wider range of markets took. This is a major shift.

Second difference is in the quality and consistency of our execution. And this is directly tied to our talent and our culture. We have raised the bar on capital deployment and we're managing it much more top down. We've changed our performance and compensation systems to drive a higher degree of accountability in the organization.

And I would point to the evidence of already producing greater consistency in our quarterly results. We've met or exceeded five of the last six quarters. That's not victory, but it's showing the progression of more consistent delivery. So, it's about focus and it's about execution. And the bottom line is, we see it quite differently, and that we will produce a simpler company with stronger results for the shareholder.

Wilma Burdis
Analyst, Raymond James & Associates, Inc.
Q

Thank you. And then I guess, this is a broader question, but you've beat pretty significantly the last couple quarters. I realize there's probably a lot moving with POJ, but if there's anything specific you can point us to that helps with whether it's just run rate, earnings, especially in international, we would appreciate it. Thanks.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Wilma...

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

I'm sorry, Wilma, we had trouble hearing that. Could you repeat that?

Wilma Burdis
Analyst, Raymond James & Associates, Inc.
Q

Yeah. You beat the last couple quarters. I think, part of it is just POJ has a lot of moving pieces, but can you just help us think in a more simple way about the EPS and the international earnings going forward? Thanks.

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

Yeah. So, I mean, a couple thoughts on international. Yes, I think, in terms of the beat, I think generally there was an assumption that the impact was a run rate equally by quarter. And as I've mentioned, it's not linear and it will grow. So, we still believe it's $525 million to $575 million. But that – how that's been modeled may vary.

We had a significant beat due to earnings growth and business growth this quarter year-over-year. So, the earnings in International are based on business growth and the tailwind of interest rates. Retirement had growth in earnings due to business growth. Individual Life as well. So, some of it is business growth, And the fact that we're executing on our strategy as well. There were other also some one-time items we talked about the corporate and other had some one-time items. We adjusted the earnings – the loss estimate for that. So, that's a driver as well. But I think, it's, A, business growth and fundamentals, a difference in how the international impacts have been modeled, and then third some one-time items.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Yeah, and I would add a benefit of having a simpler company is being able to more clearly show in the results the fundamental sales growth and revenue growth and expense reduction. We've been candidly, I think, over the last 10 years, I'll go for a broader period. Guilty as charged that we're a big complex company. And sometimes the really important fundamental growth stories and fundamental execution gets lost with that complexity. So, we clearly didn't make the decisions because of that. But it will be a benefit as we go forward of having a simpler, more focused company.

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

And sorry, one more thing that I missed. PGIM had significant growth as well, and year-over-year – and that's just, investment performance, market performance and asset management fees for the business.

Wilma Burdis
Analyst, Raymond James & Associates, Inc. Q

Thank you.

Operator: Thank you. Your next question is coming from Pablo Singzon from JPMorgan. Your line is now live.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC Q

Hi. Thanks for squeezing me in. So, first question is a follow-up to Wilma's question. So, as I think back to the strategy several years ago, right. When you're trying to remix the liability profile, I think, the disposals at that time were mostly capital-intensive insurance businesses, right? And I think, one criticism that you received was that you were selling low multiple businesses to potentially acquire more expensive businesses, and perhaps because of that capital is better used just to buy back stock, right? So, sort of, the question is, how are you thinking about that calculus now, right? Because it seems like you're expecting good value for your exits. But it seems to me, if I were to guess that some of the assets you're looking to acquire might be more expensive than your own equity.

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

Yeah, Pablo. I think, we said this will be a thoughtful, intentional capital rotation. We do expect well north of $3 billion from the exits, and we do expect to grow businesses like PGIM. I would remind you that the PGIM growth is not just due to inorganic. There is a component that is organic. PGIM is a higher growth business than our other businesses, that will accelerate as we build out PGIM's capabilities in private assets, as we highlighted in our remarks. So, that's part of it. And as I mentioned, to the extent that we're looking at acquiring higher multiple businesses, the bar will be high with regards to dilution and how those economics pencil out at the end of the day.

Andrew F. Sullivan
Chairman & Chief Executive Officer, Prudential Financial, Inc. A

Yeah. And what I would add to that, Pablo, is and that bar is directly tied to how strategic is the acquisition. It has to be very, very strategic and synergistic, and really produce the right outcomes for the shareholder over the long-term. So, that's how you should think about the bar.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC Q

Thank you for that. And then the second question, maybe a simpler one. Are you able to size the incremental investments or costs you need to basically put up to generate the higher expense savings you're targeting by 2027? Thank you.

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

Yeah, Pablo. Good question. So, we are in the process of doing that now, and the goal is to have a view of that by the end of the year. So, we don't – we're not quoting a number today, but we will have that by the end of the year.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Thanks, Yanela.

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

Michael Ward
Analyst, UBS

Q

Thanks, guys. Good morning. I was wondering if you guys could dig in specifically a little bit more into the capabilities or kind of types of assets in asset management or for PGIM that you might be particularly interested in.

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

A

Yeah, Mike, thanks for the question. Let me start with, obviously, we already have a significantly scaled platform in PGIM. We're a $1.5 trillion asset manager, and we've been a market leader, particularly in public fixed income, real estate and private placements for decades.

But clearly, there are high growth areas that we've -as we've described, we're either underrepresented or we're not in those asset classes today at all. So, as we think about what we're going to lean into. Obviously, job one comes on building on our established strength in credit. That is the most important area writ large, because that obviously has very synergistic characteristics with growing and strengthening our insurance businesses.

But we also mentioned, there are other areas like infrastructure equity, like private equity from an asset class perspective. We also intend to globalize the business. and when we talk about that, you should be thinking about fundraising and clients and where we manage from and for, as the globalization of the business. Today, only a quarter of our business really coming from outside of the US. We think that's a really large opportunity.

And then if you look industry-wide, retail is and continues to be one of the higher growth areas. That's why we focus so much on our – organically growing out our ETF platform. But as we look at acquisitions, we will – we're looking at both, I'll call them, bolt-ons that add single capabilities to more holistic type things, but anything more holistic has to hit multiple buckets and work well for the business and the shareholder long-term.

Michael Ward
Analyst, UBS

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Thanks, Andy. And then on Japan, I'm just curious for you guys like, as you've kind of dealt with the challenges there and learned more through the situation, I'm just – can you expand on anything that gives you confidence in your ability to resume and continue growth, and new business production in the same way that you historically had there?

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

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Yes. So, I'll take that. First and foremost, job one is executing on, getting back to selling in POJ. We know what we need to do to resume sales on November 6th. We know the four major areas of work that we outlined in our remarks. and we've been very intentionally focused in controlling what we can control, so that we get to the place that we can resume sales. Your question is, longer term, what gives us confidence in Japan?

I would tell you that that is a market that we've been in for 40 years. We have a leading franchise, and we're seeing clear evidence. When you look at the business and you look at the fact that POJ sales generally, I'll give an average number, it used to be about 40% of the overall sales of Japan. and we have a significant operation like that not selling.

The fact that we're producing, in the other areas of the business, the fact that the earnings are so resilient shows how strong and how resilient that franchise is. So, we feel we are very well-positioned from the broad product portfolio that we have, recognize all the work that we've done to expand our offerings in Retirement.

All the work that we've done to expand our yen-based offerings, and how well those products are currently selling in the other channels. We've continued to work and expand our distribution, and we see clear evidence that the society wants us in the market and wants us to succeed in the market. So, we see the evidence that we need that this is a great market, first and foremost, large addressable with great tailwinds, and we have all the right capabilities, and we're going to come through this even stronger and show very good growth.

Michael Ward
Analyst, UBS

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Thanks, Andy.

Operator: Thank you. We have reached the end of our question-and-answer session. And ladies and gentlemen, 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.