

## Lincoln National

## 4Q23 operating EPS miss but management successful in swift capital rebuild

Reiterate Rating: NEUTRAL | PO: 27.00 USD | Price: 27.08 USD

## Lincoln reported 4Q23 op. EPS of \$1.45

This reflects a modest miss compared to our forecast of \$1.52 but a beat against the Street's estimate of \$1.31. All of the company's segments came in below our expectations except for Annuities, which exceeded our forecast for earnings even after excluding the one-time \$14mn favorable impact from model refinement. The company expects the year-end RBC ratio in the range of 400-410%, a 20pt improvement from 3Q23. We expect capital levels to improve further following completion of the sale of the wealth management business.

## Mixed flows; seasonality likely impacted Retirement

Annuities experienced net inflows of \$278mn, driven by very strong flows in fixed annuities as investors look to take advantage of potentially peak yields given expectations for rate cuts in 2024. Indexed annuity flows remained consistent with previous quarters with net inflows of \$838mn while variable annuities continue to experience outflows. Retirement also experienced net outflows of \$332mn, which is consistent with peers who have already reported their 4Q23 results. The last quarter of the year tends to have a degree of seasonality as its typically the time of year where fund sponsors and participant often make sponsor change and/or rollover decisions.

## 2024 outlook seems reasonable

Management also provided their 2024 operating income outlook by segment. We believe most of the target ranges seem reasonable and were previously captured in our model, however we made modest tweaks which have resulted in most segment estimates coming in at the midpoint. Management continues to be optimistic regarding the Group Benefits business, with expectations of 50-100bps of guidance improvement in 2024 while the segment is expected to achieve 3-year CAGR of 13-16% in operating income. We are currently on the lower end of the range at 13.6% growth from 2024E-26E.

## Price Objective remains \$27

Upon integrating 4Q23 results and incorporating management's 2024 outlook, our forward forecast for FY24E modestly declines while estimates for FY25E and FY23E rise. Our Price Objective of \$27 remains unchanged, which is predicated upon 40% of the year-ahead peer group multiple (8.1x, previously, 8x). Immaterial upside vs our PO underlies our Neutral recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(6.90)	5.22	6.85	8.30	10.15
GAAP EPS	7.78	(4.92)	6.85	8.30	10.15
EPS Change (YoY)	-184.1%	-175.7%	31.2%	21.2%	22.3%
Consensus EPS (Bloomberg)			6.67	7.60	7.81
DPS	1.80	1.80	1.80	1.88	1.96
Valuation (Dec)					
P/E	NM	5.2x	4.0x	3.3x	2.7x
GAAP P/E	3.5x	NM	4.0x	3.3x	2.7x
Dividend Yield	6.6%	6.6%	6.6%	6.9%	7.2%

08 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E EPS	7.05	6.85
2025E EPS	8.20	8.30
2026E EPS	9.25	10.15

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## Stock Data

Price	27.08 USD
Price Objective	27.00 USD
Date Established	16-Jan-2024
Investment Opinion	C-2-7
52-Week Range	18.50 USD - 36.21 USD
Mrkt Val (mn) / Shares Out (mn)	4,594 USD / 169.7
Free Float	98.9%
Average Daily Value (mn)	49.64 USD
BoFA Ticker / Exchange	LNC / NYS
Bloomberg / Reuters	LNC US / LNC.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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Timestamp: 08 February 2024 05:04PM EST

# iQprofile<sup>SM</sup> Lincoln National

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	6,087	3,671	6,706	7,033	7,376
Net Investment Income	5,516	5,945	5,237	5,410	5,570
<b>Total Revenue</b>	<b>17,963</b>	<b>16,027</b>	<b>18,575</b>	<b>19,293</b>	<b>20,040</b>
Total Cost of Benefits and Claims	(8,423)	(6,083)	(8,267)	(8,558)	(8,893)
S,G & A (Including Commissions)	(2,390)	(2,188)	(1,699)	(1,795)	(1,903)
<b>Total Operating Expenses</b>	<b>(19,601)</b>	<b>(14,991)</b>	<b>(17,120)</b>	<b>(17,629)</b>	<b>(18,166)</b>
<b>Pre-Tax Operating Earnings</b>	<b>(1,638)</b>	<b>1,036</b>	<b>1,455</b>	<b>1,664</b>	<b>1,874</b>
Income Tax Expense	471	(63)	(203)	(241)	(280)
<b>Operating Earnings After Tax</b>	<b>(1,181)</b>	<b>890</b>	<b>1,162</b>	<b>1,333</b>	<b>1,504</b>
<b>Net Income (Reported)</b>	<b>(1,181)</b>	<b>972</b>	<b>1,252</b>	<b>1,423</b>	<b>1,594</b>
Diluted Shares	173	171	170	161	148
Operating Earnings Per Share	(6.90)	5.22	6.85	8.30	10.15
Net Income (Reported) Per Share	7.78	(4.92)	6.85	8.30	10.15

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	134,997	127,696	132,744	137,998	143,464
<b>Total Assets</b>	<b>334,217</b>	<b>372,413</b>	<b>374,275</b>	<b>375,801</b>	<b>377,108</b>
Reserves	NA	NA	NA	NA	NA
LT Debt	5,955	5,699	7,565	7,565	7,165
<b>Total Liabilities</b>	<b>329,115</b>	<b>365,520</b>	<b>365,520</b>	<b>365,520</b>	<b>365,520</b>
<b>Total Equity</b>	<b>6,088</b>	<b>7,879</b>	<b>8,755</b>	<b>10,281</b>	<b>11,588</b>
<b>Total Equity (Ex FAS 115)</b>	<b>6,088</b>	<b>7,879</b>	<b>8,755</b>	<b>10,281</b>	<b>11,588</b>
Book Value per Share (Reported)	24.33	34.81	52.59	66.98	81.89
Book Value per Share (Ex FAS 115)	61.87	55.29	61.46	71.38	83.84

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
<b>Combined Ratio</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	28.0x	50.6x	44.9x	39.4x	34.4x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	8.3%	-39.7%	82.7%	4.9%	4.9%
Net Investment Income	-9.8%	7.8%	-11.9%	3.3%	3.0%
Total Revenue	-8.5%	-10.8%	15.9%	3.9%	3.9%
Operating Earnings per Share	-184.1%	-175.7%	31.2%	21.2%	22.3%
Asset	-15.3%	11.4%	0.5%	0.4%	0.3%
Reported Book Value per Share	-78.4%	43.1%	51.1%	27.4%	22.3%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NM	0.3%	0.3%	0.4%	0.4%
Operating Margin	-6.6%	5.6%	6.3%	6.9%	7.5%
Long Term Debt to Cap Ratio (Ex FAS 115)	49.4%	42.0%	46.4%	42.4%	38.2%
Net Income % Operating Income	98.8%	100.1%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Life

## Company Description

Lincoln National (LNC) is a diversified life insurer offering annuities, individual life insurance, group benefits, and retirement products and services. LNC's products are distributed through financial planners, wirehouses, banks, and managing general agents.

## Investment Rationale

LNC has been one of the most sensitive stocks in the sector to changes interest rates and equity markets, and a recent 3Q22 reserve charge reflects risk around mortality and lapsation assumptions as well. While Lincoln had demonstrated strong earnings growth and capital management over the last several years, one large charge, as seen in 3Q22, has cut short its ability to improve earnings and return capital. These factors combined for what we believe to be appropriately a Neutral rating.

## Stock Data

Average Daily Volume 1,833,229

## Quarterly Earnings Estimates

	2023	2024
Q1	1.52A	1.43E
Q2	2.02A	1.78E
Q3	0.23A	1.79E
Q4	1.45A	1.85E

## Price objective basis & risk

### Lincoln National (LNC)

Our PO of \$27 is based on 40% of the U.S. large-cap life peer year-ahead (2025) P/E multiple of 8.1x on our 2025 EPS estimate. The discount is in line with the stock's more recent historical relative valuation likely due to the higher capital intensity of Lincoln's businesses. The recent 3Q22 assumption review charge leaves it less able to execute on capital return initiatives relative to peers, and for this we believe the discount justified.

Downside risks to achieving our PO are a severe equity market decline, persistently low interest rates, lower than expected flows and sales, and lower than anticipated capital deployment. There is also upside risk, as noted in our PO, which is not insignificantly above the current price. However, we believe current risks justify a higher requirement to recommend ownership. However, a strong rally in equity markets will likely accrue to higher fee income and diminished concerns around capital, which could push the stock higher. A resumption in share repurchases and dividend increases would also be reflected positively in the stock.

## Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker



## US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Unum	UNM	UNM US	Joshua Shanker
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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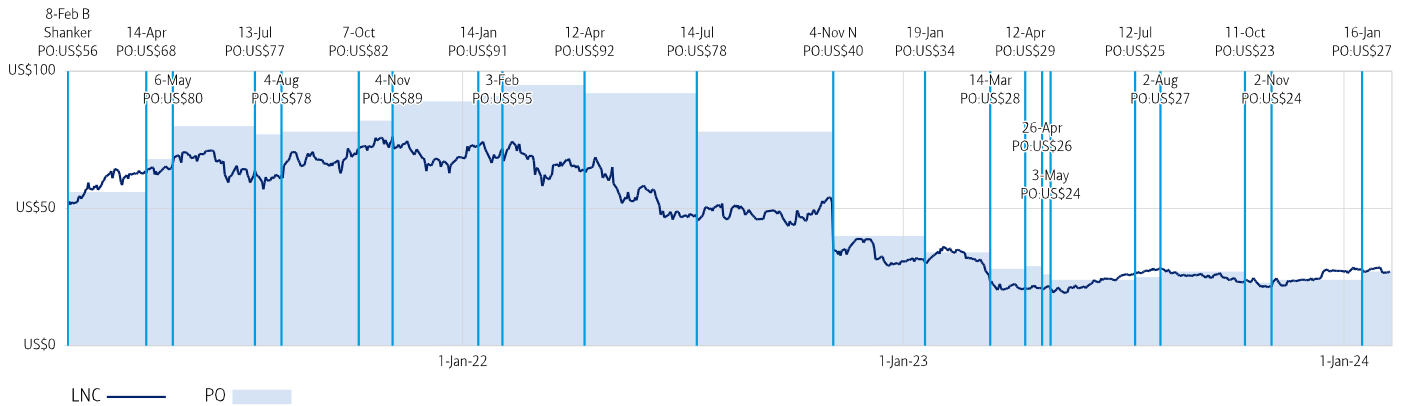
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### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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