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Lincoln National Corp. (LNC)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for joining Lincoln Financial Groups Second First Quarter 2024 Earnings Conference call. At this time, all lines are in a listen-only mode. Later, we will announce the opportunity for questions, and instructions will be given at that time. [Operator Instructions]

Now, I would like to turn the conference over to Senior Vice President, Head of Investor Relations, Tina Madon. Please go ahead.

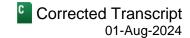
Tina Madon

Senior Vice President & Head-Investor Relations, Lincoln National Corp.

Thank you. Good morning, everyone, and welcome to our 2024 first quarter earnings call. We appreciate your interest in Lincoln. Our quarterly earnings press release, earnings supplement and statistical supplement can all be found on the Investor Relations page of our website, www.lincolnfinancial.com. These documents include reconciliations of the non-GAAP measures used on today's call, including adjusted income from operations or adjusted operating income, and adjusted income from operations available to common stockholders to their most comparable GAAP measures.

Before we begin, I want to remind you that any statements made during today's call regarding expectations, future actions, trends in our businesses, prospective services or products, future performance or financial results, including those related to deposits, expenses, income from operations, share repurchases, liquidity and capital resources are forward-looking statements under the Private Securities Litigation Reform Act of 1995.

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These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from our current expectations. These risks and uncertainties include those described in the cautionary statement disclosures in our earnings release issued earlier this morning, as well as those detailed in our 2023 Annual Report on Form 10-K, most recent quarterly reports on Form 10-Q, and from time-to-time in our other filings with the SEC. These forward-looking statements are made only as of today, and we undertake no obligation to update or revise any of them to reflect events or circumstances that occur after today.

Presenting this morning are Ellen Cooper, Chairman, President and CEO; and Chris Neczypor, Chief Financial Officer. After their prepared remarks, we'll address your questions.

Let me now turn the call over to Ellen. Ellen?

Ellen Gail Cooper

Chairman, President & Chief Executive Officer, Lincoln National Corp.

Thank you, Tina, and good morning, everyone. Thank you for joining our call today. During the second quarter, we continued to make steady progress toward the three objectives we outlined earlier this year: build upon a strong capital foundation to ensure enterprise stability across market cycles and support investment for future growth; optimize our operating model to advance a scalable framework to maximize our resources; and deliver profitable growth to improve free cash flow and grow the franchise.

Let me briefly touch on each of these objectives, starting with foundational capital. We are pleased to update you that we ended the quarter with an estimated RBC ratio of more than 420%, as we successfully closed the sale of our wealth management business. In our investor outlook from earlier this year, we communicated our goal to build and maintain an RBC buffer of 420%, 20 points over our 400% RBC target, as we continue to take the necessary steps to minimize our capital volatility. The combination of the build of capital above our target level and the actions we are taking to increase free cash flow generation should provide greater capital flexibility over the next few years. This is an important milestone as we position our business for its next chapter.

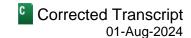
We also made further progress in optimizing our operating model this quarter and started to see the benefits of the expense reductions we made earlier this year. Additionally, we received the license for our affiliated Bermuda subsidiary, which will help us stay competitive in new business segments and support our financial objectives, such as enhancing our free cash flow.

Lastly, we advanced against our objective of delivering profitable growth as we transform Lincoln into an organization characterized by businesses, segments, and products with more stable cash flows and higher risk-adjusted returns.

As we look ahead, we expect to continue to grow and diversify our group business across products and market segments, evolve our annuity business with a well-balanced product mix that includes expansion of spread and spread-like products, reposition our Life business to emphasize more risk-sharing and accumulation products, and position our Retirement business for future growth.

We are a market leader in our at-scale businesses and we'll leverage our competitive advantages, including our powerful franchise, trusted brand, distribution leadership and broad product portfolio, to lay the groundwork for future expansion. While this is a multiyear journey and the strategic realignment in each of our four businesses is at different stages, we are executing well, as demonstrated this quarter in our overall sales levels and, most importantly, in our sales mix.

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Turning to our second quarter performance, our results were solid and exceeded our expectations as we continued to execute on our strategic priorities with a few key highlights. Our Annuities business grew earnings by 10% year-over-year, delivering its highest earnings quarter in two years and achieving its second strongest sales quarter in over four years.

Group Protection continued its momentum, delivering earnings in line with its record prior-year quarter and strong sales growth across all products and segments. Our Life business, excluding the impact of below-target alternative investment income, delivered earnings in line with our expectations and a sequential increase in sales. And finally, Retirement Plan Services produced sequential earnings growth and sales within the range of the last few quarters.

Now turning to Retail Solutions, which includes our Annuities and Life businesses. Our annuity strategy focuses on growth while shifting to a more balanced mix. We aim to achieve this by expanding our addressable market and enhancing our competitiveness through the optimization of our capabilities. The strong earnings delivered this quarter in our Annuities business were broad-based and reflected continued progression and solid returns on a diversified book of business. Total annuity sales of \$3.8 billion were up 48% from the prior-year quarter. Sequentially, sales were up 34% and sales levels were higher across all product categories, with more than 70% of the overall sales in the quarter in spread and spread-like products.

We are building on our longstanding relationships with distribution partners to further expand shelf space in select product categories and utilizing our leading distribution framework to provide marketing, training, and data to support our partners and enlarge our footprint. Our fixed sales more than doubled year-over-year and increased more than 70% sequentially, as we applied the capabilities we have built over the course of the last year to sustain a consistent and growing competitive presence in the fixed marketplace.

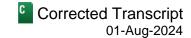
RILA also continued to be a strategic focus and demonstrated solid momentum, with sales increasing by more than 15% sequentially. We successfully launched our second-generation product in the quarter. And although it is still early, the refreshed features and unique crediting strategies are resonating in the market. VA with guaranteed living benefits sales were up 28% year-over-year and continue to be integral to our overall product solutions while delivering a strong customer value proposition. However, this product category remains a smaller contributor to our total annuity sales, representing less than 20% of sales in the quarter.

In summary, these results reflect the strength of our Annuities business as we continue to achieve our objectives for a balanced product mix, while providing customers with a broad range of solutions to fulfill their evolving needs.

Now turning to Life. We achieved 15% sequential sales growth as a result of our ongoing strategic realignment. We are adapting our business to focus on products with more stable cash flows and higher risk-adjusted returns, and we are supporting this by repositioning our Life distribution team to optimize our wholesaler's footprint. This will improve our reach and elevate our coverage, and by doing so, we aim to better enable and accelerate our product shift. While the realignment of our Life business will take time, we are confident that leveraging our strengths in product, distribution and underwriting, while strengthening our customer-centric service, will increase our competitive differentiation and drive higher earnings growth.

Next, turning to Workplace Solutions, which includes our Group Protection and Retirement Plan Services businesses. Within Group, our strategy is to grow and achieve sustainable target margins by diversifying our business across products and market segments with an emphasis on expanding our presence in small market

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and supplemental health. Group delivered another excellent quarter and we are very pleased with the results and strategic momentum of this business.

Adjusted for the timing impact of an experience refund that Chris will further discuss, earnings were in line with its record prior-year quarter, resulting in an 8.2% margin. We continue to prioritize margin expansion over top line growth. Premium growth of 3% reflected disciplined new business and renewal pricing, combined with persistency in line with our expectations, reinforcing the strength of our relationships and ability to deliver value to our customers.

Sales levels for the second quarter, which have typically accounted for 15% to 20% of our annual sales volume, increased by 68% compared to a lower than usual quarter last year. This growth spanned all products and market segments, driven primarily by new business from existing customers, including supplemental health. These results highlight our continued execution to diversify our business and achieve profitable growth.

Our targeted segment strategies, which are key pillars of our margin expansion efforts, are gaining further traction as we offer tailored solutions within each segment. As we continue to grow our leadership position in national and regional markets, we are also building the necessary capabilities to accelerate the expansion of our presence in the small market segment, with strategic investments in talent, capabilities and technology.

To accelerate the pace at which our Group business evolves, we are meeting our customers where they want to be met, expanding our digital and self-service capabilities, upgrading our underwriting technology and reengineering our client service model. These investments, along with expanded product offerings, are driving our growth. We are confident that executing our strategy to deliver sustainable results will help our Group business become a more significant part of our overall business mix.

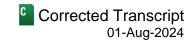
Now turning to Retirement Plan Services, or RPS. In RPS, our strategy is to continue growing in our core record keeping and institutional market segments through our differentiated service model. RPS's quarterly results were in line with our expectations. Although earnings declined year-over-year due to lower spread income, they grew 11% sequentially due to higher account balances and expense improvement. While first year sales were flat year-over-year, total deposits increased by 13%. And as we look ahead to the remainder of the year, we continue to have a strong pipeline of known wins across all of our segments, which we anticipate will materialize beginning in the third quarter of this year.

We continue to invest in RPS, benefiting from our flexible model to enhance the products and services we offer our customers. We are also increasing the operational efficiency of this business, which is consistent with our objective to optimize our overall operating model.

In closing, I want to reiterate our conviction in our strategic repositioning. We see substantial opportunity to continue transforming Lincoln. Our foundation is built on at-scale retail and workplace businesses, with leading distribution and a strengthened balance sheet. Our focus is on leveraging our competitive advantages to evolve our businesses, enhance differentiation and create a platform for sustainable growth, increasing profitability, operational efficiency and greater capital flexibility. Our strong second quarter performance sets the stage for further momentum. We are confident in our ability to deliver results that will drive long-term value creation for our shareholders. I look forward to sharing further updates with you in the coming quarters.

With that, let me now turn the call over to Chris.

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Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

Thank you, Ellen, and good morning, everyone. Our second quarter results demonstrated further execution against our strategic priorities, and our underlying results came in at the high-end of our expectations. I'm going to focus on three areas this morning. First, I'll recap our second quarter results, including a review of our segment-level financials. Second, I'll touch on capital. And third, I'll review our investment portfolio.

So, let's start with a recap of the quarter. This morning, we reported second quarter adjusted operating income available to common stockholders of \$319 million or \$1.84 per share. There were no significant items in the quarter, but there were two normalizing items. First, our alternative investments portfolio delivered a 4% annualized return in the quarter, or \$36 million. On an after-tax basis, this amount was \$41 million below our return target or \$0.23 per share. Second, there was a \$23 million benefit in Group Protection due to the timing of an experience refund. I'll touch on this further when discussing our segment results.

Now, turning to net income for the quarter, we reported net income available to common stockholders of \$884 million or \$5.11 per diluted share. The difference between net and adjusted operating income was predominantly driven by three factors that impacted net income. The first was a favorable impact of \$436 million related to the closing of the sale of our wealth management business. The second was a favorable impact of \$198 million within nonoperating income. This was driven by a net positive movement in market risk benefits that resulted from higher interest rates in equity markets in the second quarter and was inclusive of hedge program performance.

The third was a positive change of \$158 million in the fair value of the GAAP-embedded derivative related to our Fortitude Re reinsurance transaction. This change was primarily driven by the impact of higher interest rates on available-for-sale securities in the funds withheld portfolio backing the agreement, with the corresponding offset flowing through accumulated other comprehensive income, or AOCI. Partially offsetting these positive impacts were GAAP accounting losses driven by the expected turnover of assets by Fortitude Re in our reinsured block.

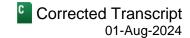
Now turning to the segment results. Let's start with Group, which reported a record quarter with operating income of \$130 million and a margin of 10%, compared to \$109 million in the prior-year quarter and a margin of 8.6%. Of note, included in this quarter's result was a \$23 million benefit within our disability results from the timing of an annual experience refund related to one state's paid family leave program. In prior years, this benefit was recognized in the third quarter. Excluding this benefit, Group's operating income was \$107 million and a margin of 8.2%.

Group's results this quarter are a continued reflection of the execution of our strategy to diversify our book of business and maintain discipline in our pricing actions. Additionally, the benefits from the favorable macro backdrop, including low unemployment and a supportive interest rate environment, persisted in the quarter.

Turning to Group product line results for the quarter. The Group life loss ratio was 76% this quarter, 4 percentage points higher versus the prior-year quarter. The increased loss ratio was driven by severity volatility as our mortality trended towards younger age populations who typically have higher benefit amounts. For disability, the loss ratio was 66% this quarter, decreasing by approximately 5 percentage points year-over-year. The timing of the annual experience refund accounted for 4 percentage points of this improvement. The loss ratio was favorable relative to our longer-term expectations and benefited from record low claim incidents and strong LTD recoveries, enabling positive return-to-work outcomes for our claimants.

As we look to the second half of the year, there are a couple of items to keep in mind. First, disability results are seasonally favorable in the first half of the year, and we expect moderation of the strong results in the third and

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fourth quarters, consistent with historical trends. And second, as I mentioned earlier, our third quarter results have historically included the benefit from the annual experience refund.

Overall Group results continue to reflect our commitment to and execution against our margin expansion strategy. And while the results in the second half of the year will moderate relative to the record results we experienced in the first half, we remain confident that our results will be at the high-end of our 50 to 100 basis points of expected margin expansion in 2024.

Now turning to Annuities. Annuities reported operating income of \$297 million, compared to \$271 million in the prior-year quarter. On a sequential basis, results improved \$7 million, excluding the unfavorable significant items that impacted first quarter results. The year-over-year and sequential improvements were broad-based, driven by higher account balances, increased spread income and reduced expenses.

Turning to account balances. Ending account balances totaled \$160 billion, a 5% increase versus the prior-year quarter, as higher equity markets more than offset the impact of outflows. Overall outflow levels were elevated in the quarter, which was expected given the higher interest rate environment and strong equity market performance. However, net flows improved relative to the first quarter due to strong sales in both fixed and variable annuities.

At the end of the quarter, general account products represented more than 25% of total account balances as we continue to focus on expanding our spread and spread-like product lines. RILA now represents 20% of total account balances, up 4 percentage points versus the prior-year quarter. This quarter's results reflect not only the strength of our in-force Annuities business, but also our continued execution of our product mix shift. Our Annuities business remains well-positioned to deliver strong earnings in the second half of the year.

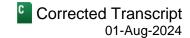
Now, turning to Retirement Plan Services, which reported operating income of \$40 million compared to \$47 million in the prior-year quarter. The decline was primarily driven by elevated participant-driven stable value outflows over the last 12 months resulting from higher interest rates, partially offset by reduced net G&A expenses. However, results increased by \$4 million or 11% sequentially due to higher account balances and lower net G&A expenses.

Our base spread for the quarter was 103 basis points, compressing roughly 15 basis points compared to the prior-year quarter. In the current rate environment, we expect spreads to stabilize at around 100 basis points in the second half of the year. While stable value outflows persisted in the quarter, the quarterly trend continues to be encouraging and we experienced our lowest level of stable value outflows in the last seven quarters.

Now turning to account balances. Average account balances for the quarter increased over 13% year-over-year and end-of-period account balances were nearly \$108 billion, up 12% versus the prior-year quarter. Overall, this sequential improvement reflects our disciplined focus on revenue growth and continued focus on expense efficiencies, and we remain well-positioned to deliver solid earnings in the coming quarters.

Lastly, turning to Life Insurance. Life reported an operating loss of \$35 million compared to operating income of \$33 million in the prior-year quarter, as the run rate impacts of the Fortitude Re transaction and below-target alternative investment income were partially offset by lower expenses. Mortality in the Retail Life business was in line with expectations this quarter, as slightly elevated mortality in our universal life business driven by a small number of high face amount claims was offset by favorability in our term business.

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Net G&A expenses for the quarter were down \$11 million versus the prior-year quarter, reflecting the targeted expense reductions we made in the first half of the year. Overall, while lower alternative investment income pressured Life's reported earnings this quarter, the underlying result was in line with our expectation, reflecting the strategic actions we've been taking to improve the earnings profile of this business. We expect favorability from mortality's seasonality and the actions we have taken on expenses to support improvement in the Life business in the second half of the year.

Let me now touch briefly on company-wide expenses. Managing expenses remains a key strategic area of focus. In the first quarter, we announced actions that were focused on reducing organizational complexity, resulting in a reduction in head count across the organization, in addition to the ongoing efforts focused on removing unnecessary discretionary spending. As a result of these actions, excluding significant items from the first quarter of this year, G&A expenses have declined both sequentially and year-over-year.

As we think about expenses more broadly, I want to highlight three items. First, seasonal items, particularly higher sales volumes, drive sequential expense growth over the course of the year. We saw those impacts in the second quarter and will continue to experience this impact in the second half of the year. Second, we continue to evaluate opportunities to invest in talent, process efficiencies and technology to improve the overall profitability of our businesses. And third, while the financial outcomes from our actions earlier this year strengthened the efficiency of our operations, we continue to see further opportunity to rationalize our expense base while growing the franchise alongside our strategic objectives.

Shifting to capital, we ended the quarter with an estimated RBC ratio above 420%. As a reminder, our target RBC ratio is 400%, and we view a 420% RBC level as allowing a buffer to maintain our target RBC during a recessionary environment. As we discussed last quarter, the sequential improvement was driven by the completion of the sale of our wealth management business to Osaic, delivering roughly \$650 million of statutory capital benefit. Our leverage ratio improved 120 basis points sequentially to 28.9%, driven by the after-tax gain related to the close of the Osaic transaction and paydown of outstanding debt of over \$50 million.

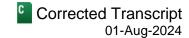
Overall, as Ellen mentioned, achieving an RBC ratio above 420% is a key milestone, reflecting the targeted actions we've taken to rebuild and protect capital and should provide significantly greater capital flexibility over the next few years.

Lastly, I want to provide an update on our newly licensed Bermuda-based reinsurance subsidiary, LPINE. In June, the Bermuda Monetary Authority issued a Class E license for LPINE, a wholly owned subsidiary of LNC. Additionally, we executed an initial reinsurance transaction covering in-force blocks of fixed indexed annuities and certain group disability business to drive scale into the entity. Looking ahead, LPINE will operate as an affiliated life and annuity reinsurance company. We are very pleased to join the Bermuda marketplace.

The creation of LPINE and the increased reinsurance capacity centered around affiliate flow reinsurance for new business will support our strategy of improving free cash flow and ensuring a competitive presence in the products and markets that are in line with our long-term strategic objectives. We expect to achieve the initial phase of this new business flow support later in 2024 or early 2025.

Now moving to investments. Overall performance was solid and continues to reflect the high-quality nature of our portfolio. The portfolio remains 97% investment-grade and continued to deliver positive net ratings migrations. Similar to last quarter, I want to provide three updates on the portfolio. First on our general account optimization efforts, second on our commercial mortgage loan portfolio, and third on our alternative investment performance.

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Starting with the progress on our general account portfolio optimization efforts, where we continue to leverage our multi-manager platform to drive increased value to the organization. We experienced sequential improvement in our new money yield in the second quarter, with new money invested at a 6.9% yield. While a portion of this increase was driven by higher rates, the primary driver was a targeted shift in our asset mix to less liquid assets and high-quality structured products. As we look ahead to the second half of the year, we expect continued progress as we execute our optimization strategy, which will further support spread earnings and product competitiveness.

Next, a brief update on our commercial mortgage loan portfolio. The portfolio remains high-quality and represents 15% of total invested assets, with office representing only 2.9% of total invested assets. Office is going through a longer-term transition and there are headwinds in the sector, but we believe we are well-positioned to navigate the environment. As discussed on prior calls, near-term maturities within our office portfolio remain manageable and are conservatively positioned from a debt service coverage and loan-to-value perspective. Additional details on our CML portfolio can be found in our quarterly earnings supplement.

Lastly, our alternative investments generated a quarterly return of 1% this quarter, below our quarterly expectation of 2.5%. As a reminder, our alternatives portfolio is comprised of a diverse mix of private equity and real asset strategies, with relatively small allocations to hedge fund and real estate-related strategies. However, over the last several quarters, our returns have been slightly below expectations, primarily due to lower merger and acquisition activity, which has reduced the pace of realizations in certain private equity strategies, and higher interest rates, which negatively impacted valuations on certain sub-strategies, such as real estate. As we look ahead to the third quarter, similar to recent quarters, we expect alternative investment returns to be moderately below the 2.5% expectation.

In closing, I want to reiterate three points. First, building a strong capital foundation has been a primary focus. With the execution of key strategic initiatives over the last year, including the closing of the sale of our wealth management business this quarter, we have made significant progress towards building the capital foundation that will support enterprise stability across market cycles and ensure investment for profitable growth. Second, the momentum in our earnings this quarter reflects the progress being made from our operating model optimization effort and ongoing expense discipline. And third, while we are pleased with the progress we've made, our overall focus remains unchanged as we execute against our longer-term strategic objectives to maintain a strong balance sheet, improve free cash flow, and grow the franchise.

With that, let me turn the call back over to Tina.

Tina Madon

Senior Vice President & Head-Investor Relations, Lincoln National Corp.

Thank you, Chris. We'll now begin the question-and-answer portion of the call. Please limit yourself to one question and one follow-up, and then requeue if you have additional questions.

Now, let me turn the call over to the operator to begin the Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question today comes from the line of Ryan Krueger from KBW. Your line is open.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

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Hey. Thanks. Good morning. My first question was on free cash flow. Can you just – I guess, first, can you just – can you give us a rough sense of what your first half of the year free cash flow was?

Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

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Hey, Ryan. Good morning. So, look, I think what I would say is, you can get a sense from the growth in capital and the continued paying of the common dividend and see that we're on track relative to the longer-term outlook that we put out earlier this year. So as a reminder, the three-year outlook that we had talked about was a 35% free cash flow conversion in 2023, growing to 45% to 55% in 2026.

I think at the time, as a reminder, what we said was there's going to be puts and takes each quarter as we make the longer-term investments to make sure that we get to that three-year number that we're targeting. So, I think if you step back, if you think about first quarter, right, we generated the capital that we had thought we would. And then we used some of it for severance, given some of the expense actions that we took. This quarter, we used some of the proceeds from Mosaic as an example for de-leveraging. And then we're able to set up LPINE, whereas I think we mentioned we started the entity in an over-capitalized position as we get ready for thinking about executing on the flow deal.

So at the end of the day, if you think about it and step back, we're making the progress that we had thought about and communicated as part of the outlook. We are on track to get to that 45% to 55% free cash flow conversion by 2026. We've got some wood to chop still, but this quarter was a big step forward, both from getting to the 420% RBC, bringing the leverage ratio down and executing on LPINE.

So, there's going to be puts and takes each quarter. I think at the end of the day, if you look at the progress that we're making relative to what we had described as the path to get to the 2026 numbers, you can feel confident that we're making the progress that we need to make.

Rvan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks. And then on Bermuda, can you give us any more sense of how much capital did you originally contribute to it? What was the impact of the loss you initially ceded and then kind of how are you thinking about the magnitude of internal reinsurance going forward?

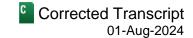
Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

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Sure. So, the establishment of the Bermuda entity is an important step forward. It's one of the key strategic objectives that we talked about as you think about executing on – competing in the products and end markets that

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are going to be critical to achieving our strategic objectives over the next couple of years. So really thinking about growth in spread and spread-like products.

I think step one for us was to establish the entity. We worked with Bermuda for the past year. We got licensed this quarter. We feel really good about that. We ceded about \$7 billion, plus or minus, in fixed annuities and then a little bit less than that in disability reserves. And really the goal there is to create scale at inception and a block that will throw off free cash flow going forward. I will also say that we over-capitalized the entity relative to its long-term target, again, with the goal of being able to execute a internal flow deal in the next couple of quarters. We're not going to get into all the different puts and takes capital for LNL versus LPINE. The capital is still in the system. But you can get a sense for the scale relative to the reserves that we moved down there.

At the end of the day, the next step will be to execute on a new business flow reinsurance agreement. We're working through that now. I think over time, there will be a number of different products that look attractive in Bermuda. As an example, fixed annuities, we do have a flow deal in place with an external partner, but we also retain a substantial amount of the sales that we generate there. So, one example, I think fixed annuities work very well in the economic framework that is Bermuda. So more to come, but it's a good step and we're really pleased with the progress.

Ryan Krueger Analyst, Keefe, Bruyette & Woods, Inc.	C
Great. Thanks a lot.	
Operator: Your next question comes from the line of Nick Lu from Evercore. Your line is open	
Nicolas Lu Analyst, Evercore ISI	C

Thank you. So, for the Group Protection sales, it was very strong year-over-year. Just wanted to – in line with some recent peer commentary on elevated pricing competition, just wanted to see how comfortable are you guys feel about the pricing adequacy and new sales going from here. Thank you.

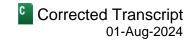
Ellen Gail Cooper Chairman, President & Chief Executive Officer, Lincoln National Corp.

Sure. So, I'm happy to take that, and good morning. So, what we have seen is that, first of all, the environment as it relates to Group and sales has been and remains competitive. Having said that, we are not seeing any noticeable change in the landscape. We view the market as competitive, and it always has been, but largely rational. We have seen an uptick in some new entrants into the market. Most of those carriers tend to start in the small market segment. And at this point in time, those new entrants, they have not had a material impact on the market to date.

I want to also just mention that success in the Group business is very much predicated on really having the proper balance, as we have been messaging, between prioritizing margin over growth, and then importantly, operational and service needs. And the capabilities and the infrastructure that are required to really service, serve and grow the Group Protection business are just critical in terms of how to think about ultimately being successful in this business.

So, as we've mentioned, we are very much targeting differentiated strategies across market and we're also in the process of refreshing all of our product. We very much remain disciplined as it relates to pricing, and that's

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reflected in the fact that we've got 3% overall premium growth. That's a combination of new business and also renewal pricing. And we feel very comfortable in terms of where we are and how, again, we are prioritizing that margin over growth.

Nicolas Lu

Analyst, Evercore ISI

Thank you. And the follow-up is on annuities. Sales was also very strong, both year-over-year and sequentially, especially on fixed annuities. Was there any particular key driver that you will point to as to what was behind that? Thank you.

Ellen Gail Cooper

Chairman, President & Chief Executive Officer, Lincoln National Corp.

Sure. So, we are very pleased with our 48% overall year-over-year increase in annuity sales. As we mentioned in our upfront remarks, annuity sales for the quarter came in at \$3.8 billion and we saw a very significant increase in our fixed annuity sales.

We spent the better part of last year building a number of the operational capabilities that were required to be able to have a consistent presence in the fixed market. And so examples of that, and Chris mentioned one of them, was to put an attractive flow agreement in place with an external provider of that. We also focused on leveraging our distribution relationships and we established consistent shelf space with some of our key strategic partners. And we also refined and are utilizing our strategic asset allocation. And going forward, as Chris mentioned, we also have the opportunity, now that we have our Bermuda affiliated reinsurer set up, to leverage that to continue to drive sales and growth in the fixed market.

We also, although we saw RILA sales year-over-year relatively flat, down about 2%, we saw a sequential increase there of over 15%. And RILA has been an important product segment for us. We were one of the earlier entrants into the RILA market more than five years ago. We continue to maintain a significant competitive presence there. And in the quarter, we refreshed our RILA product. And we have some unique features that we offer in our RILA product that enable us to compete there on product features over price, which we think is very valuable.

And then as you all know, variable annuity has been and continues to be an important part of our overall annuity strategy. VA with guarantees represented about 16% of our overall annuity sales. We're comfortable with annuities at that level. We're achieving good target returns and we feel, again, very good about where we are.

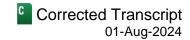
Operator: Your next question comes from the line of Suneet Kamath from Jefferies. Your line is open.

Suneet Kamath

Analyst, Jefferies LLC

Thanks. Good morning. I wanted to start on expenses. Obviously, we've talked about expense improvement is a pretty important part of the free cash flow improvement story. So, I just want to get a sense of maybe what the sort of target is and what's really the best way to measure it. Because, obviously, you're making efficiency moves, but then you're also investing in the business. And so, I think externally, sometimes it's hard to actually see that progress. So, are there some metrics that you would point us to that kind of track how you're performing against that?

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Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

Hey. Good morning, Suneet. Thanks for the question. So I think, big picture, one of the framing points that we've made in the past is, if you go back a couple years, G&A expenses in aggregate are up \$200 million for the company, right? And so, just as a starting point, given the environment that we're in, there certainly seems room for optimization. So, that's the first big picture point.

I think, to your specific question, if you look at a business unit level, that's probably the best way to go about it, because for each business, there's going to be different metrics and different need for investment versus room for optimization. Group is a great example where we're seeing a lot of investment and, it'll come through in higher expenses, but the offset will be better margins overall.

On the Life side, I think if you look at the quarter, second quarter net G&A expenses were \$125 million, down from \$130 million last quarter and a year ago, \$136 million, right? And so, we see opportunity in each of the different businesses that's slightly different. We continue to make investment where we need, but at the end of the day, we just think in aggregate, there should be a significant expense to come out over the next couple of years. We started that this year. We see more room to go. And I think ultimately, it's incumbent on us to highlight the metrics that we think are critical at a business unit level. And that's something that we continue to look at.

You can look at the operating expense ratio for the company. Obviously, to the degree that the denominator has some volatility in it, we try to normalize for that. But generally speaking, I would say when you look at a business unit level, you should see in aggregate the G&A expenses come down and then, in certain pockets, expenses reflecting investment, but coming through in other ways in terms of margin. Does that help?

Suneet Kamath

Analyst, Jefferies LLC

Yeah, that's helpful. And obviously, any more detail you guys can provide would be helpful as well. In terms of my follow-up, I wanted to follow up on Annuities. Ellen, it looks like second quarter here was going to be a record for the industry and I just wanted to get your thoughts on what's behind that, how sustainable is that. And are you seeing any irrational behavior in terms of your competitors? So, maybe a perspective on the industry would be helpful and then a perspective on Lincoln, if you could. Thanks.

Ellen Gail Cooper

Chairman, President & Chief Executive Officer, Lincoln National Corp.

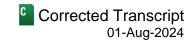
Sure. So, we continue, exactly to your point, to see first of all that there's just significant customer demand and we think it's a combination of a couple of things. Number one is that we know that there is a demographic trend here where we have more Americans turning 65 this year and for the next four years than we ever have in history. And so you really have a need for deferred savings and for retirement planning is one thing.

And secondly, we know that interest rates are still at relatively higher than they certainly had been for the previous decade. So that is another thing that is also driving some of the customer value proposition. And then we also know that some of the operational capabilities that we just talked about that we built last year that a number of competitors have built similar types of capabilities as well that enable them to be in the annuity space as well. So we think all of that is factoring in.

Similar to what I had said previously about Group is that annuity and the annuity landscape is definitely competitive. We are all, from best that we can see, being largely rational. And we are ensuring, importantly, that



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we are achieving our target returns. And we've talked about the fact that capital efficiency is important to us and ensuring that we've got the appropriate risk-adjusted returns in our annuity products in each of the segments in aggregate and across all of our products. So, I hope that helps, Suneet.

Suneet Kamath

Analyst, Jefferies LLC

Yeah, that's helpful. Thanks.

Operator: Your next question comes from the line of Wes Carmichael from Autonomous Research. Your line is open.

Wes Carmichael

Analyst, Autonomous Research US LP

Hey. Good morning. Thanks for taking my question. My first question was on leverage. And now that RBC is above your buffer, you mentioned deleveraging as a priority, but the ratio did come down a bit under 29%. And I think there's roughly \$300 million of pre-funded debt for March of next year. So, given that, I mean, do you think there's more work to do after that maturity or are there other pieces I'm missing?

Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

So, Wes, you're right, the leverage ratio came down. I think it peaked last year at around 30.7%, 30.8%, somewhere around there. We're now down to 28.9%. As a reminder, what we've said is the long-term goal is closer to 25%. So, we certainly still think there's room to go. There's work to be done. I think you can accomplish that in a couple of different ways. You can continue to build equity, which obviously we did this quarter, partly just from the natural earnings of the company, but also from the gain on sale from LFN. You can continue to look at proactively buying in debt. We did some of that this quarter as well. We repaid \$50 million of our term loan. And then there's the combination of looking longer term at attractive liability management tools, all of which are on the table.

So, at the end of the day, we also have the preferred that will come due or we'll have the opportunity to buy in, in a couple of years. That's a priority as we've talked about at length. So, I think if you put all that together, you would say we're not done. We think that the end goal for leverage is lower than where it is today. And at the moment, we're balancing deploying capital into areas that achieve our goals and get the best return for the dollar invested at the same time that we're looking to bring leverage down.

Wes Carmichael

Analyst, Autonomous Research US LP

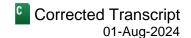
Got it. Thanks, Chris. And I guess my follow-up would be on the Group business again. And results across the industry have been very strong. And I know you expected a little moderation maybe in disability in the second half of the year. But do you think – given the environment we're in, we're probably above the top end of your 5% to 7% margin target. I think you're kind of targeting 7%. But do you think there's a little bit of room to run above that in the near term?

Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

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So I think that the range that we provided in terms of improvement this year still holds. So we communicated a 50-to 100-basis-point improvement for 2024, and as a reminder, we ended last year at 5.5%. So, if you look at the – and there's noise, right? But if you look at the first half of 2024 versus the first half of 2023, you're basically tracking at the high-end of that range, right? So, we're still within the range, but we're at the high end.

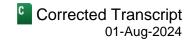
And then as a reminder, as I said in the prepared remarks, there's seasonality in our Group business, right? So, if you look at last year's second half, I think broad strokes, the number would be somewhere around a 4% margin, 3.8%, 3.9%, somewhere around there, relative to the 7.1% in the first half, gets you to the 5.5%, right? So, it is important to just understand that the seasonality of our Group results will bring earnings down relative to the second guarter and first quarter, but year-over-year, you'll continue to see that improvement.

The last thing just to – I mean, like we said in the prepared remarks, but just to reiterate, the benefit that we received this quarter from the experience refund, you normally get in the third quarter, we got it in the second quarter this year. So, when you think about your estimates, just make sure that you're factoring that in. At the end of the day, relative to the first half and what we see at the moment, we still think the prior guidance holds and it's probably at the higher end of that range, to your point.

Francis, en are righter even a manual gas, to your parish	
Wes Carmichael Analyst, Autonomous Research US LP	Q
Thank you.	
Operator: Your next question comes from the line of Brian Meredith from UBS. Your line is op	oen.
Justin Tucker Analyst, UBS Securities LLC	Q
Hi. This is Justin Tucker on for Brian. My first question is on Group. You mentioned higher mort younger age group. Could you kind of unpack that a little more and what's kind of driving that tr see it going forward? And additionally, are there any other age groups that you're seeing higher Thank you.	end and how you
Christopher M. Neczypor Executive Vice President & Chief Financial Officer, Lincoln National Corp.	A
Thanks for the question. Look, I would say that it's – you get volatility in any given quarter in our business. So, I wouldn't read too much into it. I think the point was explaining the year-over-year loss ratio. When you have a handful of claims that come through in the younger age cohorts, the higher mortality attached to it because the expected earnings from those folks are higher, all else at the end of the day, there's volatility in the severity in the Life business – in the Group Life bus I wouldn't read too much into it from a trend, but it helps to explain what happened this quarter.	ar increase in the nat can just have se being equal. But siness. And I just –
Justin Tucker Analyst, UBS Securities LLC	Q
Got it. And then my second question is on – so now that you have that RBC ratio at the 420% reflexibility that Bermuda gives you, how do you kind of think about capital return going forward?	

opportunities for M&A that you're kind of focused on or are you more focused on organic growth? Thank you.

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Christopher M. Neczypor

Executive Vice President & Chief Financial Officer, Lincoln National Corp.

Yeah. Thanks for the question. Look, so I think I would reiterate what we discussed as part of the investor outlook. We are thinking on capital return hasn't changed. I think there are a number of steps that we need to take over the next couple of years to get to the run rate free cash flow that we've been describing, right? So, moving from that 35% in 2023 free cash flow conversion to the 45% to 55%.

If you go back to what we talked about earlier this year, there are uses of capital that are required in order to get there. So, part of it as an example is being – using capital to fund the establishment of LPINE, thinking about using capital to deal with the expense associated with optimizing our infrastructure. So, if you think about severance relative to the payback, if you think about the use of capital from a deleveraging perspective, and the preferred there is a good example, which is expensive from a coupon perspective.

So, at the end of the day, our thinking hasn't changed. We think that there's a lot of opportunity for us to use capital to get to a run rate and, in fact, probably higher than what we had in 2026 over the long term. But we are very focused on using the free cash flow that we're generating to improve the operating efficiency of the company and to make the investments that's needed for the long term.

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Analyst, UBS Securities LLC

Great. Thank you.

Operator: There are no more questions at this time. I will now turn the call over to Tina Madon for closing remarks.

Tina Madon

Senior Vice President & Head-Investor Relations, Lincoln National Corp.

Thank you for joining us this morning. We're happy to address any follow-up questions you have. Please email us at investorrelations@lfg.com.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.



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