



# INDIVIDUAL ANNUITIES

## CREATING VALUE FOR CUSTOMERS AND SHAREHOLDERS



## KEY MESSAGES



Attractive Value for Customers and Shareholders

High and Stable Returns

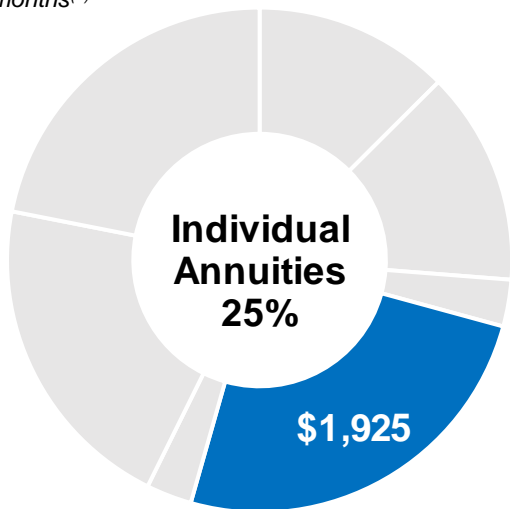
Strong and Consistent Free Cash Flow Generation

# INDIVIDUAL ANNUITIES PROFILE



## Significant Contributor to Prudential's Earnings

Trailing twelve months<sup>(1)</sup>  
\$ in millions



## Leading Market Position<sup>(2)</sup>

**#2** in Variable Account Values

**Top 5** in Variable Annuity Sales

**Top 10** in Overall Annuity Sales

## Comprehensive Solutions

- Variable Annuities
- Fixed Indexed Annuities
- Fixed Annuities

## Diversified Distribution

- Career Agent
- Broker-dealers
- Wirehouses
- Banks

1) Based on pre-tax Adjusted Operating Income (AOI) excluding Corporate and Other Operations. AOI is Prudential Financial's measure of segment profitability.

2) Source: Life Insurance Market Research Association (LIMRA) as of Q3 2018

# SECURE RETIREMENT INCOME, A GROWING CUSTOMER NEED AND A SOURCE OF VALUE FOR SHAREHOLDERS



## Value to Customers



Secure retirement income

Rock-solid company

- Thoughtfully developed products
- Highly effective hedge program
- Well-capitalized



Consistent market presence

## Value to Shareholders



High double-digit adjusted return on equity<sup>(1)</sup>



Significant cash generation

- >\$1 billion of annual free cash flows
- ~80% free cash flow ratio



Transparent results

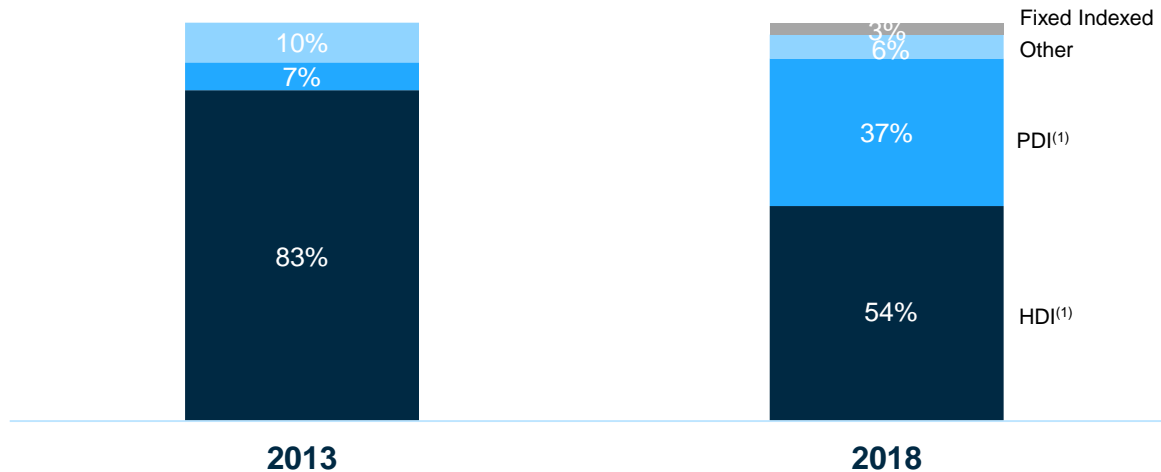
- ~90% of the business in a single entity
- All hedge costs flow through operating income

1) ROE based on average attributed Adjusted Book Value and after-tax Adjusted Operating Income excluding notable items. See Appendix for more information.

# GROWTH FROM EVOLVING PRODUCT PORTFOLIO

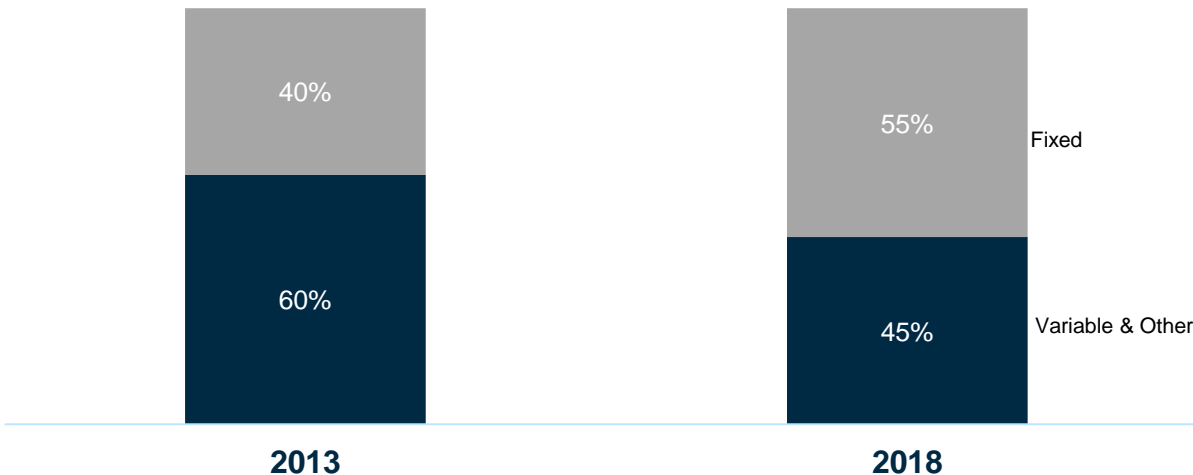


**Prudential Annuities Sales Mix**



➤ Providing a broader array of customer solutions

**Industry Sales Mix<sup>(2)</sup>**



➤ Fixed Annuity market expected to be a significant growth opportunity

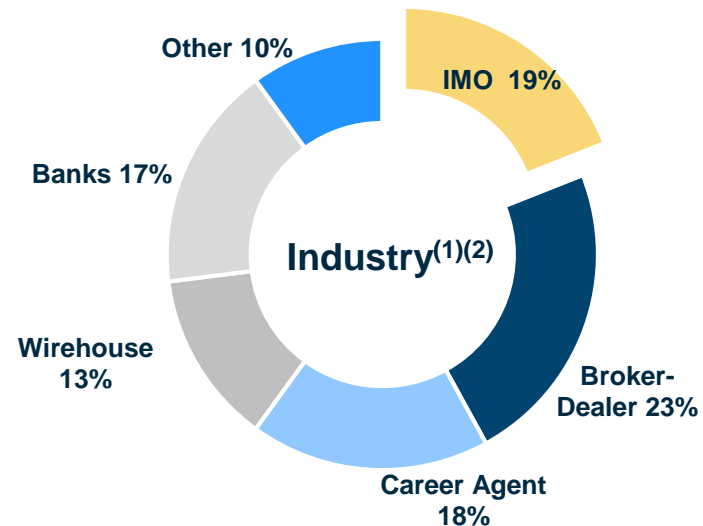
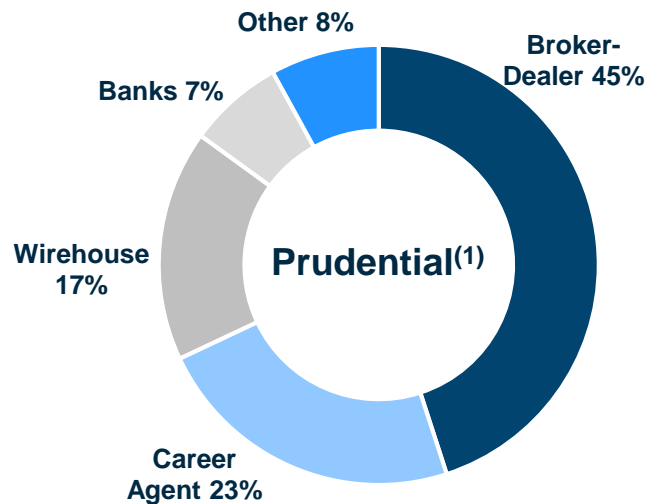
1) PDI: Prudential Defined Income and HDI: Highest Daily Income  
 2) Source: LIMRA, FY 2013 and YTD Q3 2018

# EXPANDING DISTRIBUTION TO ACHIEVE GROWTH



- Broadening distribution with expansion into Independent Marketing Organization (IMO) channel
  - ❑ Industry IMO sales have grown substantially over the last few years largely driven by fixed and indexed annuity products
  - ❑ Building dedicated sales coverage team

## Sales by Channel



1) Based on 2017 data  
2) Source: LIMRA

# GUARANTEED INCOME IS CRITICAL TO FINANCIAL WELLNESS



## Access & Engagement

- Reaching 20 million individuals in the workplace
- Serving 5 million people through Individual Solutions
- Increasing engagement (Pathways + Digital Financial Wellness + LINK)

## Multiple Channels



## Simplified Solutions

- Savings
- Retirement
- **Guaranteed Income**
- Investments

## Delivering better outcomes for individuals and employers

**Reduced  
Financial Stress**

**Financial  
Security**

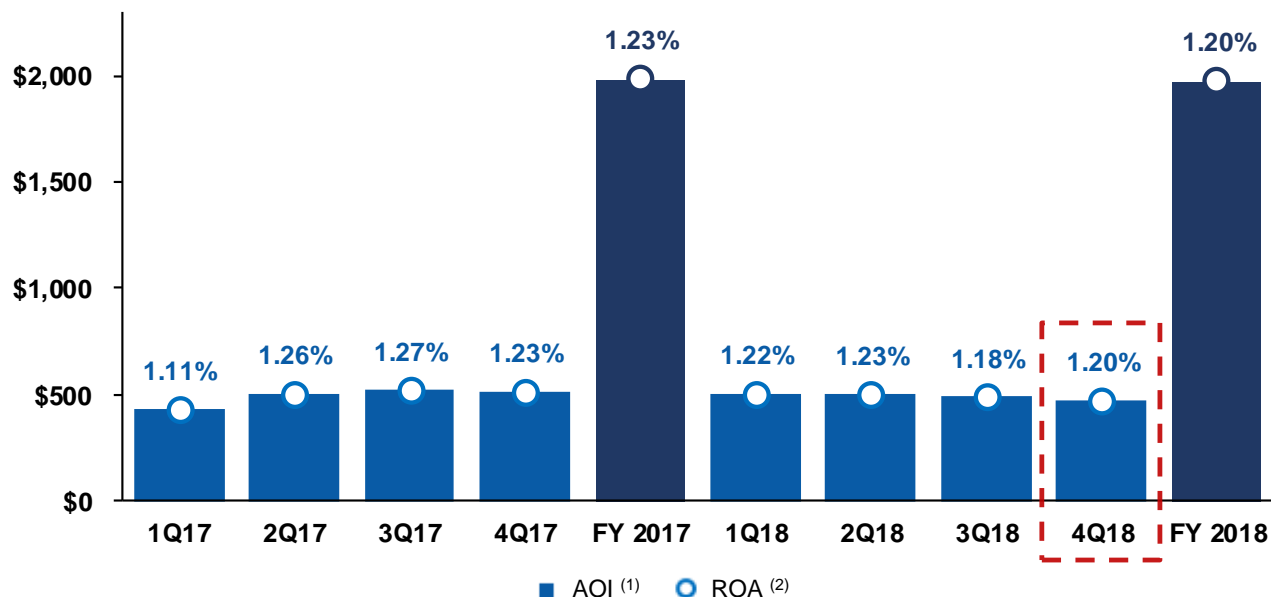
**Increased  
Productivity**



# HIGH AND STABLE RETURNS

- Long-term expected return on assets (ROA) of approximately 115 basis points with near-term upside
- ROA factors
  - ❑ Product diversification to less capital intensive products
  - ❑ Seasoning of book as older vintages migrate to lower fee tiers
- Despite market volatility, our hedging program effectively mitigated negative impacts to 4Q18 results
  - ❑ 4Q18 ROA and AOI remained relatively stable

## Earnings and Return on Assets (\$ in millions)



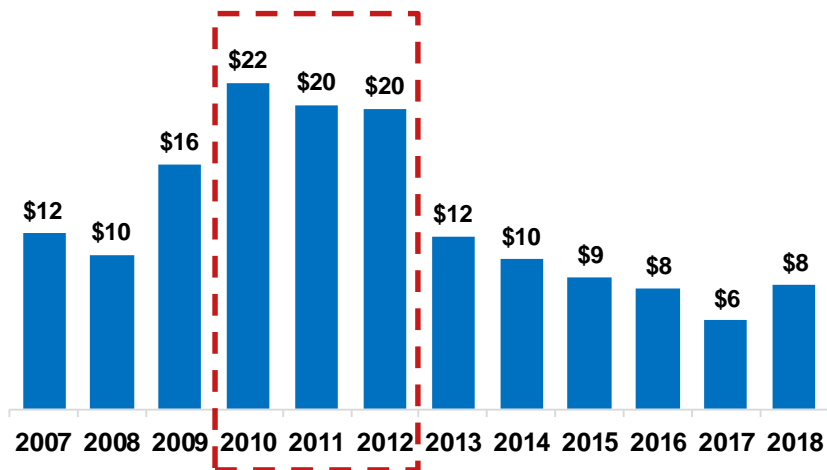


# SALES GROWTH EXPECTED TO IMPROVE NET FLOWS

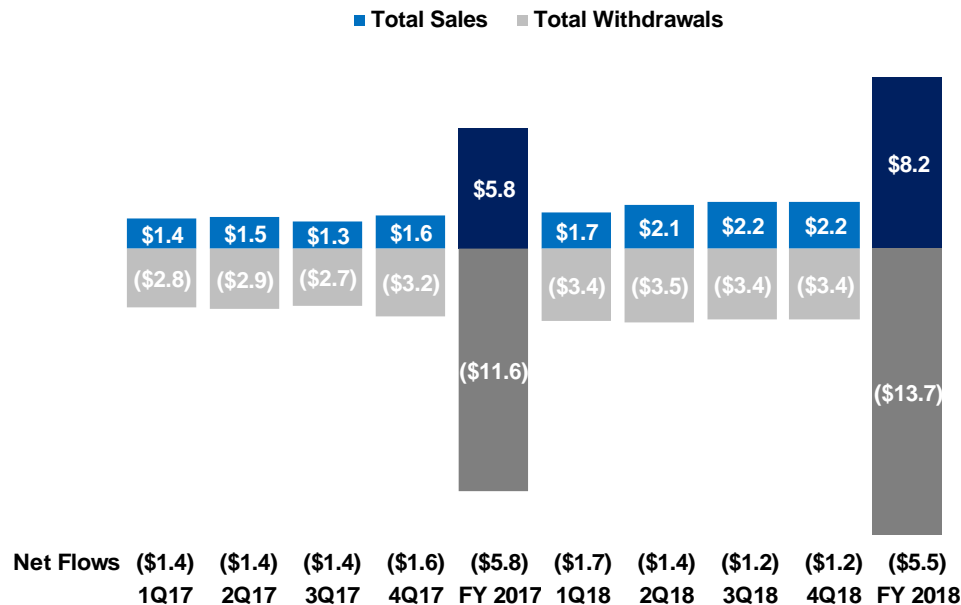


- Trend of increasing withdrawals is primarily driven by large blocks of business from peak sales years exiting the surrender charge period
- Execution on growth strategy will positively impact account values and net flows in the coming years
- Expect the net flow picture to continue to improve in the near term

*Historical Sales (\$ in billions)*



*Net Flows (\$ in billions)*



# WELL-POSITIONED TO ADDRESS MARKET AND BUSINESS RISKS



- Enhanced risk management strategy with a simplified legal entity structure

## Factor

## Risk Mitigant



### Market Uncertainty

- Effective hedging program which mitigates impacts from fluctuations in the market
  - ❑ Hedge program was 98% effective during 4Q18
- Capital hedge increases stability in GAAP earnings and provides capital protection



### Product Guarantees

- Product design and features that dampen the impact of equity markets on account values
- Diversified product suite that addresses an array of customer risk and return preferences



### Regulatory

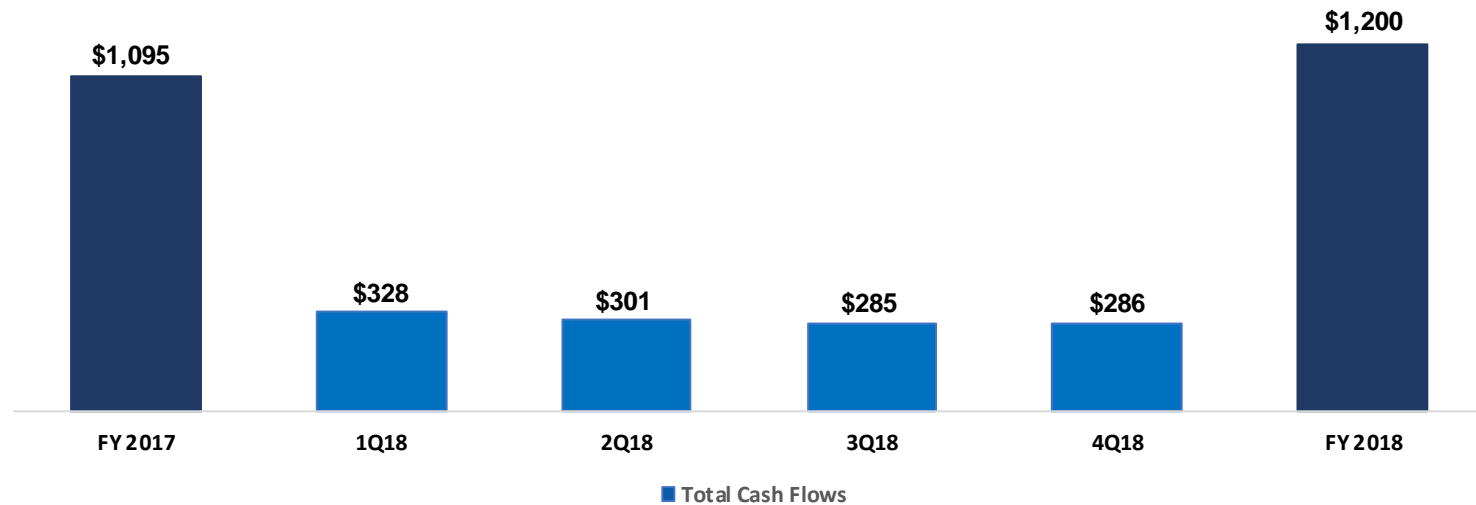
- Transparency for Regulators, Rating Agencies and Investors, with ~90% of business reinsured to PALAC
- Capital framework which targets holding excess above required regulatory capital
- Well-positioned for implementation of NAIC Statutory Variable Annuity Reform on January 1, 2020

# GENERATES STEADY CASH FLOWS



- PALAC expected to remain well capitalized with resilient cash flows through moderate stress scenarios such as 4Q18

## *PALAC Historical Cash Flows (\$ in millions)*



## KEY MESSAGES



Attractive Value for Customers and Shareholders

High and Stable Returns

Strong and Consistent Free Cash Flow Generation



# APPENDIX



# FORWARD-LOOKING STATEMENTS AND NON-GAAP MEASURES



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