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Lincoln National Corp. (LNC)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for joining Lincoln Financial's 2025 First Quarter Earnings Conference Call. At this time, all lines are in a listen-only mode. Later, we will open the call for questions, and instructions will be given at that time. [Operator Instructions]

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

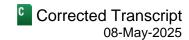
Tina Madon

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

Thank you. Good morning, everyone, and welcome to our 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 relating to deposits, expenses, income from operations, free cash flow or free cash flow conversion ratios, share repurchases, liquidity and capital resources, as well as any statements relating to the expected timing of the closing of the Bain Capital transaction, and the expected benefits of and use of proceeds from the transaction 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 2024 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. We appreciate you joining our call today. Before I discuss our first quarter results, I want to briefly touch on the macroeconomic environment we have been experiencing. Market volatility remains high and the external backdrop remains uncertain. While these conditions are challenging, we are navigating this landscape with discipline and focus.

The strategic actions we have taken over the past two years to fortify our foundation, including strengthening our balance sheet, optimizing our operating model, enhancing our general account investment strategy, pursuing strategic reinsurance initiatives, and shifting to a more diversified business mix, create greater flexibility and resiliency, better positioning us to manage through a period of market turbulence.

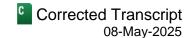
Additionally, as we have previously highlighted, we are holding a capital buffer as a proactive safeguard in the event of a market downturn, have implemented hedging programs with explicit capital targets to improve capital stability, and have made progress in diversifying our business, for example, expanding Group Protection and growing spread-based businesses, to reduce our sensitivity to equity market volatility and position our earnings mix for enhanced durability. We maintain a long-term investment strategy with a high-quality and well-diversified investment portfolio that is tightly aligned to our liability profile. Chris will elaborate on these points further in his remarks.

Now, turning to our results. We delivered another solid quarter, with adjusted operating income increasing by 14% over the past year, excluding the impact of significant items in the prior year period. This performance demonstrates our continued execution of the strategic initiatives underpinning our multiyear journey to reposition Lincoln to deliver sustained shareholder value. We have consistently advanced our vision, which is anchored upon three objectives, demonstrating a track record of delivering results with tangible impact.

The first is strong foundational capital. We continue to maintain an estimated RBC ratio well above 420%, consistent with our goal to hold a buffer level of capital above our 400% target, designed to provide a cushion in the event of adverse economic conditions.

The second is an optimized operating model. We have taken a number of actions to increase our operational efficiency and position our enterprise for future growth, including reducing expenses while strategically investing in technology, talent and infrastructure to further elevate our customer experience and enhance our ability to scale effectively. We also launched our Bermuda-based reinsurance subsidiary to support our financial objectives.

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And the third is delivering profitable growth and more stable cash flows by evolving the product mix and distribution strategies across our four businesses. We have made notable progress in growing our Group business with disciplined margin expansion, evolving our annuity business towards a more balanced mix with a higher proportion of spread-based products, further repositioning our Life product portfolio and continuing to build upon the products and capabilities of our Retirement business.

Our recently announced long-term partnership with Bain Capital is expected to further enhance these actions and strengthen our foundation for effective execution. Through this partnership, Bain Capital will become a strategic investment manager for a portion of Lincoln's general account assets, enabling expanded scale and differentiated cross-platform access to private asset origination.

Beyond investment management, Bain will also be a collaborative trusted partner engaged on broader value streams that underscore the competitive advantages of our retail and workplace brands, and leverage the unique strengths, experience and discipline of both organizations to accelerate product innovation, broaden our offerings, and deliver compelling customer value propositions to drive accelerated growth.

Importantly, Bain Capital's minority investment in Lincoln will further align our interests, validate the strength of our franchise, and provide us with even greater flexibility to adapt to evolving market dynamics. We're excited about these strategic and financial benefits and opportunities, alongside the deep cultural fit and shared values that we believe will further differentiate us competitively.

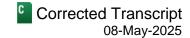
This represents another pivotal milestone in advancing our vision, positioning Lincoln to deliver sustainable, profitable growth and create long-term value for all our stakeholders. In short, the disciplined actions we've taken over the last two years, not simply the events of any single quarter, are why Lincoln is more balanced, more resilient, and better positioned to navigate a normal recessionary environment. We are well-prepared to fulfill our commitments to shareholders and policyholders despite the ongoing uncertainty.

Now, turning to first quarter highlights. Our Group Protection business generated excellent results, delivering a 26% year-over-year increase in earnings and 120 basis points of margin expansion. Annuities achieved robust year-over-year sales growth, supported by our ongoing focus on building and sustaining a diversified product mix. The underlying results in our Life business continue to improve, and year-over-year sales increased by 7%, reflecting additional progress in emphasizing products with more risk sharing. Retirement Plan Services generated year-over-year first year sales, in line with the prior period, and an 8% increase in total deposits.

Now, turning to Retail Solutions, which includes our Annuities and Life businesses. We made additional progress in Annuities during the quarter, as total sales of \$3.8 billion increased 33% from the prior year quarter and were also up sequentially. Traditional VA sales sustained solid momentum, while we benefited from additional actions taken to support accelerated growth in our spread-based products, which comprised approximately 60% of the quarter's new business mix. These included enhanced product features, leveraging the strength of our distribution relationships and optimizing our investment strategy. We also saw the momentum in RILA and fixed annuities increase throughout the quarter.

Within the fixed annuity category, sales levels were up sequentially by more than 50%, as we applied the capabilities built over the last year to sustain a consistent and growing competitive presence in the fixed marketplace. RILA demonstrated another quarter of growth, with sales increasing year-over-year and sequentially as the unique features of the second generation RILA product we introduced last year continue to resonate with customers.

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We also benefited from further leveraging our deep relationships with our distribution partners to drive additional market penetration and growth. Sales of our traditional variable annuities were also strong in the quarter, with sales volumes up year-over-year. Our variable product suite offers robust features and benefits that meet customer needs and remain integral to our overall offering. It is worth mentioning that during periods of market volatility, we have typically seen customer demand for Annuities shift towards spread-based products with less demand for variable annuities.

Given the volatile market environment, our broad product portfolio enables us to meet customer preferences as they evolve. We are a leading provider in the annuity market given the depth of our distribution and the breadth and diversification of our product suite. This is a key competitive strength, enabling us to be a holistic solutions provider that can nimbly adapt to customer preferences in ever-changing market environments.

Now, turning to our Life business. Life sales were 7% higher year-over-year, as our product and distribution actions over the last year gained further traction. As I have previously mentioned, we are refocusing this business to deliver accumulation and protection products with more risk-sharing. We are currently in these markets today and have been building out additional features to expand our solution set, positioning us for future growth.

Additionally, we optimized our wholesaler footprint last year to extend our customer reach and elevate our coverage to support the acceleration of our product shift over time. While repositioning our Life business for profitable growth will continue to take time, we are confident that leveraging our product, distribution and underwriting teams will increase our competitive differentiation and drive future growth.

Next, turning to Workplace Solutions, which includes our Group Protection and Retirement Plan Services businesses. As I mentioned earlier, Group delivered another excellent quarter, reflecting continued momentum as the earnings increased by 26% year-over-year and margin expanded by 120 basis points to 7.4%. These results highlight our strong execution in diversifying this business while prioritizing profitable growth. Premiums were 7% higher than the prior year quarter, driven by record sales growth last year and strong persistency. These results are supported by disciplined pricing and ongoing investments to expand our offerings across products, capabilities and service quality. Our ongoing commitment to disciplined pricing while growing also reflects the strength of our customer relationships and our ability to consistently deliver enhanced value.

Group sales grew 9% year-over-year, with all market segments contributing to this result. From a product perspective, we achieved robust growth in supplemental health, supporting a more balanced and diversified book of business. We built further momentum in each of our three target segments during the quarter. In our local market segment, we are delivering integrated solutions that emphasize ease, access, and efficiency. To grow market share in this segment, we are continuing to invest in our operating model, delivering quality service and providing a robust product offering, including bundling multiple products.

In our regional segment, we are maintaining a strong presence as we focus on strengthening key strategic broker partnerships to support our customers and their benefit decisions. We are making ongoing investments in enhancing the customer experience with more digital capabilities and providing a comprehensive product suite with an emphasis on supplemental health and leave management.

In our national segment, where we are a market leader, we are leveraging our disability and leave management expertise and remain focused on enhancing our voluntary products, such as supplemental health and providing customer engagement tools and processes to further differentiate our value proposition and generate profitable growth.

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In summary, Group's performance again exceeded our expectations this quarter, driven by disciplined execution to deliver profitable growth. We continue to raise the bar as we leverage our competitive advantages to further position this business to become a larger and more profitable contributor to our overall earnings mix over time.

Now, turning to Retirement Plan Services, or RPS. First year sales were in line with the 2024 first quarter, which was a strong result and were broad based across products and market segments. Sales in this business can be lumpy from quarter to quarter. However, our 2025 pipeline is robust, reflecting new business momentum that we anticipate will translate into sales growth later this year. Year-over-year, total deposits were up 8%, driven by growth in recurring deposits due to higher salaries and increasing levels of participant contributions resulting from our proactive engagement to improve retirement savings.

We remain focused on solving the needs of our customers, whether they are employers, participants or our intermediary partners. We are further enhancing the capabilities in our retirement business, expanding our products and services, improving our customer experience, and increasing operational efficiency as we further optimize our operating model to drive sales and earnings growth.

In closing, our strong performance this quarter demonstrates our sustained momentum as we build upon our competitive advantages to grow profitably, advance operational efficiency, and build the capital flexibility of our franchise. As we move forward, we remain focused on disciplined execution, advancing our strategic priorities and delivering strong outcomes for our shareholders, customers, partners and employees. While market dynamics may create some near-term headwinds if they persist, we are confident that the actions we are taking today are building a durable path to delivering sustainable, long-term value.

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

Christopher M. Neczypor

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

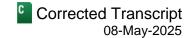
Thank you, Ellen, and good morning, everyone. Our first quarter performance marks the third consecutive quarter of year-over-year adjusted operating income growth and another quarter of strong execution against our strategic and financial priorities, underscoring the momentum we are building across the enterprise. Each of our businesses continue to advance on their respective operating initiatives, as we position Lincoln to deliver more stable cash flows and higher risk adjusted returns.

This morning, I'll focus on three areas. First, I'll walk through our consolidated and segment level performance for the first quarter. Second, I'll touch on our investment portfolio. And third, I'll briefly recap our recently announced transaction with Bain Capital. Let's begin with a quick summary of the quarter's results.

This morning, we reported first quarter adjusted operating income available to common stockholders of \$280 million, or \$1.60 per diluted share. There were no significant items in the quarter. Our alternative investments portfolio delivered roughly a 7.6% annualized return in the quarter, or \$75 million. On an after-tax basis, this amount was \$18 million below our return target, or \$0.10 per diluted share. Normalizing for the below-target alternative investment returns, adjusted operating income was \$298 million, or \$1.70 per diluted share.

Turning to net income for the quarter. We reported a net loss available to common shareholders of \$756 million, or \$4.41 per diluted share. The primary difference between the GAAP net loss and adjusted operating income was driven primarily by the negative movement in market risk benefits amid lower interest rates and lower equity markets. Importantly, our hedge program, which explicitly targets capital and the present value of distributable earnings, continued to perform in line with expectations during the quarter.

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Now, turning to our segment results. Let's start with Group, which continued its strong momentum following a record 2024. Operating income was \$101 million, up 26% from earnings of \$80 million in the prior year first quarter, and the margin was 7.4%, up 120 basis points for the same period due to the continued focused execution of the business, driven by expanding our customer base, diversifying our book of business, and maintaining discipline in our pricing actions.

The year-over-year improvement stems from three key drivers. First, robust and profitable premium growth. Higher new sales volumes and strong persistency delivered while maintaining our pricing discipline supported profitable growth. Put simply, we expanded our top line in a way that should continue to support healthy margins. Second, our disability results remained strong, supported by tight labor market and a still supportive interest rate environment, coupled with incidence levels near historic lows and sustained, healthy long-term disability recoveries. And third, our purposeful shift toward higher-margin business, including our supplemental health strategy, continued to gain traction. And the earnings contribution from this product diversification is becoming more meaningful each quarter.

Of note, while expenses grew versus the prior year quarter, the increase reflected continued investments in digital capabilities, distribution and claims management. Importantly, we continue to achieve margin expansion, demonstrating our commitment to profitably grow while investing in this business.

Now, turning to Group product line results for the quarter. The disability loss ratio was 70%, improving by over 400 basis points year-over-year. The loss ratio remained favorable relative to our long-term expectations, with continued low LTD incidence rates and strong return-to-work outcomes for our claimants. Additionally, our repricing execution contributed to the year-over-year loss ratio improvement.

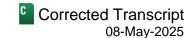
The Group life loss ratio was 75%, roughly a 100 basis point improvement versus the prior year quarter. While mortality was modestly higher year-over-year, it remained in line with our expectations and was more than offset by continued growth in supplemental health, resulting in an overall year-over-year improvement in the loss ratio. As we look ahead, risk results have historically improved from first to the second quarter, and we expect that seasonal pattern to repeat this year.

That said, should macro conditions shift, particularly if unemployment were to rise, we would expect some easing in disability performance relative to today's levels. Even in that environment, our pricing discipline, product diversification and operational execution give us confidence in sustaining strong margins throughout 2025.

Now, turning to Annuities. Annuities reported first quarter operating income of \$290 million, consistent with the prior year quarter, excluding the unfavorable significant items that impacted last year's results. Average account balances, net of reinsurance, ended the quarter 5% above the prior year period, supported by 20% growth in RILA balances, which have experienced positive net flows over the past year. Sequentially, earnings declined from \$303 million in the fourth quarter, reflecting 2 fewer free days and lower average account balances.

Additionally, ending account balances, net of reinsurance, were 3 percentage points lower versus the prior quarter, driven by the equity market decline and continued variable annuity net outflows. Volatility has continued in the second quarter. And if this volatility persists, we anticipate additional pressure on fee income beyond the initial headwinds resulting from lower starting account balances. As a rule of thumb, we expect roughly a \$15 million impact to annualized earnings for every 1% change in annuity AUM due to markets.

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Turning to spreads. Spread income continues to grow, with spread-based products now representing 28% of total account balances, net of reinsurance, of 3 percentage points year-over-year. RILA account balances increased 11% over the prior year quarter and now represent 21% of total balances, also net of reinsurance, making RILA the primary driver of spread growth.

Stepping back, while the recent market declines could be a headwind to fee income, our strategic emphasis on diversifying our product mix to increase the proportion of spread-based products, coupled with disciplined expense management, position Annuities to remain a steady contributor to earnings and free cash flow throughout 2025.

Retirement Plan Services posted first quarter operating income of \$34 million compared with \$36 million a year ago, driven by a one-time operational loss related to a planned termination. Excluding this impact, earnings were essentially unchanged as growth from equity markets offset the impact of stable value outflows. Our base spread increased to 103 basis points, 2 basis points above the fourth quarter and 1 basis point above the prior year period. We continue to expect spreads to stabilize at current levels.

Net outflows were \$2.2 billion, stemming from a previously announced large plan termination. Excluding this termination, net flows were positive. Sales momentum remained strong, while total deposits grew 8%, driven by a 13% increase in recurring deposits. Average account balances grew 10% year-over-year to \$113 billion. End-of-period balances were \$109 billion, down 3% sequentially, reflecting both market volatility and a large case termination.

As a rule of thumb, we expect roughly a \$2 million impact to annualized earnings for every 1% change in retirement AUM due to markets. Although year-over-year headwinds could persist in the interim, we are focused on transforming this business by prioritizing initiatives that will lead to sustainable earnings growth over time.

Lastly, turning to Life Insurance. Life reported a first quarter operating loss of \$16 million compared to an operating loss of \$35 million in the prior year quarter. Improved mortality and lower net G&A expenses were partially offset by lower alternative investment returns.

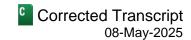
Turning to mortality. Despite the seasonal headwinds typical of the first quarter, mortality improved sequentially, with claim incidence and severity better than our expectations. Severity, in particular, normalized meaningfully after the elevated impact from a handful of large claims in the prior quarter.

Now touching on expenses. Net G&A expenses declined \$11 million, or 8%, versus the prior year quarter, reflecting the targeted actions we've taken to align our cost structure with our product and distribution repositioning. We expect these actions to remain a key driver of year-over-year earnings growth in 2025.

Moving on to alternative investment returns. As a reminder, the majority of our alternatives portfolio is allocated to our Life business, supporting the long duration nature of these liabilities. During periods of market volatility, returns may vary both positively and negatively. Despite recent variability, we've achieved alternative investment returns averaging over 10% annually during the past five years.

Looking ahead to the second quarter, while continued market volatility could create additional near-term pressure on returns, over time we anticipate these returns will converge toward our historical averages, ultimately providing a meaningful tailwind to earnings growth in the Life business. Overall, first quarter results reflect mortality experience that improved sequentially and returned to levels more in line with our expectations, while also realizing the benefits of operating with a streamlined expense base aligned with our focus on profitable growth.

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Now for a brief update on capital. We again ended the quarter with an estimated RBC ratio well above 420%, consistent with our strategy of maintaining a capital buffer above our 400% target. As we've previously indicated, we consider this 20 percentage point buffer a cushion to help manage through a normal recessionary environment.

Additionally, delevering remains a strategic priority for the organization, and we made additional strides in reducing our leverage in the quarter. We ended the quarter with a leverage ratio of 27.5%, a sequential improvement of 30 basis points, predominantly driven by organic equity growth. And compared to the prior year quarter, our leverage ratio has improved over 250 basis points.

Now shifting to our investment performance in the quarter. Overall performance remained solid in the first quarter, a reflection of our high-quality and well-diversified portfolio and our ongoing emphasis on optimizing our investment strategy. Our alternative investment portfolio delivered a 1.9% return in the quarter, modestly below our 2.5% target. As I mentioned earlier, given the current market backdrop, near-term results could continue to be volatile, but we remain well-positioned to deliver returns in line with our historical performance over time.

Lastly, I'd like to recap the strategic partnership we announced a few weeks ago with Bain Capital for those who are unable to join our call. First, a brief overview of the transaction. Bain Capital will be taking a 9.9% common equity stake in Lincoln at \$44 per share, a 25% premium to the 30-day volume weighted average price as of April 8, with total cash consideration of roughly \$825 million. Those shares carry a three-year lockup, after which Bain may sell one-third at each subsequent anniversary after the third year.

At the same time, we will enter into a non-exclusive investment management agreement focused on targeted asset classes that include private and structured credit, residential mortgage loans and private equity, among others. We will commit \$1.4 billion of AUM shortly following the close of the transaction, growing to at least \$20 billion by the end of year six.

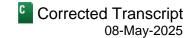
Second, as it relates to some of the key terms, it's important to understand that the IMA is a 10-year contract, though with the expectation of a much longer partnership. The ultimate investment management fees are in line at an asset class level with the fees we are currently paying today. And there's no exclusivity to any of the asset classes, allowing us to maintain our multi-manager framework, which was critical to us.

And then third, as it relates to the rationale for the deal, I would think of three key drivers. First, we've talked a lot about our strategic priority of growing spread-based products. RILA, fixed annuities and FABN is key examples. Finding a strategic partner to help scale the asset sourcing needed to be successful in a bigger way there was critical, with Bain's ownership stake then providing the appropriate alignment to support shared success.

Second, the equity capital provided will allow us to accelerate that growth over the next few years while maintaining the flexibility around deployment in other areas, such as optimizing our legacy life portfolio or future capital returns to shareholders.

And then third, if you step back, the insurance industry has been going through an evolution over the past decade, as alternative investment firms have been able to add considerable value to the insurance universe. You're seeing it in general account investing, in product development, in distribution, and in capital sourcing. With this transaction, Lincoln and Bain Capital have committed to working together to grow existing products and explore the development of new ones.

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This is a partnership that reflects an innovative mindset that we believe will further differentiate us competitively and generate superior value for our shareholders, customers, distribution partners and other stakeholders over time. We couldn't be more thrilled to enter this long-term strategic partnership with Bain Capital.

Before I conclude, I'd like to expand briefly on Ellen's earlier comments regarding the current market environment. Downturns in markets can impact our earnings, similar to many of our peers, with potential examples including lower AUM impacting fee income, higher volatility impacting hedge costs, and the potential for elevated credit losses, should the economy enter a recession.

However, it's worth reiterating the steps we've taken over the past two years to better insulate Lincoln from the impacts of a slowdown, as we potentially head into a period of more uncertainty around the economy. While we've discussed these in the past, it's important to reemphasize some of the strategic initiatives that have been guiding the steps we've been taking.

First is foundational capital. So whereas, historically, Lincoln targeted a 400% RBC ratio, as a reminder, over the past two years we've taken steps to build a buffer over that 400% level, with the 20 points of RBC on top of the 400% designed to provide some cushion, should we enter a prolonged downturn in the economy, with 1Q now representing the fourth quarter in a row of RBC in excess of that 420% level?

The second has been working toward minimizing the volatility of that capital. Examples here include the incremental hedge programs we've deployed in certain legacy variable blocks, discontinuing some of the variable life products with outsized capital volatility, and the general focus on increased risk-sharing in certain products of targeted growth.

Then lastly, we've talked a lot about the deliberate goal of diversifying our source of earnings and growing businesses with less equity market sensitivity. And a great example has been the strategic emphasis of growing our Group business, which went from contributing less than 10% of our operating earnings mix pre-COVID to over 25% today.

Overall, while we are monitoring the market headwinds that emerged at the start of the second quarter and the potential impact those may have on the broader economic environment, we are confident the steps we have taken will position us for growth. We are pleased with another solid quarter of strong execution against our strategic and financial priorities, and we remain focused on disciplined execution and remain confident in our ability to generate long-term shareholder value.

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. Let me now turn the call over to the operator to begin the Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Ryan Krueger of KBW. Your line is open.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Hi. Thanks. Good morning. My first question was on the Bain partnership. When you announced this, you guided to an improvement in 2027 free cash flow per share. Can you give us a little bit more color on the key components that you expect to drive that? And also, is it mostly driven by an expectation of higher free cash flow in dollars, or is there also a component of potential share repurchase that would get you to that?

Christopher M. Neczypor

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

Good morning, Ryan. Thanks for the question. So, embedded in the comments around accretion is purely the deployment of the capital into the things that we talked about. So, growing our spread-based earnings in things like fixed annuities and institutional spread, like FABN, then thinking about deploying into the legacy life block, where – if we see opportunities either on the reinsurance side or from repositioning the asset portfolio, but there wasn't an expectation purely around using any of those proceeds for share repurchases, which is not to say that we wouldn't contemplate that outside of the Bain proceeds. But when we look at the \$800 million coming in and we think about accretion/dilution, it's purely relative to what our baseline was and how we're going to deploy those proceeds and the things that we talked about.

Rvan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Great. Thanks. And then on the Life business. Can you, I guess, give a rough sense of how favorable mortality was relative to your expectations, and then remind us of how much seasonality you would expect in a atypical first quarter?

Christopher M. Neczypor

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

So, it's a good question. I mean, as you saw, we really did have better underlying earnings for the Life business this quarter. And in fact, if you normalize for the underperformance on alts, it was almost breakeven. First quarter tends to be seasonally higher as I think you're alluding to. And so, there's two things going on when you look quarter-over-quarter as well. Fourth quarter, we had significant severity. So, that looked worse than expected. And then first quarter broke the other way. So, I think we're not going to get into [ph] ADE (00:37:07) and specifics as it relates to dollars, but it certainly was a favorable mortality on the retail Life side.

Oh, and on the seasonality...

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

[ph] Perfect (00:37:19).

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Christopher M. Neczypor

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

I think – hey, Ryan, just real quick on the seasonality, in the outlook deck that we had given about a year ago, we had given some sensitivities as it relates to the seasonality. I would probably point you back to some of the pluses and minuses there. Obviously, that can change a little bit over time depending on how things move. But that should give you a good rough just as sense for the seasonality.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you.

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

Suneet Kamath

Analyst, Jefferies LLC

Thanks. Good morning. I wanted to go back to the Bain agreement as well. I understand the strategic rationale for why you did the transaction, but I guess I'm wondering, the rationale for issuing new equity as opposed to Bain just buying stock in the open market. And the reason I ask is you've mentioned many times on this call that your RBC is robust. You have the Bermuda solution. So, I was not – in my head, I wasn't thinking that there was a capital need at the company, but I just was hoping you could discuss that a little bit. Thanks.

Christopher M. Neczypor

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

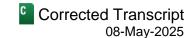
Yeah. Thanks for the question, Suneet. So, look, I think that the important thing is that when you enter into a transaction like this, creating alignment, right. And so, we've talked about all the strategic benefits. And at the end of the day, having Bain as a partner is really going to help us to accelerate some of the things that we've been talking about as our strategic priorities, notably growing our spread-based earnings. As it relates to – so, first of all, trying to buy 10% in the open market is not really a realistic scenario, I would argue. More important was the idea that by purchasing capital at the HoldCo, we're able to then utilize that capital for growth in areas that are going to accelerate some of the things that we've been talking about.

So, over the past two years, right, we've generated a lot of capital. We've used it to invest in the business. We do contemplate returning capital to shareholders over the next couple of years, after we've gotten a leverage ratio back to the levels that we've talked about. We've made big improvements there and continuing to invest in the business. So we can see continued momentum and improvement in the businesses. What the equity capital that Bain will provide for the system really does is allow us to step on the accelerator and some of the things that we've been talking about.

So as it relates to our strategic priorities and diversifying the business, you've seen a lot of momentum in Group. We've been able to remove some inefficiencies there and then reinvest back into the business. You're seeing it come through in margin expansion. You've heard us talk about building a buffer as it relates to capital. So when we sold LFN last year, that really helped to get us to the point where we now feel comfortable from a foundational capital perspective.

And then the third thing we've talked a lot about is really growing spread-based earnings and products in order to diversify, in particular the equity risk in our Annuities business. So, that can take time. But if you have incremental

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capital to deploy into things like fixed annuities and RILA and FABN, then you should be able to see growth accelerate. So, everything that we've done over the past two years has really been about executing on the strategic priorities that we've talked about. And we feel the partnership with Bain is a big step forward for that as well.

Suneet Kamath

Analyst, Jefferies LLC

Okay. Thank you for that. And then, I guess, on the annuity business, the ROA has been kind of coming down over the past couple of quarters. And I'm assuming some of that is just the business mix. But do you have like a sense of where you think that could stabilize as we look forward? Thanks.

Christopher M. Neczypor

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

So, you're spot on, Suneet. It's really the mix shift that's happening, where VA is just a higher ROA on an average basis relative to RILA and fixed annuities and so forth. And so, as we emphasize growing RILA and fixed annuities and you see outflows, which have been happening for a while in VA, you will see that ROA come down over time. But importantly, the risk adjusted returns over time as we grow the spread part of that will generate better overall sort of through-the-cycle return.

So, I don't have a target for you as it relates to where that stabilizes. But you can kind of do the math if you think about some of the ROAs in VA relative to what you might get in RILA and fixed, roll that forward a couple of years, and again back to the Bain point, as we've got capital to really step on the accelerator for emphasizing that growth in spread, you will see that continue to move.

Suneet Kamath

Analyst, Jefferies LLC

Okay. Thanks for the answers.

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

Wes Carmichael

Analyst, Autonomous Research US LP

Hey. Good morning. First question just on the RBC ratio. There's maybe a slight decline there, but could you maybe provide a little bit of color on the quarter? And just given macro volatility, is there any way to think about the sensitivity of RBC to equity and interest rate volatility?

Christopher M. Neczypor

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

Yeah. Wes, I wouldn't read anything into the disclosure. That's the same disclosure that we've given the past couple of quarters, except for the fourth quarter, where we actually file our financial statements on the RBC. What we've been saying for four quarters now, except for fourth quarter, is that we're in excess of the 420%. So I wouldn't look at it as any material change to capital. We're still in that same range that we've been in that 425% to 435% level. Any given quarter, there will be timing differences, things like seasonality or higher preferred dividends one quarter versus the next, or taxes that have to be paid for the HoldCo. But I wouldn't read anything into the disclosure as a material change.

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Big picture from a capital perspective, I would say it's the same drivers, free cash flow and earnings and so forth, as we talked about. Group was better than expected. Retail life mortality was better than expected. And alts were just a little bit worse.

Wes Carmichael

Analyst, Autonomous Research US LP

Got it. That's helpful, Chris, on the disclosure. And then just thinking about, in your prepared remarks, Chris, you mentioned about group disability and if macro conditions or employment deteriorate a little bit, you might see some easing in performance. Is there a way to think about, in a recessionary environment, how much pressure you might see on the disability loss ratio? Is there a rule of thumb for that?

Christopher M. Neczypor

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

So, it's a good question, Wes. I guess what I would point you to is the conversation we had during the fourth quarter call where we specced out the improvement in the margin year-over-year in 2024. And what we said was there was, call it, 300 basis points of margin improvement relative to 2023 last year. Of that 300, 200 basis points was from repricing, execution on our strategy, growing supplemental health, et cetera. And then, we had estimated about 100 basis points of margin improvement just due to the fact that the macro is very supportive and disability incidence was below sort of what we would think of in a more normal environment.

Now, what I would say is, first quarter we obviously exceeded what we had thought we would do, and partly continued execution on the team's part, but also because the macro environment is supportive. And what I would say, frankly, is April continues to look pretty good. But we're obviously all watching what happens from an economy perspective. But to the specific question around the tailwind from the backdrop, I would point you to the fourth quarter call and some of the details we went through there.

Wes Carmichael

Analyst, Autonomous Research US LP

Thanks, Chris.

Operator: Your next question comes from the line of Tom Gallagher of Evercore ISI. Your line is open.

Thomas Gallagher

Analyst, Evercore ISI

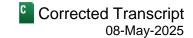
Good morning. First question is just on the Life Insurance segment. Chris, I heard what you said about the underlying claims experience, so that was good to hear that that got better. I don't want to geek out on you too much here, but if you look at the components of the GAAP P&L, it looks like the re-measurement experience was a lot better and the benefits were elevated. So, maybe can you kind of like, I guess, explain those differences? And are the claims experience flowing through both of those? Or are there like longer-term assumption changes that are influencing the re-measurement gains? And I guess, just relatedly, how is the statutory results for Life Insurance? Were those also better from a underlying performance standpoint?

Christopher M. Neczypor

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

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So, I'm always happy to geek out with you, Tom. And we can take some of the accounting stuff and follow-up with you afterwards, but I'll answer your questions big picture. So, on a stat basis, yes, favorable mortality translates to both, alts translates to both. You get a little bit of a cushion on the stat side as it relates to alts because you're holding so much capital against those alts, And so there's a little bit of a offset. But for all intents and purposes, the better mortality will impact across the board.

So, as it relates specifically to the policyholder re-measurement, there's an offset in benefits from releasing reserves to cover the claims. And so, with mortality coming down the first quarter, the policyholder re-measurement for Life was a positive. So, it's one of those things where you get the liability on products like GUL and term, and the reserve is accrued over time. And then, if cash flows change from expected, there's a catch-up amount for how much reserve accrual should have changed historically. And that's really what that line is designed to capture.

Thomas Gallagher

Analyst, Evercore ISI

Got you. That's helpful. And then, I guess my follow-up is just on RPS. Was there a one-time – that large plan termination in the quarter that affected things, was there a one-time earnings impact? And will the run rate improve, or is that now a reasonable run rate to think about going forward?

Christopher M. Neczypor

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

Yeah, Tom, So there's two things there. One, we had a large case termination, which we had talked about last quarter and the quarter before, because we knew it was coming. And so, we tried to set expectations there. And that was the impact that created the large net outflows for the segment. Excluding that termination, flows were positive. Specifically as it relates to the one-time item that we called out, that is actually due to a different plan, which is much smaller. You get plans leave from time to time, and that was a one-time issue. So, as I think we quantified it, looking at the docs, around \$2 million, and so we would adjust for that for the quarter.

Now, that being said, from a run rate perspective, I think that the trends that we've seen over the past couple of quarters continue. We've seen market support AUM on the full service side. But offsetting that has been stable value outflows, stable value outflows really driven by the fact that markets were up and interest rates were up. And so, people move into other products. That could reverse or mitigate, depending on what happens with markets. It's too early to tell. So, we'll see what the run rate actually looks like. But at the end of the day, specifically to the one-time item, that won't recur again.

Thomas Gallagher

Analyst, Evercore ISI

Okay. Thanks.

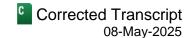
Operator: Your next question comes from the line of Joel Hurwitz of Dowling & Partners. Your line is open.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Hey, good morning. First, I want to see if you could just provide an update on your expense initiatives. The expenses in the quarter looked pretty favorable relative to last year, particularly in Life. And I don't know if there's some timing noise or if it's all just simply the benefits of some of these [ph] strategic (00:49:23) initiatives emerging in earnings?

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Christopher M. Neczypor

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

Yeah. No, I mean, Joel, it's the emergence of the things that we talked about last year that we were going through. Recall, in the first quarter we had a company-wide action, where we had looked at some operational efficiencies. And what we'd said at the time was there's a lag to when that comes through, right, because there's severance impact and some benefit issues and so forth. And so, we really expected to start to see that across all the segments in 2025. And then, we also called out in the fourth quarter that we took more targeted action on the Life side, and that you would start to see the benefits of that flow through starting this year as well. So, the good news is it is coming through, and so you're starting to see it. And so, to your specific question around the run rate, we would expect that to continue.

And then, just to highlight the point that I made earlier around Group as an example, in some of the businesses where we see big opportunities for growth, we're reinvesting those savings. And so, when you look at the Group expenses as the example, they're actually up. But what's happening is we're investing in the business claims management, digital capabilities, distribution, and so forth, and that's driving the margin expansion. So, where we see the opportunity to deploy those savings, we will deploy it. And then, there are other areas in the company where we think that we can continue to sharpen the pencils. But generally speaking, you're seeing the impacts from the actions we took last year.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. That makes sense. Helpful. And then just going back to group disability, right? So, you called out the continued lower incidence, but also the strong recoveries. Can you just help dimension how much of the improvement in results over the past couple of years in long-term disability has been driven by lower incidence versus an improvement in recovery rates?

Christopher M. Neczypor

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

So, I don't think we're going to get into the specific numbers for them. What I would say is they're somewhat linked, but also partly driven by, on the recovery rates, the investments we've been making in the business and the actions we've been taking. Disability is driven by things like pricing and the backdrop and the environment. So, there's some correlation between the two, but at the end of the day, I don't think we're going to start to spike out the individual drivers, but they both have been very supportive and the benefits of a lot of hard work of the team.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. Thank you.

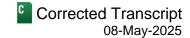
Operator: Your next question comes from the line of Alex Scott of Barclays. Your line is open.

Alex Scott

Analyst, Barclays Capital, Inc.

Hey. Good morning. First one I had for you is just on the competitive environment in Annuities. One of the peers of yours in the publicly traded market had a little more pressure on MYGA sales and FIAs were a little down year-over-year as well. And just from commentary we've heard, it sounds like the market's getting a bit more competitive in terms of pricing. I know that may differ depending on which distribution you're talking about. So, I

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just wanted to see if you could opine on the competitive environment, maybe what you're seeing in your various forms of distribution.

Ellen Gail Cooper

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

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Absolutely. So good morning, Alex. And so, first of all, if I just take a step back and you look at the overall annuity sales for us for the quarter, \$3.8 billion, and the fact that we continue strategically to be focused in more spread-based businesses, and additionally, as Chris talked about, our long-term partnership with Bain Capital also will support us really continuing to accelerate with additional growth capital, our ability to continue to grow and expand our spread-based businesses. So, having said all of that, we're focused, of course, on RILA and fixed, while also recognizing that traditional VA is an important part of our overall solution set.

So while the environment itself, first of all, continues to remain competitive, as it always has, for us, one of the things that we've said repeatedly is that we are really focused on profitable growth as opposed to top-line growth. So, what's critical for us is that we are achieving our returns, our 12% plus targets, as it relates to all of these products. And some of the ways that we're doing that – and I'll just go through some of the things that we've talked about in the past. So, first of all, as it relates to fixed and RILA, we've got broad distribution capability. And in particular, in fixed, when we built the capabilities there, some of what we really focused on were really two things.

One was our ability to be on what we've called walled gardens, so the ability to be able to compete on a shelf with a smaller number of competitors, and to be able to provide solutions there. And the other thing in particular as it relates, for example, to FIA is to have unique crediting strategies there that also enable us to be able to compete in ways that aren't purely from a price perspective. You also see, as it relates to the RILA product, which we also think of as a spread-based product, and you know that we've seen a number of competitors that have come into that space, and it's been significantly more competitive.

But there also, the introduction of our new product about a year ago, some of what we focused on there was utilizing our distribution shelf space and expanding, but also the idea of introducing unique, product features. And so, indexed crediting rates, product features that aren't on anybody else's platforms have enabled us to be to be competitive.

And then the final thing that I'll add is that, as it relates to the long-term strategic partnership with Bain Capital, part of what we recognize as an important competitive advantage to have is to be able to have unique sourcing and unique differentiation as it relates to our asset strategy as well. So, we spent the better part of the last year talking to all of you about optimizing our investment strategy, and the long-term partnership with Bain Capital will enable us to accelerate that, while still maintaining our competitive position and ultimately being able to grow in these spaces.

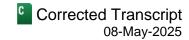
Alex Scott

Analyst, Barclays Capital, Inc.



That's really helpful. Thanks. As a follow-up, I wanted to ask one more on the on the Bain partnership. Is – part of, I guess, a couple of different announcements, there's been two new products that are sort of being pursued as part of it with the fund distribution and FABN. Is this it, or is there potential further product launches and expansion into, I guess, businesses that are adjacent, but potential opportunities for growth?

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Ellen Gail Cooper

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

Absolutely. So, one of the things – as we have continued to, first of all, strategically execute on all of our objectives, one of the things that we have looked at are ways that we can expand and grow in adjacent markets, leveraging where we have competitive advantage. So, I do think that the announcement that we had about six weeks ago where we will be launching private funds in partnership with Bain Capital and also with Partners Group is an example of that. And so, part of what we're doing is we are leveraging our distribution, our LFD distribution leadership, first of all.

The second thing is that we recognize that one of our competitive advantages is our ability to be able to position, with clients, customer solutions that are long term in nature and also complex. So, the idea of a private fund that may have some complexity orientation to it, but also is long duration, is very much complementary for us.

And then, importantly, as we looked at this opportunity, some of what was important to us was finding the right products, finding the right partners, and finding, ultimately, the right economics. And we feel that in the introduction of these two products that we've done exactly that. From our perspective, we are focused on getting these up and running and launched, and there's a lot of work going on from that perspective. And then from there, we will see additional potential opportunities over the longer term.

The other thing that I will add is that the other competitive advantage that we have is that in our variable funds right now, we have a whole series of mutual funds. And so, we have a lot of overall experience as it relates to running a mutual fund complex. And so, the idea of a retail fund also is directly related to a competitive advantage and a deep experience skill set there as well.

Christopher M. Neczypor

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

And Alex, the only other thing I would add as it relates to the broader conversation around Bain is you're seeing the intersection of private asset management insurers across a lot of value streams. So to your point, I mean, we've – to the conversation, I'll just add, we've looked at this from a distribution perspective. The general account value add is very straightforward, and we think that there's a lot of upside there, and that'll help grow spread products, as I said. But you're also seeing the relationships between insurers and asset managers and on the private equity side and things like retirement, capital sourcing, right, sidecars. I mean, there's just a lot that's going on. And so, we think that with the partnership that there's going to be a lot of value that we can create over the next couple of years.

Operator: This concludes the Q&A session. For those that were still in queue, we will follow-up with them after the call. I'll now turn the call back over to Tina Madon for closing remarks.

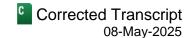
Tina Madon

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

So, thank you for joining us this morning. And 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. You may now disconnect.

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