



Prudential Financial is a financial wellness leader and premier active global investment manager with more than \$1.5 trillion in assets under management as of December 31, 2019, with operations in the United States, Asia, Europe and Latin America. The firm offers a wide array of financial products and services including life insurance, annuities, retirement-related products and services, mutual funds, and investment management.

Prudential's operations are comprised of five division with seven segments. They are described below:

PGIM

PGIM is a global active asset manager with over \$1.3 trillion in AUM managed through a multi-asset manager model with broad capabilities. PGIM's asset management services include public and private fixed income, public equity and real estate, commercial mortgage origination and servicing, and mutual funds and other retail services. The division manages money for institutional, private, and sub-advisory clients, insurance company separate accounts, government-sponsored entities and Prudential's own general account.

U.S. Workplace Solutions

Retirement Segment

Prudential is a global leader in Pension Risk Transfer capabilities and is a leading provider in the Full-Service retirement market with a broad range of products including investment -only stable value products, guaranteed investment contracts, structured settlement annuities and other group annuities, and administrative services for both qualified and non-qualified plans

Group Insurance

Prudential is a leading U.S. provider of group life and disability insurance, offering a full range of group life, long-term and short-term group disability in the U.S. market. Its clients primarily are Institutions for use in connection with employee plans and affinity groups. The firm also sells accidental death and dismemberment and other ancillary coverages and provides plan administrative services in connection with its insurance coverages. Prudential's broad product portfolio covers over 15 million U.S. workers and is expected to provide steady growth prospects as a result of its diversified portfolio and financial wellness offerings.

U.S. Individual Solutions

Individual Annuities

Prudential is among the industry's largest providers of individual annuities with a wide distribution platform. The firm offers individual variable and fixed annuity products, primarily to the U.S. mass affluent and affluent markets with a focus on product design and risk management strategies.

Individual Life

Prudential develops and distributes variable life, term life, and universal life products, primarily to the U.S. mass middle, mass affluent, and affluent markets using a multi-channel distribution network.

International Insurance

Prudential offers life insurance, retirement products, and certain accident and health products with fixed benefits to the mass affluent and affluent markets through its Life Planner operations in Japan, Korea, Taiwan, Brazil, Argentina and Mexico. The firm offers similar products across Japan and through its joint ventures in Chile, Malaysia, India and Indonesia through multiple distribution channels including banks, independent agencies, and Life Consultants associated with its Gibraltar Life and other operations.

Closed Block

Divested businesses

Long-Term Catalyst

PRU is realigning its businesses to focus on growing those parts that are less rate-sensitive and more capital-light such as PGIM. The company had begun to implement this strategy in 2019, but COVID and the Fed's "lower for longer" interest rate policy is accelerating the process. Some of the changes include:

- Prudential is accelerating implementation of its Financial Wellness Initiative. The objective of the program is to help participants to understand basic personal finance topics, i.e., budgeting and debt management, in order to become financially secure. The company plans to leverage its Retirement and Group Insurance businesses to access more than 20 million "middle market affluent" through the workplace. Prudential hopes to both encourage increased use of its products that are already available for these individuals as well as provide additional investment/income products at the time of retirement. Employers generally view this program positively because it helps employees to understand the value of available benefits and can prevent them from falling into financial difficulty that can negatively impact them at work.
- Shifting the International business out of slower growth regions and into faster growing ones. PRU has sold its businesses in Italy, Poland and Korea, and is exploring opportunities for Taiwan. It is looking to increase its exposure in South America, Southeast Asia, India and Africa.
- Acquired Assurance IQ, an alternative direct-to-consumer technology-enabled sales distribution channel with increased product breadth. The platform primarily will sell third party Life, Health, Property and Casualty, Medicare Supplement and Medicare Advantage insurance products generating commission and case referral revenues. The Medicare annual enrollment period is expected to be an important catalyst for the platform.
- Significantly reduced or stopped selling certain higher interest rate sensitive life insurance products and annuities. It is introducing products like buffered annuities which allow the purchaser to participate in some of the upside of the equity market while providing some downside protection (a hedged equity product with an upside cap).
- Introducing a cost reduction program expected to produce \$500 million in savings from inception through 2022.

Management's objective is to execute incremental changes that will result in fundamental changes in business mix.

Positives

International Business

PRU's International business, particularly its large Japan operation, produces significant cash flow for the organization and has provided it with experience developing and selling insurance products in a low interest rate environment. While the growth of the Japanese operation has been stagnant, the company is beginning to tap faster growing, but smaller, emerging markets. This has the potential to eventually contribute to the company's growth.

Prudential Global Investment Management (PGIM)

PGIM is a fee-based business with expertise in Fixed Income and Real Estate. It generally has done well in the Institutional Market with strong performance, particularly in niche products. While it has been able to successfully gather retail assets, it has been negatively impacted by index products.

PGIM's generally strong performance also has been a positive for PRU since PGIM manages PRU's insurance reserves.

Pension Risk Transfer (PRT)

Prudential is a leader in Pension Risk Transfer. This has been a very profitable business for the company. Lower interest rates and a greater level of competition could limit the opportunities in this space in the near future. This is a "lumpy" business for Prudential due to the unpredictability of new opportunities.

Financial Wellness Initiative

The Financial Wellness Initiative, mentioned in the Long-Term Catalyst section, provides PRU with the opportunity to directly provide financial advice to participants of current plans.

Business Mix

Prudential has an attractive mix of businesses. Fee based businesses, including PGIM, Retirement and Annuities, generate approximately 39% of earnings. Insurance underwriting in the U.S. and in International markets generate about 39% of earnings. Net spread business, primarily from the retirement segment, generates about 22% of earnings.

Negatives

Interest Rate Sensitivity

Low interest rates can have a negative impact on the company's profitability since it may not be able to replace the income generated by maturing or called securities. Prudential has a large annuity book whose profitability could be negatively impacted if the low interest rate environment continues for a long period of time.

Long Term Care Insurance

There is the potential for further write-offs in the Long-Term Care Insurance (LTC) book of business. Although Prudential discontinued writing new individual LTC business on April 1, 2012, there is still significant liability on the books. The company took a \$1.5 billion pre-tax charge on this business in 2018 due to poorly priced policies, so the probability for another large charge in the near future is relatively low.

Other Risks

Investment Risk

The company is exposed to investment risk through in its investment portfolio, which primarily consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and alternative assets, including private equity, hedge funds and real estate. The company is also exposed to counterparty default through its hedging and reinsurance programs.

Weaker markets will negatively impact the value of PGIM's managed portfolios, variable annuities and other products that generate asset-based fees. This would reduce Prudential's revenues.

Higher Levels of Unemployment

Higher levels of unemployment, particularly for individuals with company sponsored retirement plans and group health benefits managed by Prudential, could result in lower revenues for the company and slower growth in the Financial Wellness Initiative.

Valuation

Apart from P/E which has been distorted by the impact of the second quarter market decline, Prudential is selling at inexpensive levels.

Valuation Summary

	Current	5 Year		
		High	Low	Avg
P/E (LTM)	-	17.0	3.8	9.0
P/E (NTM)	6.2	10.9	3.2	7.9
PEG (NTM)	0.7	1.8	0.4	1.0
P/BV	0.4	1.1	0.2	0.8
P/BV xAOCI	0.8	1.6	0.4	1.1
P/TBV	0.4	1.1	0.2	0.8
Div Yld	6.5	10.4	2.3	3.7
Debt/Capital	33.4	50.8	33.3	38.5

While P/E is interesting, the primary valuation criterion that we believe is the most relevant is Price/Book. It appears to be undervalued on both a historical and absolute basis, even considering the potential for lower future book value due to market declines.

Note:

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