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Prudential Financial, Inc. (PRU)

RBC Capital Markets Financial Institutions Conference

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Mark A. Dwelle
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MANAGEMENT DISCUSSION SECTION

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

I guess we'll go ahead and get started. We may get a few last stragglers in here. I know some of the sessions are not in perfect sync, so maybe we'll get a few more in here as we go along.

I have the honor today to bring Prudential Financial to our stage. This room venue has been used for nothing but banks until this point in time. So we have the unique opportunity to bring the only company that escaped the clutches of the FSP to this stage during this conference. So that's a unique opportunity. I'm glad to have it.

I have with me today Rob Falzon, he's Vice Chairman of Prudential right now. Those of you who have been following the company for a while, he's been Chief Financial Officer, he's headed the Real Estate division, tenure that goes back, I guess, well into the 1990s.

So I guess the format today, I'm going to lead off with a few questions, some topics to kind of get things rolling. After a little bit, we'll open it up to the floor to take some questions from the audience. And if you don't have any, then I'll just keep going because I can do this all day. That's what I do.

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QUESTION AND ANSWER SECTION

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Let's start out with, I mean, kind of the big initiative has been financial wellness. Clearly, something that's new, it's a great opportunity. Maybe just talk about some of the key elements of it, what you see as the opportunity there.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. So, first, we view this as an opportunity to significantly expand the addressable market that we have as a company, frankly as an industry. And as a result of that, I think there is the opportunity to accelerate our growth materially in the future. So hit a new point, an inflection point in our growth. So I'll start with sort of what the market looks like. These numbers are not necessarily new, but the life insurance gap has been quantified by LIMRA at $12 trillion.

Even if they're wrong, because they're an industry association, so they would tend to sort of quantify that in a generous way, it's – whatever you want to hear couldn't possibly say; it's a huge market. The retirement savings gap is – different estimates on that, but they range from anywhere from $7 trillion to $14 trillion. So, very large markets, and the ability to crack into those markets is something that can materially change the growth trajectory of the industry and particularly of our company.

The issue is that those statistics are actually not particularly new, right? This is a phenomenon that's been out there. The innovation is that there are tools designed that we think can actually crack the code to address that market, and the tools come in sort of a package of, I think, three critical elements in order to get at it.

The first is we believe the way you're going to get at this is through the workplace. For Americans, the workplace is the place where we consume our benefits. It's where we're used to doing that, one. Two, there's the opportunity to create a value proposition. This is the trick. The value proposition for the employer, as well as the employee because the key is if you want to get into the workplace, you have to get this thing called permissioning in order to actually get at the employee.

So, if you can create a value proposition for the employer, and that's what we're calling financial wellness, which is that if your employees are financially well, they're more engaged, they're more productive, less absenteeism, they retire on time. It's a better outcome for you as an employer. If you can make them financially well, you'll benefit from those outcomes, so allow us to work with your employees in order to sort of help them to achieve those outcomes. For the employees, it's about education. It's about identifying goals and then solutions to meet up with those goals, and so you have a process of engagement with the employees that's to the benefit of the employer. So, that's the first piece of it, execute for the workplace.

Second piece of it is around the way in which you can engage with individuals on a go-forward basis, and that's been enabled by technology. So, digital to hybrid to traditional in-person is now a critical element of being able to deliver that financial wellness even at the workplace to individuals. So, technology has enabled and engaged with employees that is both effective and low cost, which is the key when you want to get to sort of a broader population.

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The third piece of it that's important is to be able to provide simplified products. The industry has been built, over recent decades and longer, on a target towards the more affluent portions of our population and the products that we've designed had been to meet the needs of that more affluent population. This is more about mass affluent and middle market, and the needs there are much more straightforward, and the products need to be designed to do that.

So, we think if you can take those three features, those three tools, package them together, that what you can do is you can take what are generally – what I call points of reflection, reflection points in an individual's life, and turn that to inflection points. And that's been the issue, which is there's this latent demand, but how do you turn latent demand into actual demand? And we think through the workplace, through the introduction of technology, which will – there's both a cost-effective way and an engaging way to be dealing with the employee, and by having the right suite of products that you can then translate that latent demand into actual demand.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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It's really kind of interesting because, like, my grandfather's generation, he had a pension, but he might not have had healthcare and voluntary benefits. And over the decades, we've translated into this focus on healthcare and voluntary benefits and we've lost track of the retirement aspect. That's the piece that for many companies or many individuals has gone away. So there's a degree to which kind of what you're doing is really kind of bringing that back to the fore and encouraging companies to help their workers see to that third need, the retirement need.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. The whole shift in the market from DB to DC, it's been a wave and we're all well aware of that. The issue is that the consumer is not well aware of it.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

You know what, someone's got something saved and they think, I'm heading into retirement, and I got $75,000 in my 401(k), terrific. They don't understand what that translates to in the way of sustainable income on a go-forward basis. Incidentally, that's why we've been a big proponent of this recent initiative legislation. A component of that is actually to get at this, to inform employees when they get their 401(k) statements, not just what that balance is but actually what that balance would translate into in the way of an annuity, an income for life for them in order to create a connection of visibility as to where they need to get to in order to be adequately safe.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Right. No, it's a good thought. There's a lot of companies that kind of poke at the idea of, they don't call it financial wellness, they have their own name for it. What differentiates Prudential? Where do you have an edge? Why...

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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Yeah. So, what we believe is, we may be the only company, actually, that has the full suite of tools that are necessary in scale. So let me explain what I mean by it. If you go through those three drivers, those three components, you start with workplace. So we're in the workplace already through our Group business and through our Retirement business, we actually have 20 million customers at the workplace. So we have a mechanism to apply financial wellness.

Secondly, we've developed the digital interface to customers, so we have developed an educational series and a series of engagement tools, and it plugs into a continuum that we have. So, we can engage with individuals online in a hybrid fashion. So, sort of think of it as sort of as you can be telephone assisted online or chats online all the way to if you need to speak to an adviser directly in person, we can do that as well. And we think actually having that full continuum engagement and distribution is important for execution.

And then, it's the product piece, the third piece that I mentioned.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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And so, we have in scale, all the businesses that are necessary to deliver financial wellness into the marketplace. So, it's about savings, it's about investments, it's about retirement, it's about guaranteed income and it's about protection. And we have large scale businesses in all of those areas providing those services.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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It's certainly an area where Prudential not exclusively unique but certainly has an edge on a lot of people because I mean, you can really bring together the whole gamut of life insurance annuity, regular, traditional investment 401(k). I mean, there's not a lot of financial companies, particularly with your branding, that can kind of pull off the grand slam, so to speak.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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Yeah. So we have the power of brand. And the other thing we have is we have this the whole history of our culture where we've – which made us successful in the past is we've got this culture of teamwork and collaboration. And so, it's important to have the components, but it's equally important to make sure that the components are actually working together to deliver the solution at the work site into the individual. And we've got a history of being able to do that in a variety of our lines of businesses and showing how they can work together. And that culture of organization allows us to not only have the capabilities but to actually execute against those capabilities.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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So, how big is it going to be?

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Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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That's a good question. I think we're going to – we actually have our Investor Day coming up in June, right. I think we'll be a little bit more prepared to talk about sort of the quantums in this in more specificity. But what I would say is that I spoke to the size of the markets, so we think the opportunity is actually quite large and we're actually very encouraged by the early feedback that we're getting and the early success that we're having. And I kind of think about the impact of growth is coming in three stages. The first is that, what's happening for us is we're actually winning business because we have a Financial Wellness platform.

So, we're winning business in our Group platform and we're winning business in our Retirement platform. We can attribute $11 billion of AUM to the successes that we've had, the successes that were because of Financial Wellness and our Retirement business and about $100 million of revenues associated with our Group business that were wins because the decision was made on the basis of having our Financial Wellness capability as a differentiation.

So, in the first instance what we're going to see is that 20 million customer base as we'd like to describe at the top of a funnel that we're trying to engage with and wind up at the bottom of the funnel with execution, that 20 million is going to be growing as a result of the competitiveness of our institutional platforms or our company platforms. And then, what you'll see is that, that business, once Financial Wellness is in place, it becomes sticky.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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Because it's hard to replace it. And so, that gives us retention and it gives us pricing power on renewal. And so, you're going to see a second leg of earnings growth that's associated with that. And then, while that's occurring, you're going to see a growing level of sales associated with what I'll call retail sales. And that's the consumption of the services that once we've done the education and we've identified goals and we're now helping individuals execute against those goals, and we're actually seeing good results of this. So, we have this program called Pathways and we deliver on-site to employers. So, we've actually had it in place for large employers. So, right now it's on the platform for 450 employers. They represent about 4.5 million individuals, employees. To-date, as we've been rolling it out, we've had 45,000, so we're just at the tip of the iceberg. The 45,000 individuals go through our Pathways program, and the Pathways program is about education and we bring a PRU adviser in, in order to deliver a whole series of modules on education around financial wellness.

Now, they are not permitted to sell during this period.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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The only thing they can do is they can leave a business card but they're strictly prohibited from selling and that's the agreement we have with the individual companies. Despite that, what we found is of that 45,000, about 20% of the individuals who attended those seminars, then contacted the presenter in order to arrange a meeting as a follow up to that series of seminars.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Better than leaving your business card in a fish bowl.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. Absolutely. And then what's really powerful is 20% of them actually they went on and executed and bought products from us. And so you sort of think about now, if you're able to scale that, that goes well beyond our expectations than what we would hope to get in terms of population translating into execution. Those are very, very powerful numbers. So, we think we've got the right equation and we're in the process of doing a sort of accelerating the rollout of that.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Excellent. I mean I think it brings together a lot of elements and certainly the runway is vast and you described at the beginning kind of the global need and its numbers with trillions involved. I mean, $11 billion is a great start but it makes apparent the size of the runway that you have to work with as you continue to scale and roll.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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Yeah. We're at the very front end of what we think we'll eventually be a steep curve of acceleration.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. I mean it seems like part of the key to this, I mean, to me one of the more intriguing bits of it is really that technology interface. Same thing to talk about my grandfather. He ripped open a statement that showed up in his mail. My daughter doesn't understand why this truck stops in front of our house every day. Her whole world happens on the Internet. So, maybe describe some of the technology that Prudential is using both within the wellness program and then more broadly, kind of interface with customers and build that relationship.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. So, I think technology hits a whole spectrum of things and from our standpoint, the most powerful potential for technology is around expanding our addressable universe, right? And so, we think about that in terms of access to customers and engagement with customers. There also is an application of technology which will produce efficiency and productivity for us as well. So when we kind of go through that spectrum, from a customer standpoint, we think about engagement with the customer and there we've rolled out a series of tools that are around needs identification that are – it's highly personalized experience that an individual can go through in order to identify their needs. Quantified goals are associated with that, customized set of goals. And then actually point to a series of solutions against those goals so we can help them to execute against.

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We have something called LINK by Prudential that we've very recently rolled out. That's available, actually, to individuals as well as to the workplace. And it takes people through that journey of sort of plotting out what their life is going to look like and how they need to plan against that. Those are very helpful and important tools. They're dynamic, they're customized, and they begin to create a level of engagement so people can begin to understand what their needs are. And that's part of the issue is that these are – people wake up in the morning and say, today is the day I'm going to buy some life insurance. That's not how our industry works. And that's why we've had to rely on some advisors to sort of coach people as to what they need.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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And so you have a digital capability of doing that. The other part of our customer experience that was also – when we have customers, it's the servicing and the engagement that we have with existing customers as well. So, we're standing up a platform that we call [ph] Aurora (15:46). Think of it as it's sort of a – it's a unified customer contact center so that individuals, regardless of where they are in our organization or calling in can have an experience where we know everything we need to know about them as we're talking with them. And then we have an opportunity to sort of more holistically address their needs.

So that's on the sort of the customer interface side. The second component of it is how we can help with product and delivering service actually to the customer. So we've now introduced artificial intelligence to our underwriting. So for any individual life policy, up to $1 million that we sell, individuals can apply for that through something we call Fast Track.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

And we've taken – and they fill out – they answer seven questions. And after answering seven questions, we can get back to them within 48 hours, a process that takes from a manual underwriting standpoint months, right, to underwrite someone for a life insurance. You get that down to 48 hours where they are now underwritten. We've tracked the success of this using the artificial intelligence, and then back testing it against our own data and our manual underwriting, and it's 97% effective. And we've assumed – the 3% – what that means is it comes up with the same result as the underwriter would have come up 97% of the time.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Do you still have to have the lady come with the scale and the cup or...

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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No. It eliminates cups, eliminates fluids from the equation. So it's a much more comfortable experience for individuals. And, obviously, we use the seven questions and our own data and external databases in order to be able to do that. And so that takes that customer – that creates a very different customer experience and essentially the way in which we deliver products. And then the last piece of it is around productivity and efficiency.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

And we think about taking talent and enabling talent with technology, with artificial intelligence, with automation, with improved organizational design and sourcing and process, and what you can do is get individuals out of what we think to be important roles or critical roles but there are critical roles that can be done by other than things, other than human beings. And take those individuals, take that capacity, that talent and redirect it toward what we call pivotal activities in the organization. Things that are going to impact the customer experience, that are going to help us to accelerate revenues, that are going to enhance our profitability. So, I think about technology as everything from the customer experience, the products that we're delivering to the customer, and the way in which we're operating as an organization.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. Before I – maybe before I go to the crowd, we'll hit on one more topic. I mean, we've got a room full of people here who are involved with asset management organizations, PGIM, of course, is among the biggest. And there's a lot of challenges in the asset management sector right now but PGIM seems to have found their way through. I mean, you're continuing to drive good asset management growth. Maybe talk about kind of what some of the things you're doing there, some of the product initiatives, some of the things that have been giving you an edge, and what's good and exciting in PGIM.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yes. So let me describe PGIM first for those that may not be familiar with it. So, it's our investment management business. It's 10th largest global asset management business in the world and we've got 1,400 institutional clients in that platform. Within that 1,400 what you would find is that we have – we do business with 23, I think the number is, or the 25 largest corporate pension plans in the United States. We do business with more than half the 300 largest global pension funds. So, it's kind of big institutional businesses, not just an extension of our general account. This is actually a legitimate large third-party institutional management business. So, I'll sort of talk about the business model maybe next. So, that's what sort of the customer base looks, oh, incidentally, we have about a quarter of a trillion of AUM in retail, that's sort of on the back of my mind.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

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Now, the business model for PGIM is it's an active manager, okay?

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

And we're actually quite proud of the fact that they're active. The good news for us is they're actually quite good at it as well.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Any active managers in the room?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. Hope a few. If you look at their five-year track record across their fund complex, 90% of the funds are beating their benchmarks. And so they're actually good at executing against that.

The other dimension of it, aside from being active, is that it's a multi-manager model.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

All right? And within that multi-manager model, every business we have is individually of scale. It could be a standalone, sizable investment manager business and included in that are alternatives, like our real estate business. In fact, if you look at our real estate business between equities and debt, we're the second largest global real estate investment manager in the world, obviously global. And if you look at alternatives holistically, we'd be the third largest manager of alternatives globally.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

I think probably a lot of people don't realize that.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah, yeah.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

That's a good stat.

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Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. It's very large and successful, and particularly within alternatives. And so, the combination of that strategy, the organization that we have, the strategy, and the performance has led to 16 consecutive years of positive institutional cash flows into the business, which we're very proud of that track record. And that's over periods of time and not many asset managers and people in this room could probably attest to have that sort of a track record and sort of consistently being able to attract investors into the platform.

So, in terms of sort of what's in the future for that, as we're thinking about it, we want to continue to grow the business. Probably, the three areas that we're focused on would be continuing to grow in retail, continuing to grow global and, really, international, and then growing our alternatives business.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. Let me take the opportunity here to see if there's anybody in the audience that has a question, somebody wants to jump in, because I can go for hours. So, what's on your mind? Anybody? Anybody? All right. I'll keep going then.

I mean, you just mentioned the International. The International units continue to deliver pretty good sales results, certainly, the various business units in Japan and so forth. Can you talk about what you're seeing there, what you're doing there, where you might see opportunity over time on the international front?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. So, internationally, if you think about our International business, it's anchored in what we believe is the premier, the Japanese insurance company. And then, in addition to that, we have what I'll characterize as seed investments in a number of other areas and particularly in some high growth markets. So, we're in China. We're in Indonesia. We're in Brazil, Chile. We're in India. So, we've got growing businesses in high-growth markets, but we have this very large and very successful business in Japan. So, when I think about the things that are sort of going well within that international complex, obviously, our Japan business anchors it and it's doing quite well.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

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And so, if you look at the business, it generates pretty steadily a mid-single-digit growth rate. It has a high-teens ROE, highly stable earnings performance, and the earnings translate into a high level of free cash flow for us. So, we're – every year, every quarter, taking capital out of that Japan business and bringing it back into the U.S. where it readily translates into free cash flow for us.

The unique thing about our Japan business and what makes it that premier business is that we have a proprietary distribution capability that no one else in the market has been able to emulate. We have less than 6% of the agents in the Japan market, but we represent over one-third of the members of the million-dollar roundtable. So, you sort of think about...

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Mark A. Dwelle
Analyst, RBC Capital Markets LLC

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Okay.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

...we can punch well above our weight in terms of the productivity of our agents. So, we have a good formula for success and that continues to generate growth for us and good returns. The areas where we're looking to grow is we'd like to – we like those investments that we have in the growth and emerging markets to be a larger component of that International, overall International business mix.

And so, you've seen us being – investing in joint ventures and acquisitions in order to – there's good organic growth there but we really need to grow it more than organically if we want to balance out the very large business that we have in Japan.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

And certainly, in places like Brazil, India, I mean, these are emerging middle class and upper-middle class markets, more financial sophistication beginning to get into those markets. So, it certainly seem, again, kind of a good runway for places to build on.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. Our Brazil, the Brazilian business is going gangbusters. Actually, I was just looking at some numbers the other day and new business premiums in Brazil just exceeded on an annual basis our Korean business. We've been in Korea for 30 years. We've been in Brazil for 15 years. And it's – now, it's already surpassing it on a new business basis.

And like a year or so ago, we actually added to our Brazilian business. We already had an individual life business so we bought a group business. So, we're now both in the group and life business in Brazil. So, we're very optimistic about the potential for that business, along with – we started a joint venture in Indonesia and we feel really good about the opportunities in that market. So, across markets, we think the potential is clearly there. We just want to accelerate the impact.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. Let's turn our attention back to the United States with the annuities business. Spreads there have been pretty strong, sales growth has begun to kind of pick back up. Can you talk about sort of what's working here, where the opportunity lies, I mean, how do you see that business continuing to progress after the downturn we had a couple of years ago?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah, so we have a really high-quality annuities business that I think is generally underappreciated by the market. It's a business that's also churning out mid to high-teens ROEs. It has a very stable ROA. The earnings translate into – about 80% of the earnings translate into free cash flow for us. And we've gone through now volatility in the

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marketplace, and what we've shown is that both earnings and capital are actually quite stable in the way that we manage the block.

So, you have this – you have stability combined with high returns and high free cash flow. It's a very attractive business for us. One of the challenges is that the industry, and our business included, the sales growth has slowed down pretty considerably. Now, last year, industry growth was somewhere around, I think, 13%, 14%. So, sales have begun to pick back up.

Our sales growth was up 40% 2018 over 2017. So, we've very clearly begun to reaccelerate sales. There's been a shift. So, it's gone from variable to fixed. I think about two-thirds or so of the sales in 2018 were fixed. And so, we've pivoted our sales as well. We're a big variable annuity seller. We've introduced a fixed indexed annuity, and our sales of that have been climbing pretty dramatically as well.

And I think some of the issues around the DOL...

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Right.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

...fiduciary rule, sort of the cloud lifted and I think allowed that – the industry to begin sort of reengaging and selling.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Okay. Anything from the crowd? We got time for maybe one more, otherwise I've got one. All right. I mean, to me, one of the bigger stories in the last year or two, I mean you guys have always done capital management. You're always a good dividend payer, buy back some stock, I mean I would say you kind of kicked it up a notch over the last year or two. Just talk in general about how you're thinking about capital management. Obviously, the strong earnings and the cash flows have helped support all of that. Just talk about how you think about the capital management process and what kind of goes into the equation?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

Yeah. Sure. So actually, this year is our 11th consecutive year of increasing dividends. And so every year, as our earnings have been growing, we've been translating those earnings into higher dividends. And so this year, we increased the dividend by 11%. We also increased the authorized buybacks by 33%. So, a pretty significant increase there. So, we're at $2 billion of authorized buybacks for 2019.

So, and that is to the point that you made, Mark. It starts with the fact that the earnings that we have within our businesses are strong and we – our free cash flow ratio, the translation of earnings into free cash flow is around 65%. And so, as we think about that, we generally think about, okay, we're going to take half of our free cash flow roughly. There's no formulas around these things. But, there was a guideline. We think about half of our free cash flow, we want to sort of systematically return to investors and the best way to do that is through dividends.

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So, we think about the dividend as representing about that half of free cash flow, which is 65% of overall earnings. Then, the remaining other half of our free cash flow, we look at it – those are – that's cash that we can look to reinvest in the business in order to accelerate growth either organically or inorganically. And if we don't find the opportunities to do that, then we would return that to investors as well, and that's generally in the form of stock buybacks, and hence, why you've seen us go from $1.5 billion of stock buybacks last year to $2 billion of stock buybacks this year.

Mark A. Dwelle

Analyst, RBC Capital Markets LLC

We've covered a lot of ground here in a fairly short period of time. Hopefully, a bunch of you have meetings with Prudential over the course of the balance of the day. Red lights on. Can you all join me in giving a round of applause here?

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

Thank you. Thanks, Mark.

Mark A. Dwelle

Analyst, RBC Capital Markets LLC

Thank you.

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