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Prudential Financial, Inc. (PRU)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Prudential's Quarterly Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Tina Madon. Please go ahead.

Tina Madon

Global Head-Investor Relations, Prudential Financial, Inc.

Thank you. Good morning, everyone, and thank you for joining us. Representing Prudential on today's call are Andy Sullivan, Chairman and Chief Executive Officer; and Yanela Frias, Chief Financial Officer. We'll start with prepared remarks by Andy and Yanela and then we'll address your questions.

Before we begin, I want to remind you that today's discussion may include forward-looking statements. It is possible that our actual results may differ materially from those statements. In addition, remarks made on today's call and in our quarterly earnings press release, earnings presentation, and quarterly financial supplement, which can be found on our website at investor.prudential.com, include references to non-GAAP measures. For a reconciliation of such measures to the most comparable GAAP measures and a discussion of the factors that could cause actual results to differ materially from those in these forward-looking statements, please see the

slides titled Forward-Looking Statements and Non-GAAP Measures in the appendices to our earnings presentation and quarterly financial supplement.

With that, I'll now turn the call over to Andy.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Good morning, everyone, and thank you for joining our call. Before turning to our first quarter results, I want to take a moment to step back. This is my fifth earnings call as CEO and the first of my second year in the role, an important point to take stock of where we are as a company and where we are headed.

Over the past 12 months, we've made meaningful progress against the priorities I established at the onset, and we're seeing tangible evidence of stronger execution across the business. The issue we encountered in Japan was unexpected, but we are navigating through it, and it does not change our assessment of the path forward. Results across the organization reinforce my confidence in our direction and in the operating discipline we are building.

Last year, I laid out three priorities: evolving and delivering on our strategy, improving on our execution, and fostering a high-performance culture, aimed at delivering stronger performance, more consistent results, and sustained long-term value creation. Since then, we have sharpened our focus, raised the bar on accountability, and made foundational changes to our leadership and operating structure to support that agenda.

Prudential is at a defining moment. We have a strong foundation, distinctive businesses, and significant capabilities. We compete in large, attractive, but highly competitive markets, and that puts a premium on accountability and strong operating discipline. Since that first call last year, I've been clear: delivering the level of performance our shareholders expect requires a simpler company, clearer priorities, and a relentless focus on execution. The status quo is not an option.

Our business is anchored in real strengths. We have a trusted brand, deep distribution, and long-standing customer relationships in markets where demand is durable and growing. Nowhere is that more evident than in Retirement and Asset Management, where powerful secular trends are creating significant opportunity. Institutions with the scale and capabilities to manage long-duration liabilities, deliver reliable income solutions, and generate strong investment outcomes will win.

A defining strength of Prudential is the integration between our retirement capabilities and our asset management platform. That connectivity enables us to source and manage assets in ways that support our retirement and protection liabilities, while positioning PGIM as a sustainable, capital-efficient growth engine for the enterprise. These differentiated competitive advantages matter, but positioning alone is not enough.

Success requires clear choices. It means concentrating on the businesses and capabilities where our advantages are real and sustainable and stepping back where they are not. You've seen us act on this conviction with our recent portfolio actions, specifically the sales of our PGIM operations in Taiwan and India, as well as our insurance businesses in Kenya and Indonesia.

The decision to exit markets where we do not see a scale opportunity or a path to market leadership reinforces our commitment to redeploy capital toward areas where we could generate high cash flows and attractive returns over the long term. It also means building an operating model supported by a culture that is grounded in

accountability, candor, and consistently delivering at the highest level for customers, shareholders, and our employees.

Our work towards these goals is well underway. While there's more to do, the direction is clear and our momentum is building. We will share more details on Prudential's long-term vision and strategy on our second quarter call in August.

With that, let me turn to the quarter. Pre-tax adjusted operating income was \$1.6 billion, or \$3.61 per share, up 10% from the year-ago quarter, with an adjusted operating return on equity of approximately 15%. These results reflect solid underlying performance, improved consistency and discipline in how we operate, and early benefits from the actions we have taken to sharpen focus and strengthen execution across the company.

Let me now briefly highlight progress across the businesses, starting with PGIM. PGIM delivered strong investment performance and continued to advance the simplification and integration of its organizational platform. This momentum translated into strong year-over-year earnings growth, and the business is on track to deliver the run rate savings and margin expansion we previously committed to, both in magnitude and timeline.

PGIM's earnings profile is steadily improving, even as the rate environment and market uncertainty have weighed on certain asset classes and challenged flows, particularly fixed income and real estate, which comprise over 70% of PGIM's assets under management. That said, we are pleased with the momentum in our expanding private assets business, both in capital deployment and fundraising, which have continued to increase since 2023.

Our efforts, specifically in direct lending and asset-backed finance, are yielding strong results, driving approximately \$5 billion of the \$13 billion we deployed in private assets this quarter. These businesses are higher fee, higher margin, and vital to the competitiveness of our Retirement business.

We're also seeing good momentum in our active ETF retail offering, another important growth area for us. This platform reached nearly \$30 billion in assets under management at quarter end, almost doubling over the last year.

Additionally, PGIM's total flow picture improved meaningfully on a sequential basis. Third-party net inflows from institutional and retail sources totaled nearly \$2 billion in the quarter, despite ongoing pressure from active equity outflows consistent with industry trends. Affiliated net outflows were \$1.9 billion, primarily driven by annuity run-off.

Across our US businesses, results reflect the actions we've taken to strengthen our competitive positioning. We have been very intentional and methodical in broadening our distribution and diversifying our product offerings. This is enabling us to capture demand and improve the underlying fundamentals of our retirement and insurance businesses.

In Retirement, momentum remained strong. Retail annuities delivered more than \$3 billion in sales in the quarter, supported by continued strength in RILA and fixed products. Our new FlexGuard 2.0 product delivered the highest quarterly RILA sales in over a year. Additionally, we completed \$1.4 billion in PRT transactions across multiple middle market cases. These results underscore the depth and breadth of our franchise across both the retail and institutional markets.

On the retail side, our broad product set is a key competitive strength, enabling us to meet customer preferences across various market environments. On the institutional side, our leadership spans from executing large, complex transactions to growing opportunities in the core middle market as our scale, asset capabilities, and customer-centric expertise differentiate us.

In Group Insurance, we continue to strengthen the foundational capabilities of this business and position it for improved outcomes. Our focus on product diversification, including supplemental health and a pivot toward broader market representation through our Premier middle-market segment, are driving momentum in this business.

However, results this quarter reflected increased macroeconomic uncertainty, which impacted disability underwriting as experience continued to normalize from unusually favorable prior year levels. This was partially offset by improved life underwriting due to favorable mortality experience, resulting in a total benefits ratio that increased year-over-year, but was within our targeted range.

Yanela will provide more details on these dynamics in her remarks, but it's important to keep in mind that our diversified portfolio of group life, group disability, and supplemental health products, supported by our disciplined pricing approach, positions us to navigate effectively as conditions evolve. We remain confident in the long-term fundamentals of our group business and our ability to perform through the cycle.

In Individual Life, our focus on portfolio diversification, disciplined pricing, and expanded distribution has resulted in a more resilient earnings profile and enhanced capital efficiency. With the re-segmentation of guaranteed universal life, both the strength and quality of our ongoing Individual Life business is more visible, with this segment generating \$139 million in AOI this quarter.

Now, turning to International. Sales and earnings this quarter reflected the financial impact of the sales suspension in Prudential of Japan. As we discussed on our April 21 call, voluntarily extending the POJ sales suspension through November 5 reflects our current judgment of the time required to make the operational, governance, organization, and related changes necessary for POJ to resume sales. We are confident in the underlying fundamentals of the franchise and in our ability to return POJ to the market as a stronger, more resilient business.

Importantly, when looking more broadly across our Japan businesses, we have a sustainable and increasingly diversified platform. On the product side, our work to diversify into more yen offerings and build on our retirement offerings is paying off. This quarter, over 35% of our sales came from products launched in the last 36 months.

On the distribution side, we are continuing to broaden and specifically strengthen our third-party distribution through banks and independent agents. Our independent agency sales were up 7% year-over-year, and third-party are approximately one-third of our total sales, demonstrating reduced reliance on our captive channels. Together, these factors reinforce the underlying strength and durability of our franchise in Japan.

Outside of Japan, emerging markets delivered a very strong first quarter, led by a record earnings quarter in Brazil, where broader distribution, including agency and third-party expansion, and high productivity, continue to support profitable new business growth.

I'd also like to note that we have now exceeded 1.2 million policies through our Mercado Libre relationship, demonstrating our ability to grow through digital platforms. With that, let me close with some final thoughts.

What you are beginning to see across Prudential is a higher standard for how we are managing the business and positioning it for future success. We are simplifying the organization, allocating capital with greater discipline, raising the bar on execution, and increasingly leveraging technology and AI to become more productive and efficient.

As I said at the beginning of my remarks, we operate in attractive, but competitive markets, and we have a clear understanding of the opportunities and challenges ahead. We are building a stronger Prudential, one that is positioned to meet those challenges and deliver durable value to all stakeholders across cycles. This work is well underway. While changing the performance trajectory of a company of this size is a multi-year endeavor, our direction of travel is clear and our momentum is real. I have firm conviction in our path forward.

With that, let me turn it over to Yanela.

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Thank you, Andy, and good morning, everyone. Our first quarter results reflected continued momentum entering the year. We reported after-tax adjusted operating income of approximately \$1.3 billion or \$3.61 per common share, reflecting a 10% increase from the prior-year quarter. This performance was primarily driven by higher spread income in our US and international insurance businesses as well as more favorable life underwriting results. These increases were partially offset by higher operating expenses, including costs related to the sales suspension at Prudential of Japan.

As I have highlighted previously, optimizing our expense base is a key area of focus. Excluding the impact of one-time items, our operating expenses were flat year-over-year. We are taking targeted actions to reduce costs across the enterprise to support investments in critical areas, including enhancing our service and distribution, and elevating our customer and advisor experience. We anticipate that the benefits of these actions will be evident in 2027.

Let me now review the key performance highlights for each of our businesses. PGIM reported pre-tax adjusted operating income of \$190 million, up 22% from the prior year quarter. These results reflected higher asset management fees driven by market appreciation and higher other related revenues from agency earnings. These increases were partially offset by increased expenses related to growth initiatives, including the expansion of our direct lending and private asset-backed finance platform.

PGIM is on track to deliver approximately \$100 million of gross annual run rate savings and more than 200 basis points of margin expansion in 2026, accelerating progress towards its 25% to 30% margin target. In the first quarter, PGIM delivered a 19.1% margin, reflecting a 260 basis point increase year-over-year, which demonstrates meaningful progress toward that goal. Recall that first quarter margins are seasonally the lowest of the four quarters due to the timing of annual long-term incentive awards.

Assets under management totaled \$1.4 trillion, increasing 3% from the prior year quarter, driven primarily by market appreciation and strong broad-based investment performance across public and private fixed income.

Total flows across third-party and affiliated sources were essentially flat, representing a substantial sequential improvement in all channels. Importantly, third-party net inflows totaled \$1.8 billion as strong fixed income inflows more than offset equity outflows, which, as Andy noted, remain pressured consistent with broader industry trends away from active equities. Net outflows in PGIM's affiliated channel totaled \$1.9 billion, primarily driven by run-off in traditional variable annuities.

Our US businesses generated pre-tax adjusted operating income of approximately \$1 billion, a 3% increase compared to the prior year quarter. Higher spread income in Retirement and Individual Life was partially offset by higher expenses across all the businesses related to the investments I mentioned earlier. Lower fee income associated with the run-off of our traditional variable annuity block, now reported in the US Legacy Products segment, was also an offset.

As disclosed in April, we established a new US Legacy Products reporting segment in the first quarter. This segment includes certain traditional variable annuity and guaranteed universal life products that we no longer sell. The re-segmentation improves transparency and better aligns our financial reporting with how we manage the business, while providing improved visibility into the underlying growth and earnings profiles of Retirement and Individual Life. We also believe that the combination of Institutional and Individual Retirement will provide a clearer view of the growth trends in the predominantly spread-based earnings of this business.

Now, turning to the details of our Retirement segment. Retirement delivered pre-tax adjusted operating income of over \$570 million in the first quarter, 9% higher year-over-year. These results primarily reflected higher spread income related to new business growth as well as approximately \$25 million of prepayment income, which is episodic. These increases were partially offset by higher distribution expenses associated with business growth, along with the investments I mentioned earlier. Less favorable underwriting results were also an offset.

Total sales in the quarter were \$7.4 billion, including \$3.3 billion of retail annuity sales, reflecting strong momentum following the December 2025 launch of FlexGuard 2.0, our newest RILA product. Pension risk transfer sales totaled \$1.4 billion and were across four middle market transactions. Net account values were \$356 billion at the end of the quarter, increasing 8% year-over-year, reflecting market appreciation and broad-based growth across our diversified retirement product set. Of note, retail annuities grew to \$58 billion in account values, representing a 34% increase from the prior year, driven by over \$13 billion in sales over the last year.

Now, turning to Group Insurance. Group reported pre-tax adjusted operating income of \$38 million compared to \$89 million in the prior year quarter. Excluding the impact of a favorable reserve refinement of approximately \$30 million last year, the decline primarily reflected less favorable disability underwriting, driven by higher incidence and severity amid increased macroeconomic uncertainty. This impact was partially offset by improved life underwriting results driven by favorable mortality experience in the working age population. These results also reflected higher expenses, primarily related to investments supporting business growth and operational efficiency in both our claims and service organizations.

The total benefits ratio increased to 83.7% in the quarter as less favorable disability experience was partially offset by more favorable life experience. The benefits ratio remains within our target range of 83% to 87%. As a reminder, our total group benefit ratio reached a first quarter record low of 81.3% last year, driven by the favorable reserve refinement I mentioned earlier and very favorable disability experience.

Sales totaled \$526 million in the quarter, up 32% year-over-year, driven by continued momentum in our Premier segment across our diversified product set as we continue to execute on our market segment and product diversification strategy. This outcome also reflects strong supplemental health sales, which nearly doubled year-over-year.

Individual Life generated pre-tax adjusted operating income of \$139 million in the quarter, more than doubling year-over-year. This increase primarily reflected improved underwriting results due to more favorable mortality experience from lower severity of claims. Higher spread income also contributed to this result. Sales of \$251

million marked a record first quarter, driven by strong momentum in variable accumulation products where we continue to lead given our robust distribution and service capabilities.

Our new US Legacy Products segment generated pre-tax adjusted operating income of \$207 million in the first quarter, a 22% decrease compared to the prior-year quarter. This decrease primarily reflects lower net fee income driven by the continued run-off of the traditional variable annuity block, partially offset by market appreciation. Also contributing to the decline were less favorable underwriting results related to the GUL block.

Our international businesses generated pre-tax adjusted operating income of \$810 million in the first quarter, down 4% year-over-year. This result was driven by higher spread income along with more favorable underwriting results, primarily due to new business growth in Brazil, which had a record earnings quarter. These increases were more than offset by expenses related to the Prudential of Japan sales suspension.

The financial impact of the suspension totaled \$130 million in the quarter, in line with our expectations. Approximately \$50 million of this amount related to customer reimbursements and \$50 million related to Life Planner compensation. The remainder was attributable to lost sales and higher surrenders.

As a reminder, and consistent with our comments on April 21, we continue to expect the aggregate impact to our 2026 pre-tax adjusted operating income will be approximately \$525 million to \$575 million. Sales in our international businesses of \$424 million were down 27% on a constant currency basis compared to the prior year quarter, primarily driven by the sales suspension in Prudential of Japan.

Now, turning to capital, ESR, and cash flows. Our capital position and strong regulatory capital ratios reinforce our AA financial strength and provide the flexibility to grow our core businesses. Our cash and liquid assets were \$3.7 billion at the end of the quarter, which is well above our minimum liquidity target of \$3 billion, and we have substantial off-balance sheet resources.

Our Japan entities remain well-capitalized and are managed to levels aligned with our AA objective. We estimate that our ESR results as of March 31 were in the range of 170% to 190%, well above our 150% operating target. As I mentioned on our April 21 call, we do not anticipate any material impact to our capital, ESR, or cash flows over 2026 and 2027 as a result of the voluntary sales suspension at Prudential of Japan.

Before closing, I want to take a moment to update you on a revision to our tax rate guidance. We are lowering the range for full year 2026 from 23% to 24% to 21% to 22%. There were several factors which drove this, including lower expected earnings in our Japan business and asset allocation changes we made in our Japan portfolio during the first quarter to optimize the after-tax investment return.

To close, let me again reiterate that we are a large, diversified company with multiple sources of earnings and cash flow, and we remain confident in our broader trajectory. We look forward to discussing our strategic direction in more detail on our second quarter call in August.

And with that, we are happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Tom Gallagher from Evercore ISI. Your line is now live.

Thomas Gallagher

Analyst, Evercore ISI

Q

Good morning. A couple of questions about Japan. If I could start with Gibraltar. Can you shed a little light on what's happening with that part of the business? I think there's the secondment issue that Pru has, but several other Japanese insurers are also dealing with that. And also, Andy, I think in the update call you did recently, I think you made the comment that you felt good that Gibraltar didn't have the same systemic problems that occurred at POJ. So, just want to understand maybe a little further elaboration on that and also how you feel about sales and persistency outlook at Gibraltar.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. Good morning, Tom. And thanks for giving me the opportunity to build on what we shared on the 21. Remember, our Gibraltar segment consists of really two components: our 7,000-person strong captive life consultants and our independent agent business. On top of that, we have a very strong bank channel business, and you mentioned the secondment. Secondments are what happens in the bank channel. But the changes that are going on there, we're navigating just fine. So, there's nothing really to report around that. But we have these multiple components that provides a great deal of diversification well beyond just Prudential of Japan and our Life Planner business. And that can help understand the resilience that we're seeing in the overall platform.

As far as sales go in Gibraltar, for our life consultants, we saw lower sales year-over-year. That was unrelated to our compliance issues in POJ, and there's really nothing to focus in on there. That was counteracted. That life consultant sales were counteracted by stronger independent agent sales. So, we have been very methodically adding independent agencies and deepening the number of agents in those agencies, and we're seeing that strengthen our overall independent agent sales. And as I referenced in my remarks, we're really seeing a strengthening of third-party overall, which is beginning to balance our captive channels.

As far as surrenders go in Gibraltar, the only effects that we believe that we've seen relate to the weaker yen and the FX rate. And at the quarter end, surrenders were at normal levels in our Gibraltar platform.

Thomas Gallagher

Analyst, Evercore ISI

Q

Appreciate that, Andy. I guess, my follow-up is just on POJ. I know you gave the guidance of in-force earnings being down 10% year one, 15% in year two. Can you shed a little light on what kind of sales and lapse expectations are embedded in those numbers? Maybe just if we focus on the sales number, are you assuming kind of very gradual recovery? Like, are sales levels are going to be half of the normal levels one year out and then gradually recovering? Any kind of directional help on how we think about the sales recovery and how that builds back over time?

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. Hi, Tom. Let me give you some details there. So, in terms of sales, the assumption is that there are no sales through November 5 during the suspension period, and then there's a gradual ramp-up through 2027. And the 2027 average LP production assumption is 50%. So, through 2027, we're ramping up, and we get to an average of 50% LP productivity. On surrenders, we are assuming that they remain at elevated levels above baseline and FX-related activity throughout the suspension period.

Thomas Gallagher

Analyst, Evercore ISI

Great. Thanks for the detail, Yanela.

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Welcome.

Operator: Thanks. The next question is coming from Ryan Krueger from KBW. Your line is now live.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks. Good morning. First question is just on the earnings power of the international business at this point. I think if I look at the earnings excluding variances, they were up 6% year-over-year despite I think about a 4% drag from the POJ sales suspension and lapses. Can you give us some more color on just what factors led to this in the current quarter? And I guess, to what extent some of these things you wouldn't expect to recur, or if we should view this as a pretty good run rate from here?

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Yeah. Hi, Ryan. I think there's a few things that you need to consider here. So if you – let me walk through them. First is the timing of the cost and the impact of the POJ misconduct. As you heard in the prepared remarks, in the first quarter, we had \$50 million of customer reimbursement that's nonrecurring, \$50 million of LP comp, and then about \$30 million of impact of sales and surrenders, half – each of those is worth half.

A few things to keep in mind. There were only two months of impact in the first quarter. The suspension began in February. Second is that the impact is not linear. The impact of lost sales and surrenders builds as the year progresses. Similarly, the LP compensation grows through the year as well because the payments are based on new business production, and the longer they are not selling, the higher that our payments will be. So that's what impacts the timing. So, it's not linear, and we expect the impact to grow throughout the year.

Second, what you're seeing is the resilience of the Japan business coming through as 90% of the earnings in POJ are driven by the in-force. So that's definitely contributing. And of course, you have strong earnings from Brazil. Brazil has been steadily growing. Typically, it's been contributing in the high-single digits in terms of earnings in international, a bit higher this quarter as Japan earnings were lower. And again, Brazil has grown steadily. So, you see the resilience in Japan earnings and the strength in Brazil.

And then, third, we did have prepaids that impacted international. In total, we had about \$50 million in prepaids in the quarter. These are episodic. And generally, they impacted several businesses, but mainly retirement and international.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. Sorry, actually, just one quick follow-up. The \$50 million of prepays, that was total for the company, or was that all in Japan? And is that in – oh, sorry, go ahead.

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Ryan, that was total for the company, across several businesses, mainly impacting retirement and international.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And then I know you updated the tax rate. Any change to your corporate guidance that you had given last quarter, given the favorable expenses this quarter?

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. No. So, we're not updating the corporate guidance. We did have some one-timers and also some expense timing. So, if you look at kind of our normalization, there's about \$70 million of one-timers. Half of that is timing, half of that is real one-timers. And at this time, we don't expect to update. The first half will be lighter, but the second half will be heavier, getting us to the \$1.65 billion.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

You're welcome.

Operator: Thank you. Next question today is coming from Suneet Kamath from Jefferies. Your line is now live.

Suneet Kamath

Analyst, Jefferies LLC

Q

Great. Thanks. Starting with Andy, I appreciate the business exits that you mentioned in your prepared remarks, but it strikes me that they're not particularly needle-moving. You can correct me if I'm wrong there, but they didn't seem to be that big. So, I guess the question is, are you open to something bigger in terms of shifting the business mix? And in terms of setting the stage for this August call, should we think about that as sort of the conclusion of a strategic review? Or is this sort of just updating guidance based on everything that's happened since the last time you gave it to us? Thanks.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yes, Suneet, thank you for the question. I appreciate the broader question. I've been very candid that the performance of the organization has not been good enough. We believe that a key contributor to that underperformance is a lack of focus. Both capital and investment dollars are spread too thinly. We have too many

businesses in too many markets where we're either subscale or we're not competitive. And that's not a great use of the company's capital. So, our team did do work over the last year or so, and it's been a continual process. Strategy is always ongoing. It's not a start-and-stop type thing, but we have done a broader review, as we did the step back and looked in the mirror.

Our team is very committed to leaving the next generation of Pru leadership with a stronger-performing company, a much more valuable company that is materially better focused and clearly winning in the spots that we compete. That means that we're a top player in a more focused set of businesses. We will focus our capital and investment dollars more than you've seen, and we're going to focus those on big markets with tailwinds, where we clearly have the product and distribution capabilities, and brand to win, and where we know that we could deliver a differentiated value prop to drive strong shareholder returns.

So, you mentioned you've already seen, I would call it, early evidence of where we're getting out of. And obviously, we mentioned those on the prepared remarks. And you've already seen areas we're leaning into, like Retirement and Asset Management. But I would frame it that it's early in our business mix shift. Yanela and I are looking forward to providing you greater detail on the August call about that shift and about our change in focus as an organization. The fact is that this is an iconic company with just incredible capabilities, and we want to make sure that we do everything that we need to put the company on a strong growth trajectory.

Suneet Kamath*Analyst, Jefferies LLC*

Q

Okay. And then I just wanted to drill into the group disability business. I know it's not a huge business for you, but if I think about the loss ratio, let's call it, in the high-70s, and I think about some of the other players that we cover probably being in the mid-60s, there's a pretty sizable gap there. And I'm just wondering, is there a structural reason why your loss ratio is so much higher? And at the end of the day, is this a business that's producing adequate returns relative to the mid-teens ROE target that the company has overall? Thanks.

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Yeah. Suneet, thanks for the question. So, I would say it's very important as you look at group businesses across the industry to really look closely at both the size segment that they're in as well as the product mix that they're in between life, disability, and voluntary product supplemental health. All of those have different benefit ratio and admin ratio characteristics. The fact is a lot of the competitors across the space have business mixes that are more down-market than ours. I think as you're well aware, our strongest asset in our business is national accounts and higher end of the middle market. Industry-wide, that segment has higher benefit ratios, but lower admin ratios. So, when you look, you got to be very careful comparing benefit ratios and admin ratios across.

As we look at the performance of our business, to your question, this is a business that has cycles. We're coming off a year in 2025 of very low disability benefit ratios and very low benefit ratios in general. This quarter, we saw underwriting pressure in the disability block almost entirely related to LTD incidence and severity. That was offset by good performance in the life block from working age populations. This is a business that's producing returns in excess of our cost of capital. We're happy with the deployment of capital to this business. And it is a focused area of growth for us as we look forward. We fully expect to see performance to be in the guidance range of 83% to 87%.

Suneet Kamath*Analyst, Jefferies LLC*

Q

Okay. Thanks.

Operator: Thank you. Next question today is coming from Wes Carmichael from Wells Fargo. Your line is now live.

Wes Carmichael

Analyst, Wells Fargo

Q

Hey, thank you. Good morning. Just wanted to talk about the Retirement segment for a second. It was a good earnings in the quarter. I'm just trying to get an idea for run rate. And I think, Yanela, you mentioned \$25 million of prepay income. There was also some unfavorable alts and positive underwriting. So, I guess, if we net all that together, I get somewhere in the neighborhood of, call it, \$600 million on a run rate basis. So, I'm just wondering if I'm thinking about that correctly, if that's the kind of math you're doing.

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah, Wes, I think that's right. So, I mentioned total prepays of \$50 million, mainly in international and retirement. In my prepared remarks, I did mention \$25 million in retirement. I mean, what you're seeing in retirement, and it's probably easier to look year-over-year because you have the full impact of sales for the past year, is a strong growth, and that's due to the sales that we're seeing in retail annuities and in our institutional markets. So if you adjust for the prepays and some other noise that you have, you're seeing the growth in the business coming through.

We also did have some higher operating expenses. As I mentioned, we're investing in service and technology, and driving enhanced customer experience. But we're funding that at a total company level with efficiencies throughout the company. So, net-net, year-over-year, at the total enterprise, expenses are flat.

Wes Carmichael

Analyst, Wells Fargo

Q

Got it. That's helpful. And just a different subject, but when going through the re-segmentation, you can kind of pull out the income statement for guaranteed universal life. And so, I think that business generated something like a \$200 million loss in 2025 and I think \$500 million in 2024 on a reported basis. So just given that that business seems to be generating a loss, how do you think about reserves there? You've already taken some charges, but do you need to do more to increase the reserves in that business?

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. So, I think the way to think about that is that the GUL losses are mainly driven by the reserve accruals, right? So, when you think about this, we've reinsured a portion of the block, but the retained portion still includes exposure to the underlying economics and is still in that stage where GAAP reserves are building up. And the way GAAP works is that it dictates that reserves be accrued at a higher pace than the best estimate liability would require as you're building the reserve. And this is what leads to the GAAP losses that we're seeing earlier in the life of the block. And these losses will reverse over the long term as the expected benefits are paid and the reserves are released. So, you're seeing that dynamic because we're still building the reserve. And over the long term, that will reverse.

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

So, Wes, I would just add in, real positive of the re-segmentation, you're seeing the strength and the quality of the go-forward Individual Life business, it's much more evident. We have been very methodical about executing the strategy to diversify the portfolio, to reduce expenses, and to write new business at attractive margins. This was a record sales quarter for us in Individual Life. And so, those sales are coming in well in excess of the cost of capital. So, we're pleased that you're now able to see the quality and growth of that Individual Life business now that we've re-segmented out GUL.

Wes Carmichael*Analyst, Wells Fargo*

Q

Got it. That's helpful. Thank you.

Operator: Thank you. Our next question today is coming from Joel Hurwitz from Dowling & Partners. Your line is now live.

Joel Robert Hurwitz*Analyst, Dowling & Partners Securities LLC*

Q

Hey. Good morning. Just on expenses, you mentioned in the prepared remark that you expect some of the actions you're taking to be evident in 2027. Just any more color on the expected benefits that you expect to emerge next year, and where would we see that show up in the financials?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah, Joel. I mean, in terms of expenses, to just take it up a level, you've heard me speak a lot about our focus on continuous improvement and gaining efficiencies to be able to reinvest in the business. That's what's really funding these investments. We do expect these to have benefits in 2027. We're not necessarily quantifying that, but it'll come through in our results. And these are investments in things like modernizing and driving efficiencies in onboarding and claims management and group, and investments in service delivery throughout all our US businesses. So, these do lead to efficiencies.

The one thing I would highlight and remind you of is that, last quarter, we did talk about the fact we took \$135 million restructuring charge that will result in run rate savings of \$150 million in 2027. Those are separate from the benefits of these investments.

Joel Robert Hurwitz*Analyst, Dowling & Partners Securities LLC*

Q

Got it. And then, Andy, just going back to Gibraltar sales. I heard you say no issues on any of the POJ issues, like carrying over to life consultants. But any color on why life consultants sales have been a little subdued the past two quarters?

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Yeah, Joel, just to add to my response, we actually changed some of the incentive programs and rewards programs in our life consultant channel. It's part of our ongoing work around making sure that the business is as efficient as it needs to be. And that had an influence on the level of sales. We don't expect that, though, to inhibit

us in any way over the longer term in our ability to grow that life consultant channel. And that is a channel that we consider pretty darn unique in that it has specialized access to teachers and the service defense forces across Japan, and literally is in every geography across Japan with 7,000 agents.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Got it. Thank you.

Q

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

You're welcome.

A

Operator: Thank you. Next question is from Mike Ward from UBS. Your line is now live.

Michael Ward

Analyst, UBS

Hi. Thank you. I just wanted to dig in on the group disability real quick. And I get that it's a small business, but just curious about, conceptually, like for the industry. I think you specifically mentioned macro-driven uncertainty driving claim incidents and severity. I just was curious what specifically you meant by that.

Q

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. So, Mike, let me take the question overall, and then I'll hit your specific about the macroeconomic environment. And again, it gets down to really specifics that you have to look at across the books of business and the mix of products, et cetera. We experienced a weakening in our disability benefit ratio, as you saw this quarter versus last year, but it did improve pretty materially sequentially over 4Q. So, we're seeing that recover. That said, there were three main drivers. All of these were LTD related, not STD, or paid leave, and we sometimes get that question.

A

On LTD, we saw an increase in the new claims incidents. The comment about the macro environment is when there's greater uncertainty around job loss, and you've seen the announcements around tens of thousands of jobs being eliminated from a variety of big names, remember that we tend to have a book of business that's up-market, and we cover and service a lot of larger employers. That leads to higher incidents and higher severity.

You also have to look at the segmentation of industry mix. We have many blue collar – or excuse me, many white collar type cases. And you sometimes see greater impacts in those cases than blue collar. So, increase in claims incidents and severity. But the other thing is we had somewhat lower resolutions in the quarter, but that's going to vary quarter-to-quarter. That's something that we're completely comfortable with our capabilities and the way we're managing that, and know that'll be where it needs to be over the long term.

So, we'll take it just a giant step back. We've been in the group business over 100 years. We've seen cycle after cycle after cycle. We're very comfortable with our capabilities, and this is an important area of focus for us.

Michael Ward

Analyst, UBS

Q

Thank you, Andy. And then, on Japan. So, I think you guys have said, no anticipated free cash flow impact over 2026 and 2027. But I guess, longer term, the sales suspension at POJ, should we expect some free cash flow and ESR impacts?

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. Hi, Mike. So, we did talk about when you think about the earnings of POJ, right, 90% come from the in-force, and the impact of the sales and surrenders will result in 10% earnings power reduction in 2026 and another 5% in 2027, so getting to 15%. That is a small portion of the earnings in POJ. Obviously, the earnings will decline and then we will be ramping up. And I did talk on the April 21 call about the fact that cash flows from Japan are driven by Japanese STAT versus GAAP, and that's a big piece of the difference in terms of we have \$1 billion impact on GAAP earnings, but that doesn't come through in STAT. So, that is also dampening the impact on cash flows.

And over the long term, as we begin sales again, we will have earnings, and we also will not have the subsidy that we're paying the Life Planners, so that's an offset to the capital that we're putting in for the new sales. So, net-net, we don't expect a longer-term significant impact, assuming what we're seeing today.

Michael Ward

Analyst, UBS

Q

Thanks, Yanela.

Operator: Thank you. Next question is coming from Pablo Singzon from JPMorgan. Your line is now live.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. First question, can you talk about what was new with the RILA product that you launched in December, and maybe use that as a stepping stone to discuss the broader competitive environment for RILAs? Are you still able to innovate on features or distribution, or are you having to give up economics to remain competitive?

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, thanks. Let me start with the competitive piece, and then I'll talk about the innovation in FlexGuard. As I've said before on these calls, the RILA market is competitive. You don't go from 5 competitors to 25 without it having a competitive effect. And we've seen some well-established players enter the space and we've seen some level of aggressive pricing. We are and we always will take a very consistent, disciplined approach to ensure that we generate profitable sales. It's not about revenue, it's about profit.

But I would draw that pricing is only one element of winning in this market. There are clear ways that we are differentiated other than pricing. Our product features, which I'll talk about in a minute; our distribution, which it continues to deepen and expand; our world-class service and our brand; all of that matters, we're strong on all those facets, and that produces success.

The innovation on FlexGuard, and I would ask you to recall, when we launched FlexGuard 1.0, it was one of the fastest growing buffered annuity launches in the history of the industry. We're expecting very strong success from

2.0. In essence, we've tweaked the design so it offers more upside opportunity for growth with also more downside protection in the way that the product's designed, all linked to market performance.

So, I think taking a giant step back, we're now reporting total sales in our individual annuities market because these are all spread-based products. And given market conditions and competitive conditions, you need to lean in and lean out of different spots, and it literally is a pretty dynamic market week-to-week. What we know is we have an all-weather portfolio, we're disciplined in our pricing, we have a lot of differentiation, and we will grow this overall in total from that set of capabilities.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Q

Thanks, Andy. And then, for my follow-up about POJ, I was wondering if you'd be willing to give a more current update on the Life Planner count or most recent trends in persistency. I think if you look at the reported 1Q 2026 metrics, there was some slight deterioration, and I was wondering how the trend has developed through May. Thanks.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah, Pablo. So, just to reiterate what we shared on the April 21 call. What we saw in the first quarter is the Life Planner head count was down less than 1%. Since the start of the year, the rate of LP resignations has been at a similar level compared to what we saw last year. And everything we've seen since announcing the 180-day extension of the suspension has been consistent with the expectations and financials that we've put out to the Street.

We think the reason we're seeing such success is really due to a couple of reasons. First, we are providing, and this is why the impacts are what the impacts are, material financial support. It goes beyond the money that we're providing to the Life Planners. What they see us is stepping forward and being very committed to this business and being very committed to them, and they're very appreciative of that.

We've also done a lot of work on improved and delivered training. And we're clearly painting a picture of where this business is going for those Life Planners. That's all being done so that Life Planners can see a sustainable career path. And we believe that's why we're seeing such – still early in this suspension period, but such good results from a Life Planner retention perspective.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question today is coming from Jack Matten from BMO Capital Markets. Your line is now live.

Jack Matten

Analyst, BMO Capital Markets

Q

Hey. Good morning. Just a question on pension risk transfer. I'm wondering how you view the outlook both for you and for the industry regarding volumes this year. And maybe specifically, do you think we could see more jumbo cases come to market?

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

So, thanks, Jack. As you know well, PRT, it is a transaction-oriented business. It's not a flow business, so it will be episodic especially in the jumbo space. We have seen reduced activity in the market given the economic uncertainty and the geopolitics that are being experienced.

The bottom line is volatility and uncertainty make business leaders slower in decision-making. We've absolutely seen that in the marketplace. We expect that 2026 will mirror 2025 in that demand should get stronger in the second half. That's generally what happens in particular in the jumbo space. It's hard to say exactly how much that will strengthen, but we believe that will be the pattern.

But, importantly, what you've now seen two quarters in a row is we are writing more middle-market deals as a firm. While we're clearly a leader in jumbo, we have a very good and growing presence in the middle-market. And what that will do is it will help balance out our success in the jumbo space. We are very well-positioned. We're one of the best at this business. And now that we're participating more broadly across segments, we believe we'll be even more successful going forward.

Jack Matten*Analyst, BMO Capital Markets*

Q

Thank you. And then, maybe on PGIM, can you talk about the outlook for the private markets business and some of the investments that you referenced earlier? I guess, where do you feel that business is differentiated versus its competitors? And then kind of maybe any impacts you're seeing related to some of the recent headlines around private credit?

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Yeah. Sure. So, we're very proud of our privates business. And obviously, for us, the biggest part of our privates business is credit. We're one of the largest and most successful credit managers in the industry. We have about \$1 trillion of credit assets under management. About \$750 million-or-so of that is public and \$250 million is private. And that's in addition to our \$150 billion-or-so in real estate. This is a focused business for us. And in particular in the private credit space, we've had a fast-growing direct lending and asset-backed finance capability.

The strength that we have really comes from the fact that since we have the public side and the private side, we can serve customers with a range of risk and collateral types and across the liquidity spectrum. So, that's a differentiator. On the private side, we have this vast origination network where we have direct access to companies around the globe that enables us to source a significant share of non-sponsored deals. So, as far as the strength of the business, our focus on it, it's a really strong business. We're focused on growing it. It has great synergies with our insurance platform. So, we have strong growth aspirations for it.

I think the other part of your question was just some of what's going on in the space around private credit and the stress. Most of what's happening there, candidly, what's in the headlines, is around the retail side of the business. And what we've seen on the institutional side is strength. While institutions are slowing down a bit in their decision-making, they're still leaning into private credit. They're still leaning into the highest-quality managers that have track records over decades of underwriting. And that's what we're seeing. And that's why we're producing very good levels of private capital deployment as well as fundraising.

Jack Matten

Analyst, BMO Capital Markets

Thank you.

Q

Operator: Thank you. Next question is coming from Tracy Benguigui from Wolfe Research. Your line is now live.

Tracy Benguigui

Analyst, Wolfe Research LLC

Thank you. Just a quick follow-up on the GUL retained reserves. I appreciate the GAAP commentary, but if I could ask, how do you think of the adequacy of those reserves on a statutory basis?

Q

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Yeah. So, Tracy, so first of all, on a GAAP basis, I spoke about the reserving and the trend. I would also speak to the fact that another data point in terms of adequately being reserved on a GAAP basis is the fact that we have to undertake loss recognition testing that is performed every quarter. And that is required to ensure that the GAAP reserves are sufficient. As of 3/31, the GUL reserves held on our balance sheet exceed what is required under loss recognition. And under STAT, the chief actuary, the head actuary signs off on those statutory reserves every year, and they are signing off that they are sufficient as well. So, we go through all the process. We have our assumption updates that we track and book, and the actuaries sign off on the statutory reserves as well.

A

Tracy Benguigui

Analyst, Wolfe Research LLC

Okay. Switching gears a little bit, I'm wondering, could VM-22, the principle-based reserving reduce incentives to cede FA risk to your Bermudian affiliates? And how does VM-22 stack up against the BMA rules, which are also principle-based?

Q

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Yeah. Look, the current proposed version of VM-22 is definitely a helpful step toward a more economic principle-based standard. That is definitely the case. So, the relative benefits of Bermuda would be lower, based on the current proposal. But our current view is that Bermuda continues to be an attractive option for us, so we'll continue to assess that over time as the VM-22 rules are finalized.

A

Tracy Benguigui

Analyst, Wolfe Research LLC

Awesome. Thank you.

Q

Yanela del Carmen Frias

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Yeah.

A

Operator: Thank you. Our final question today is coming from Wilma Burdis from Raymond James. Your line is now live.

Q

Hi. This is Chris on for Wilma. There's a lot of growth opportunities in Japan reinsurance right now, and as Pru's one of the largest there, could you discuss that market opportunity?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. Hi, Chris. So, we don't participate in the reinsurance business as a business line, but obviously, we could participate in that opportunity through Prismic, our sponsored entity. So, let me just give you an update on Prismic. We continue to work on an active pipeline for Prismic, and that pipeline includes ongoing balance sheet optimization, financing new business growth, and working on third-party blocks, Prismic specifically. And Prismic has made really good progress over the past two quarters.

So, in the fourth quarter, we entered into our first flow reinsurance transaction with Prismic, reinsuring MYGAs out of our Retirement business. In the first quarter, we executed a second flow reinsurance transaction with Prismic covering US dollar-denominated Japan liabilities. And then also in the first quarter, more relevant to your point and your question, Prismic did reach an agreement with Daiichi to reinsure yen-denominated in-force block of whole life and annuity policies, and that is Prismic's first third-party transaction.

Andrew F. Sullivan*Chairman & Chief Executive Officer, Prudential Financial, Inc.*

A

Chris, maybe just one add. We're very pleased and happy with how Prismic has continued to move forward. Just as a reminder, as Prismic succeeds in third-party reinsurance, PGIM is able to manage a lion's share of the assets that go into that relationship. So, that's a good growth engine for PGIM as well.

Q

Great. Thank you. And then could we expect the POJ pause to have any effect on pace of capital return to shareholders for the remainder of the year or through 2027?

Yanela del Carmen Frias*Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.*

A

Yeah. No, Chris, as we said on the April 21 call, we do not expect the impact of the POJ sales misconduct to materially impact our cash flows or our capital position. So, we do not expect any changes to our capital deployment or shareholder distribution.

Q

Great. Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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