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Prudential Financial, Inc. (PRU)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to this morning's 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 is 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 to discuss an update on our Japan business following the business suspension and improvement orders received from Japan's Financial Services Agency.

Representing Prudential on this morning's call are Andy Sullivan, Chairman and Chief Executive Officer; and Yanela Frias, Chief Financial Officer. We'll begin with prepared remarks from Andy and Yanela, and then we'll address your questions.

Before we begin, I want to remind you that today's discussion includes forward-looking statements, and actual results may differ materially from those statements. In addition, remarks made on today's call and any accompanying investor presentation posted to our website at investor.prudential.com include references to non-GAAP measures. For a discussion of the factors that could cause actual results to differ materially from those in the forward-looking statements and the non-GAAP measures, please see the slides titled Forward-Looking Statements and Non-GAAP Measures in the appendix to the Investor presentation.

Please note that we will not be discussing our third quarter 2026 results today. Accordingly, we ask that you limit your questions to the topic of the call.

With that, let me turn the call over to Andy.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Good morning, everyone. We appreciate you making time for this call. Today, we will provide an update on two developments in our Japan business, including the related financial implications and our path forward. The first is the business suspension order issued to Prudential of Japan, or POJ, by Japan's Financial Services Agency, or FSA, that will conclude on January 31, 2027, and the related business improvement orders for POJ and Prudential Holdings of Japan, or PHJ.

As part of this, I will touch on the findings of our independent third-party investigation and of the FSA inspection, which were largely consistent with the remediation steps we are already implementing. I will also outline the phased approach we plan on taking to resume sales in POJ at the conclusion of the FSA suspension. And the second is the business improvement and partial business suspension order issued to Gibraltar Life Insurance, or GIB, which will also conclude on January 31, 2027.

I want to begin by reinforcing my confidence in our Japan leadership team. When we spoke on our special call in April, the team was new and early in its assessment of the business. Since then, they have moved decisively, translating our assessment into a clear transformation roadmap and advancing it with urgency and discipline alongside employees, regulators, and other key stakeholders.

They understand the scale of change required and the importance of getting it right. Their vision and progress to-date strengthen my conviction that we have the right team to lead the business through this next phase and return it to the market well positioned to serve our customers over the long term.

Let me now turn to the FSA orders received by POJ and PHJ. The POJ business suspension order extends the period in which it cannot solicit new business to January 31, 2027. The FSA's rationale for the extension is to allow additional time to advance the remediation actions we are already implementing. I'll provide more detail on those actions in a moment.

The POJ and PHJ business improvement orders require each business to submit a business improvement plan to the FSA by the end of November and report on our progress regularly. These plans will build on the remediation work already underway to strengthen governance, sales practices, and operations. We will continue working closely with the FSA.

Yanela will provide more detail, but while the mix and timing differ from the estimates we provided in April, our assessment of the aggregate financial impact of the POJ suspension remains unchanged at roughly \$1 billion in pre-tax adjusted operating income across 2026 and 2027.

Let me now briefly review the findings of the independent third-party investigation and FSA inspection. While the findings are serious, it is important to note that they largely reinforce the priorities we identified when we voluntarily suspended sales earlier this year. As I have previously mentioned, we have a detailed plan to reset POJ's business model, and over the past eight months, we have made substantial progress implementing it.

Both the investigation and inspection examined the root causes of the misconduct, which primarily related to the interplay between the business model, management framework and organizational culture, and added specificity to the work underway, helping ensure the changes are comprehensive and durable. Our transformation is centered on four interconnected priorities designed to improve execution, strengthen accountability and oversight, and position POJ to deliver better customer and business outcomes.

First, we are strengthening governance and accountability by clarifying roles, enhancing governance practices, and enabling PHJ to oversee POJ more effectively. We have also separated sales leadership from control functions to reinforce independent oversight.

Second, we are redesigning the sales model to place greater emphasis on customer outcomes through compensation and performance management. Enhanced recruiting standards, training, monitoring of sales activity and customer interactions support these changes.

Third, we are simplifying the organization by streamlining head office responsibilities, clarifying functional ownership, and consolidating the field organization into a branch network to improve supervision and management oversight.

Finally, we are reinforcing a culture of accountability and customer focus through clearer expectations for conduct and greater engagement by senior leaders in the field to help ensure these enhancements are implemented effectively and sustained.

With this work well underway, we remain focused on the next phase of remediation, a deliberate and carefully sequenced return to market. The phased reentry is fully reflected in our \$1 billion estimate. The POJ team has made considerable progress, but completing the remediation is only one milestone. Sustaining its effectiveness is the measure of success as we reset the foundation for growth. That principle is central to our deliberate, phased resumption of sales.

As we previously communicated, we expect the broader return to market to unfold over roughly 12 to 18 months. This phased approach will allow us to test the changes in practice, confirm the intended outcomes, and adjust where needed. Sales activity will expand as controls are proven, and both we and the regulator are satisfied that the revised model is working as intended. This deliberate sequencing will allow us to build momentum from a position of strength, expanding sales as the revised operating model proves effective.

Let me now turn to the business improvement and partial business suspension order received by GIB. This suspension order applies to the Life Consultant sales force within GIB, but not to the independent agency channel. The order runs parallel to the POJ suspension order, starting and concluding on the same dates. This order reflects the FSA's focus on addressing the root causes of the misconduct, including strengthening customer protections, reforming incentives and oversight, and fostering a culture that places compliance and customer interests ahead of sales. This is consistent with the work we've been doing throughout this process.

The business improvement order requires that GIB submit a business improvement plan to the FSA by the end of November and report on our progress regularly. Consistent with our approach to the POJ and PHJ orders, we will continue working closely with the FSA.

We recently completed our internal review of GIB, which included reaching out to over 2 million of its customers. As of mid-September, 57 of those customers were eligible for reimbursement totaling approximately \$2.6 million.

Based on what we know today, we are reaffirming that we do not believe we have systemic issues in this business.

Since 2019, we have made substantial changes to GIB's governance, sales practices, and operations, in efforts to address many of the same issues that we are now remediating in POJ. During this period, we have also migrated GIB's compensation structure and performance management system to emphasize long-term customer outcomes. As a result of our proactive customer outreach, we have received valuable feedback that has informed additional enhancements to GIB's operating model.

We have also been making further refinements to this operating model and compensation structure as a result of what we have learned in POJ. That said, the process of enhancing how we operate and manage all of our businesses is ongoing. We are applying relevant lessons from POJ across our Japan platform, including GIB, further strengthening governance and oversight, while preserving each franchise's distinctive capabilities and growth potential.

Let me briefly address the additional financial implications of the partial Gibraltar sales suspension. Yanela will provide more detail, but we anticipate a pre-tax adjusted operating income impact of \$100 million in 2026 and \$175 million in 2027. While we are not planning a phased approach to resuming sales in GIB, we expect to provide similar compensation support to Life Consultants as a result of the suspension.

In closing, as I said in August, growing our Japan business is a key strategic priority. To do that, we need to complete our remediation efforts, demonstrate effectiveness and continue rebuilding trust with our customers. We expect to begin resuming sales in POJ and GIB on February 1st.

Consumers in Japan have substantial and enduring needs across protection, retirement and savings, and our differentiated model offers improved outcomes for them. Prudential brings decades of experience, established customer relationships, and meaningful capabilities to serve those needs. That foundation positions the franchise to regain momentum, reestablish its leadership in Japan, and contribute meaningfully to our long-term growth.

Let me now turn the call over to Yanela.

Yanela del Carmen Frias

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

Thank you, Andy, and good morning, everyone. Starting with POJ, Andy has described both the scope of the work underway and the deliberate approach we will take to resuming sales. The main takeaway is that our estimate of the cumulative financial impact for POJ across 2026 and 2027 remains roughly \$1 billion of pre-tax adjusted operating income, even with the additional FSA business suspension. What has changed is the timing and mix of the impacts.

At the beginning of our sales suspension in February, our estimate reflected initial assumptions about the suspension, customer behavior, Life Planner retention, and the cost of maintaining the franchise. We now have eight months of experience, visibility into the FSA's actions, and a clearer view of how POJ will return to the market. As a result, the underlying components have evolved. Let me break down what has changed.

For 2026, we now expect an impact to pre-tax AOI of approximately \$500 million, compared to the \$525 million to \$575 million range we communicated in April. We now expect costs associated with sustaining the business, including the estimated impact of Life Planner compensation, lost sales, and elevated surrenders to be approximately \$405 million, a decline from our previous estimate of \$450 million to \$500 million.

Results through early October have been better than our initial estimates, largely because surrenders at POJ have moderated since May and have since remained stable. This provides an offset to the additional costs associated with the longer suspension. Although we assume some increase in surrenders related to the FSA announcement, we do not expect the level of elevated experience to have a material impact. Additional Life Planner support during the extended suspension is moderated by a lower Life Planner head count as a result of the hiring pause.

We now expect one-time costs of approximately \$95 million, an increase from our previous estimate of \$70 million, which was primarily related to customer reimbursement. While the customer reimbursement is unchanged, there are higher regulatory and business-response expenses, reflecting the extended work of the independent investigation, remediation, and related governance changes. Those costs are necessary to address the root causes Andy discussed. Lastly, the prior estimate of \$5 million attributable to the gradual ramp-up of new sales after the suspension period ends has shifted to 2027.

For 2027, we expect a pre-tax AOI impact of approximately \$500 million to \$550 million, compared to the \$400 million to \$450 million range we communicated in April. As I mentioned, while the cumulative financial impact is generally in line with prior estimates, we now have a clearer view of several factors, including a detailed plan for POJ's phased reopening, which will impact sales levels and Life Planner compensation.

The primary driver of the increase to 2027 is the reopening plan that Andy described. Reopening over roughly 12 to 18 months will constrain near-term production as we transition sales offices into a new branch model and demonstrate readiness under the new standards. Activity will restart with a set of branches and then expand as the revised controls are tested and proven effective. We, therefore, anticipate sales in 2027 to be roughly 25% of 2025 levels versus our previous estimate of 50%.

As a result, costs associated with sustaining the business have increased to a range of \$370 million to \$390 million from the previous range of \$290 million to \$340 million. This is driven by the increased cost to retain and support our Life Planner force through this extended sales suspension and phased transition, and the impact of the extended suspension on sales.

These costs are partially offset by the impact of lower surrenders. The impact of the gradual ramp-up has increased to a range of \$70 million to \$100 million, from \$50 million, due to the more deliberate pace of branch reopenings in 2027. Lastly, one-time costs, primarily related to regulatory and business-response expenses, remain unchanged at \$60 million.

Despite the disruption at POJ, the in-force business has remained resilient. POJ serves approximately 2.2 million customers across roughly 4.5 million policies, and the durability of that base is evident in the surrender experience we have seen this year. Life Planner retention has also been better than initially anticipated. The Life Planner count has declined, given the hiring pause, but first half attrition was only modestly above the prior year and well below our initial assumptions.

Maintaining a core of experienced Life Planners preserves customer coverage and provides the foundation to rebuild sales. Our Life Planners are sticking with us as we are making significant structural changes to the compensation model. Over time, we believe the redesigned model will better align economics with customer outcomes.

Moving to Gibraltar. As a reminder, the suspension only applies to the Life Consultant channel. As Andy noted, our estimate of the cumulative financial impact across 2026 and 2027 is roughly \$275 million of pre-tax AOI. For 2026, we expect a pre-tax AOI impact of approximately \$100 million, reflecting costs associated with sustaining the business, including the estimated impact of Life Consultant compensation, lost sales, and elevated surrenders.

For 2027, we expect a pre-tax AOI impact of approximately \$175 million, reflecting costs associated with sustaining the business, including the estimated impact of Life Consultant compensation, lost sales, elevated surrenders, and the ramp up period during 2027.

In Gibraltar, we plan to fully reopen all agencies after the suspension period. However, there will be a ramp up period due to the lack of prospecting activity during the sales suspension. We anticipate that sales in 2027 will be approximately 50% of 2025 levels, as Life Consultants return to full productivity by the end of the year.

It is important to note that, similar to POJ, over 90% of Gibraltar's pre-tax AOI is driven by its in-force business, both retirement and savings and protection products, which will help stabilize its earnings over a multi-year period. In both POJ and GIB, there are still variables we will need to manage closely. These include how customers respond to the FSA orders, the pace at which the field meets the requirements to resume sales activity, continued sales force retention, and sales productivity during the transition period.

That said, the financial performance of our Japan business so far this year has demonstrated the resilience of the franchise. That underlying strength does not lessen the seriousness of the issues or the work required. It does, however, reinforce our confidence that in February, we will emerge a stronger, more consistent business.

With that, let me open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] We do ask that you please limit yourself to one question and one follow up. [Operator Instructions] Today's first question is coming from Tom Gallagher of Evercore ISI. Please go ahead.

Thomas Gallagher

Analyst, Evercore ISI

Good morning. First question, what percent of sales and earnings are Life Planner versus independent agents for GIB?

Yanela del Carmen Frias

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

Hey, Tom; it's Yanela. So, 70% is Life Consultant and 30% is independent agency.

Thomas Gallagher

Analyst, Evercore ISI

Okay. Thanks, Yanela. So, my follow up is – so if the FSA is issuing similar orders for the GIB Life Planners and the POJ Life Planners, will you have to do a similar overhaul to essentially the restructuring you've done at POJ for GIB, or are you leaving everything in place at GIB in terms of this whole – in terms of what you've announced at POJ? It sounds like a pretty significant change to both offices consolidation and change in practices and surveillance, is something similar or have you already done something similar at GIB or how should we think about that?

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah, Tom, thanks. So, first and foremost, I think it's important to understand that these are two very distinct and separate businesses. And to your point, we have actually done a lot of work in improving our capabilities and controls in Gibraltar since 2019. So, I would frame it this way. It's in a better position. It's in better shape than we were in POJ. That being said, we knew there were some enhancements that we needed to continue to make. So, we're already cross-applying the learnings from the POJ work from early in the year.

So, you shouldn't expect that the size of the change and degree of the change that's required in Gibraltar is at all similar to POJ because we've done quite a bit of work on it over the last several years, but also this year in particular already across-applying the learnings. And I think you see evidence in that, in that when we went out to our over 2 million customers, we have under 60 cases that we're remediating. So, business is in better shape, but we're aligned that it needs further improvement and that we need to continuously work on upping our game. But that does not require the same degree of work and we expect that we will begin to resume sales on February 1.

Thomas Gallagher

Analyst, Evercore ISI

Thanks, Andy.

Operator: Thank you. The next question is coming from Suneet Kamath of Jefferies. Please go ahead.

Suneet Kamath

Analyst, Jefferies LLC

Q

Thanks. Good morning. I guess I don't understand the sales suspension at GIB. So, what did the FSA find that caused them to do that, because if you were already doing the remediation work and your outreach to the customers was pretty modest in terms of impact, just getting the headline of a sales suspension is pretty dramatic? So, what did they see that required that action? Thanks.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. Suneet, it's Andy. I'll just reiterate what I said. So, we, as we assess the state of the business at Gibraltar, do not believe that we have systemic issues. Let me explain why I say that. We had completed our own internal investigation in the business, as I just said, we had reached out to our millions of customers and we had done a lot of work to strengthen the controls.

As we've worked with the FSA, the FSA – and we're aligned on this, we're aligned that further work was needed, that even though it was in a better position than where POJ was, we needed to further move the compensation system, better separate out our controls from our sales functions and the like. So, our perspective was a sales cessation wasn't required. Obviously, we're aligned, we respect the FSA's action. And the most important thing here is we're aligned on what the root causes are, we're aligned on the plans that need to be executed and we've been executing those plans throughout the year.

Suneet Kamath

Analyst, Jefferies LLC

Q

Okay. And then my follow up is, I guess bigger picture, what gives you the confidence that you can get both of the franchises back to where they were, say, a couple of years ago? Have you done any work to assess if there's been any permanent damage to the brands of these companies, maybe survey work or is anything like that planned? Thanks.

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So, let me talk about why we're so confident that we're going to come out the other side of this stronger, and this will take time. So, as we have this discussion, we're giving you projections over a multi-year period.

But first and foremost, this is one of the best insurance and retirement markets in the world. The opportunity from a customer perspective is incredible, and that's why we've kept it a key strategic priority. If you step back, we have a set of capabilities that are hard to replicate. The expansiveness of our product portfolio across both insurance and retirement products, across both yen and US dollar denomination, that's a product suite that's more comprehensive than others.

The multi-channel distribution that we have throughout the country and the relationships we have with third-parties, these are capabilities that are not easy to replicate. So, when we say, well, how will we come back? Will we be stronger? We know that we can rely on those capabilities as we step back into the market.

The other thing is we've had the ability to build new capabilities. Candidly, and I know this isn't great, but there's a silver lining to this of this has enabled us to up our game on building out a stronger set of capabilities like our communications capabilities in the country and our relationships with the rest of the business community.

I guess the final thing I would share, Suneet, would be from a brand perspective. We likely will do brand work over time. We always do. But we just have a deep-seated belief that when companies face difficult times, you have a choice. And your choice is to try and avoid and minimize or you step to the plate, you take accountability, you make the hard decisions, you put the customer at the center and you do the right thing. And when you do that, I think history shows that the company's brands and companies come out stronger, and that's exactly what we've done.

Suneet Kamath

Analyst, Jefferies LLC

Okay. Thanks.

Q

Operator: Thank you. The next question is coming from Joel Hurwitz of Dowling & Partners. Please go ahead.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Hey. Good morning. Yanela, you gave some color on expectations for sales for full year 2027, but I guess any color on where you expect to exit 2027 from a sales perspective relative to normal expectations and then how long do you assume it takes POJ or Gibraltar to return to more normal sales?

Q

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yes. So, Joel, what we said is we expect to open all agencies in Gibraltar in February and – but there is a ramp-up because of the lack of prospecting. So, the 2027 sales for Gibraltar will be at 50% of 2025, that's sort of the normalized level. But by the end of the year, we expect to be at 100% productivity for Gibraltar. So, you can think about, because the suspension period is short, by the end of the year, we're at 100% productivity. So, by 2028, you would be back to those levels of 2025.

A

For POJ, it is a slower ramp-up. We've talked about the fact that we have a phased approach. So, for 2027, we will be at 25% of 2025 sales and we expect that to be at 50% in 2028. So, the way to think about it is that by 2029, we expect to be at 100% productivity. But total sales do also rely on total Life Planner count. And so depending on where the Life Planner count is, the sales will – the total sales will be determined.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Got it. That's helpful. And then can you just provide a break-out of the estimated Gibraltar impact? How much of the \$100 million in 2026 and \$175 million in 2027 is related to compensation costs versus the impact of lower sales and higher lapses?

Q

Yanela del Carmen Frias

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

Yeah. So, definitely, the total impact, as we said, for 2026 and 2027 is \$275 million. So, let me break that up. For 2026, the impact is \$100 million, \$75 million of that is Life Consultant compensation support, and the remainder is the impact of lost sales and surrenders. So, that's 2026.

A

For 2027, we have \$150 million. That is the impact for Life Consultant compensation and the impact of lost sales and surrenders, and that would be both the carryover impact from 2026 and 2027. And of that \$150 million, about half is Life Planner – Life Consultant compensation, the other half is lost sales and surrenders.

In 2027, we have an additional \$25 million that is due to that ramp up in sales. So, again, we will be opening all agencies on February 1. However, the lack of prospecting does create this ramp up effect. So, \$150 million Life Consultant compensation and impact of sales and surrenders, and \$25 million for the ramp up.

I do want to clarify one more thing in my answer to Tom. So, 70% of sales in Gibraltar are Life Consultant, 30% of sales are independent agent, not earnings. We don't break out earnings and we don't disclose that. So, I just wanted to be clear.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Got it. Thank you.

Q

Operator: Thank you. Our next question is coming from Tracy Benguigui of Wolfe Research. Please go ahead.

Tracy Benguigui

Analyst, Wolfe Research LLC

Thank you. Could you walk us through how your voluntary suspension's factored into the FSA's decision? I'm just curious, absent that action, would the regulator impose a suspension longer than the three months?

Q

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

So, Tracy, it's Andy. Let me just talk about our voluntary suspension. So, you are correct. Obviously, our initial voluntary suspension and the 180-day extension, that was a deliberate decision on our part because we had done our internal investigation in POJ, well, and we knew that we had a sizable work to do. That's the way I would frame it. And we needed the time to get that done, to put our customers first and come out with a stronger business.

A

As far as how that's factored in to the FSA's decision making, I wouldn't conjecture to know, that hasn't been part of the communications back and forth. What I would say is if the size of the changes that needed to be done required longer than three months, so I don't know whether they would have done a longer suspension or not, but we needed longer than three months to do the work required to get the business to where it needs to be so that we're comfortable that it's operating at a high quality level.

Tracy Benguigui

Analyst, Wolfe Research LLC

Got it. And it's good to see that you don't see any changes in ESR or cash flows. I'm just curious, given a recent transaction with Prismic, the Japanese life block, I know it's not the first time you've done it, but did that provide any kind of relief in getting to that conclusion?

Q

Yanela del Carmen Frias

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

A

No, Tracy. I mean, that transaction was just part of our ongoing balance sheet optimization management, managing the back book as well as managing flow, and obviously with Prismic being a key partner.

Tracy Benguigui

Analyst, Wolfe Research LLC

Thank you.

Q

Operator: [Operator Instructions] Our next question is coming from Wes Carmichael of Wells Fargo. Please go ahead.

Wes Carmichael

Analyst, Wells Fargo

Hey. Thank you. Good morning. Just had a question on, I think, the process from here. I understand that the suspension order ends on January 31st. But regarding the business improvement plans, does that also conclude on the same date or is that something that's going to be kind of ongoing after that date?

Q

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. The business improvement plan, Wes, is ongoing. So, the cessation has a distinct end date, but the business improvement, we will continue – in essence what we do is by the end of November, we go in with very detailed plans. We already have detailed plans in place, but we will submit those to the FSA. Those actions, while a predominance of them will obviously be done by the end of this year or by the end of January, there will be ongoing actions as part of that plan and that business improvement order continues. And candidly, that's part of continuously improving the operation. But there is not an end on the business improvement like there is on the sales cessation.

A

Wes Carmichael

Analyst, Wells Fargo

Thanks, Andy. And just secondly, I think you said you'd expect some additional surrenders associated with this announcement. Just wondering if you can give a little bit more detail on how surrenders have trended recently and how you think they may tick up from here?

Q

Yanela del Carmen Frias

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

Yeah, Wes. So, obviously, I'll speak to how surrenders have trended with POJ. So, we did see a spike in POJ upon the announcement back in January. Those sort of tapered and normalized in May and have remained stable since then. And that is one of the drivers of our lower impact in 2026 for POJ, is frankly the lower surrenders.

A

We do assume some level of increased surrenders related to the FSA announcement now for POJ, but we do not expect that to have a material impact. That is one of the reasons we're still within the \$1 billion. For Gibraltar, we also assume an elevated level of surrenders and those are included in the financial impacts that I provided.

Wes Carmichael

Analyst, Wells Fargo

Thank you.

Q

Operator: Thank you. The next question is coming from Pablo Singzon of JPMorgan. Please go ahead.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Hi. Good morning. So, first question, before these issues emerged, I think premium growth in international business was already negative, right, at your sort of baseline level of sales. That wasn't affected by any of the enforcement actions. And also Brazil was in there and I think that's an asset that you're looking to sell. So, I guess the question is, are you able to provide perspective on how much sales will have to recover from sort of like the lower levels, right, also enforcement to get back to break even growth – break even premium growth in the international business?

Andrew F. Sullivan

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. So, Pablo, first and foremost, obviously, when we sell our emerging markets portfolio, we're going to pull those sales out. So, from my perspective, the real view is how are you going to grow Japan? I would set aside the emerging markets, because obviously we're going to get, as we said before, we feel well paid for the sale of those emerging markets and we'll be able to redeploy that capital into other forms of organic growth in the company.

So, I think the right comparison is how did Japan grow before? How is it going to grow going forward? We're confident in our ability to grow the Japan platform, starting with the fact because the market is accelerating, in particular, with the retirement opportunity and the degree to which the citizens are coming out of the banks and moving into things that require higher yields and buying annuity products. So, the fact that we have such a wide product portfolio and great distribution, the right comparison will be to look at how our insurance and retirement sales in Japan grow over time and we're confident that when you look over the timeframe that we've set the strategy, this will be a nice grower for us.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Thanks, Andy. That makes sense. And then second question, are there ongoing expenses to consider once all of this remediation is behind us, right, so maybe additional monitoring or compliance costs? And I guess more broadly, do you anticipate a permanent change in the expense structure of international with your upgraded operating model? Thank you.

Yanela del Carmen Frias

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

Yeah, Pablo. I mean, there will be obviously a few things that move around. So, for example, the compensation changes do move some variable costs into fixed cost and OpEx because we will be paying a certain level of salary. So, that moves expenses around. In terms of compliance and other things, I mean, obviously, we're enhancing governance and compliance, but doing that with all our existing resources. So, we do not see a large impact to our expenses from those changes either.

Pablo S. Singzon

Analyst, JPMorgan Securities LLC

Thanks, Yanela.

Operator: Thank you. Ladies and gentlemen, this concludes today's question-and-answer session and today's conference call. Thank you for your interest in Prudential Financial. You may log off the webcast and disconnect your phone lines at this time and enjoy the rest of your day.

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