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Prudential Financial, Inc. (PRU)

Q3 2026 Earnings Call

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

Thank you, Tina, and good morning everyone. Our third quarter results demonstrated the discipline and consistency with which we are executing and the progress we are making in creating a simpler, more focused prudential. We are advancing our strategic priorities from a position of strength. In August, we laid out a clear direction, concentrate our capital, talent, and management attention on retirement, asset management, and select protection businesses where we are best positioned to compete and scale. We've taken an important step forward on our first priority, narrowing our geographic footprint.

We recently announced the sale of Prudential of Brazil and Prudential of Mexico to C&P Assurances for $4.025 billion. We also closed the sales of our insurance businesses in Indonesia and Kenya, and announced the sale of our South Africa business. Together, these actions are tangible proof of our strength and execution and commitment to do what we say. As I said in August, a smaller footprint is not the objective, it is the enabler. We are creating the capacity to invest in the businesses where we can scale and lead, global asset management, global retirement, and select protection businesses. We intend to rotate capital in a deliberate, sequenced way into each. Every opportunity is being measured against its strategic fit, return profile, and contribution to earnings and free cash flow growth. The bar is high. The discipline we are demonstrating in selling businesses will be matched by the discipline we bring to deploying capital.

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With that, let me turn to the quarter. After-tax adjusted operating income was $1.3 billion, or $3.77 per share, compared with $1.4 billion, or $4.05 per share, in the prior year quarter. Year-to-date adjusted operating return on average equity was 14.5%, in line with the prior year period. Lower earnings in Japan more than offset solid fundamentals in PGIM and our US businesses. While the Prudential of Japan, or POJ, sales suspension was a headwind, our broader Japan platform continued to demonstrate resilience.

Now for the highlights of our segment results. PGIM AOI increased solidly year over year, driven by higher asset management fees and additional progress in the integration of its investment platform. The earnings profile of this business continues to steadily improve, as expected, despite persistent macro pressure on the fixed income and real estate sectors, which account for nearly three-quarters of PGIM's assets under management. We sustained solid momentum in private assets with fundraising up 10% year-over-year, led by direct lending and real estate debt, which made up nearly 70% of the private capital raised this quarter. While overall deployment was down slightly from the year ago quarter, as fundraising cycles create variability in quarter-over-quarter origination, asset-backed finance deployment increased nearly 30%.

PGIM's third party net flows were the highest in 10 quarters, totaling $9 billion with positive contributions from both institutional and retail clients. These results reflect the strength of our investment capabilities and client relationships. Public fixed income inflows were a key driver of that performance, while public equity outflows remained a challenge, consistent with the industry shift away from active equities. Affiliated net outflows of $1.6 billion were mainly driven by variable annuity runoff and the absence of PRT transactions in the quarter. PGIM's $40 billion active ETF lineup continued to experience strong growth with more than $6 billion of net inflows in the third quarter.

Our focus is on translating PGIM's scale into stronger growth and profitability while preserving the investment expertise that clients value. By expanding our private market offerings and integrating our capabilities more effectively, we are making asset management a larger, more strategic contributor to Prudential. In our US businesses, results reflect the focused actions we are taking to strengthen our competitive position. By expanding distribution, broadening our product offerings, and investing in our capabilities, we are capturing more demand and improving the fundamentals of our retirement and insurance franchises.

In Retirement, we are seeing the value of product innovation backed by strong distribution. Retail annuity sales reached $3.9 billion, our highest quarterly level since 2013, including our highest RILA sales quarter ever, reflecting the continued success of the enhanced product we introduced late last year. These results demonstrate our ability to meet customer demand for protected accumulation while delivering on our strategy to maintain a disciplined approach to pricing and returns.

On the institutional side, PRT sales remained muted. Activity was quiet through the first three quarters of the year across the industry, but the pipeline has picked up. We closed three mid-size transactions totaling approximately $1.6 billion in October, and anticipate closing several additional transactions by the end of this year. We remain confident in the opportunity in the institutional retirement market, both in the US and in Europe over the long term. We will pursue growth selectively, prioritizing value over volume while remaining a leader in this market.

Our consortium partnership with Standard Life, announced in August, expands our access to the large UK retirement market and complements our longevity reinsurance and US pension risk transfer capabilities. Group insurance delivered solid quarterly earnings growth, underscoring sustained momentum in this business. This result was driven by strong underwriting in our national account life business, reflecting continued favorable mortality experience. While our overall benefit ratio improved year-over-year on strong performance in group life, this quarter's disability results reflected an uncertain macroeconomic environment.

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That said, we are confident in the fundamentals of this business as a key driver of earnings and free cash flow growth. Year-to-date sales increased 23%, driven by growth in our premier middle market segment, particularly in supplemental health products. Our brand and distribution partnerships position us well for further growth as we pair disciplined underwriting with consistent delivery for employers. Individual life also delivered strong earnings growth, reflecting the actions we have taken to strengthen our leadership position through product portfolio diversification, distribution expansion, and a focus on profitable growth.

Record sales of our Custom Premier II variable universal life product reflects the success of our shift toward accumulation-focused offerings. Overall sales of $230 million were lower year-over-year, reflecting normal quarter-to-quarter variation. The quality and profitability of new business remained strong as we continued to reshape the portfolio toward more profitable, capital-efficient business.

Now, turning to our Japan businesses. Quarterly earnings declined 25% year-over-year, primarily attributable to the $140 million impact of the sales suspension in the quarter and lower alternative investment income. Year-to-date, earnings were down 10%, but the business remained resilient, supported by a diversified platform. Third-party sales were strong, particularly in the independent agent channel which experienced a 53% year-over-year increase. We have top 10 businesses in both the independent agent and bank channels, and it's important to note that the FSA sales suspension orders do not apply to these third-party channels. We have launched several additional retirement and savings products into the independent agent channel and expanded the number of agencies selling these products by threefold over the last 12 months.

In the bank channel, our new product launches are expanding our shelf-space with Japan's major national banks. We are building on that presence and our product competitiveness to further expand into the major securities firms and larger regional banks. In POJ, we continue to make good progress on the reforms identified by the FSA in its sales suspension order, and we remain committed to implementing the changes to strengthen the way we conduct business in Japan.

Our objective is not simply to restart sales, but to build a business model that sustains customer trust and supports responsible growth. Our priority is to complete this work and demonstrate that our new governance and oversight frameworks are effective in practice. We expect that POJ will be positioned to return to the market in phases beginning on February 1 with strong oversight, clear accountability, and customer outcomes at the center of how it operates. We are also applying the relevant lessons from the POJ experience of the past year to the Gibraltar business and expect that Gibraltar will also return to the market on February 1 as we previously discussed.

The organizational and operational changes we are making, as outlined on our October 9 call are meaningful and enduring. We are confident that they will position our businesses in Japan to serve customers more effectively, operate with greater accountability, and create long-term value. We remain convinced that we will exit this period with a strong franchise built for the long-term opportunity.

In closing, we are making tangible progress on the priorities we set out in August. We are reshaping our portfolio, investing in the businesses where we have the strongest opportunities to grow, and building a more efficient operating model. There is more work ahead, and the full benefits will take time to materialize. But we are clear on where we will compete, how we will allocate capital, and how we will deliver superior shareholder value. The progress we made this quarter strengthens our conviction in both our strategy and in our ability to build a more focused, higher-performing Prudential overtime.

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With that, let me 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. Our third quarter results reflected solid underlying business performance and disciplined execution as we continue to simplify the portfolio, improve earnings quality, and deploy capital with discipline. As Andy noted, we reported after-tax adjusted operating income of $1.3 billion, or $3.77 per share, compared to $1.4 billion, or $4.05 per share, in the year-ago quarter. Year-over-year, higher spread income and favorable underwriting results in our US businesses, as well as higher asset management fees at PGIM were key contributors to this performance.

These increases were more than offset by the impact of the sales suspension in Prudential of Japan, or POJ, and higher variable expenses to support growth in our US businesses. Excluding the costs related to the POJ sales suspension, underlying operating expenses for the quarter and year-to-date were lower than in the prior year periods. We have improved operating leverage through expense discipline, while continuing to invest in capabilities that support business growth and improve the customer experience. Year-to-date, we are ahead of target on realizing our previously communicated $150 million in pre-tax run rate benefits in 2027.

Now turning to our third quarter results by business. PGIM reported pre-tax adjusted operating income of $263 million, up 8% year-over-year. The pre-tax adjusted operating margin was 26.5%, expanding by 280 basis points. These results were driven by higher asset management fees, equity market appreciation, and strong investment performance, as well as lower expenses. The lower expenses reflected the absence of a reorganization charge in the prior year quarter, as well as savings from the ongoing integration of PGIM's operating platform.

Offsetting these positives were lower other related revenues, primarily driven by reduced earnings from certain seed investments and weaker agency earnings due to the higher rate environment. PGIM's year-to-date margin was 24.6%. Excluding the reorganization charge, this represents a 240 basis point increase over the prior year period, ahead of PGIM's target of at least 200 basis points of margin expansion in 2026. Our US businesses generated pre-tax adjusted operating income of $1.2 billion, essentially in line with the year-ago quarter.

Our retirement businesses reported pre-tax adjusted operating income of $620 million, down modestly year-over-year. Higher spread income, driven primarily by strong retail annuity growth, higher prepays, and higher alternative investment income was offset by the impact of PRT runoff. Results also reflected less favorable mortality, as well as lower Encaje earnings in our Habitat business, now part of Retirement, due to higher interest rates. Expenses increased compared to the prior year quarter, primarily driven by higher variable expenses related to continued business growth.

Net account values were $364 billion at quarter end, up modestly year-over-year. Retail annuity account values rose 25% to $68 billion, supported by $14 billion in sales over the last 12 months, reflecting the strength of our diverse product portfolio. As Andy highlighted, year-to-date institutional volumes reflect the episodic nature of pension and longevity risk transfer, with limited transactions industry-wide. However, momentum has picked up in the fourth quarter, and we have multiple transactions scheduled to close by year-end. We remain disciplined on pricing and focused on writing business that meets our return objectives.

Group Insurance delivered pre-tax adjusted operating income of $101 million, up 12% year-over-year, driven primarily by higher underwriting results. Life underwriting results reflected more favorable mortality in the working-age population, while earnings also benefited from continued growth in our supplemental health offering as we further expand in these markets.

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Operating expenses were also higher, as we made additional investments in our claims and service organizations to support growth, improve efficiency, and enhance operating leverage. Our overall benefit ratio of 81% was below our target range, reflecting strong life results and the strategic actions we are taking to diversify our business mix by segment and product. However, our disability benefit ratio rose year-over-year due to elevated short-and long-term disability incidence and severity amid ongoing macro uncertainty.

While disability incidence remains elevated, we are actively managing through the environment with disciplined claims execution and strong risk management. Over the past several years, we have made meaningful investments to enhance our claims organization, which have increased our ability to effectively manage higher claim volumes and support better outcomes for our customers. Individual Life reported pre-tax adjusted operating income of $199 million compared to $153 million in the prior year quarter.

The year-over-year increase primarily reflected more favorable underwriting results, driven by a reserve refinement of about $30 million in the current quarter and increased spread income reflecting higher new money yields due to higher rates. The evolution of the Individual Life business over the last several years has fundamentally reshaped its financial profile, delivering stronger, more consistent underlying earnings growth, higher cash flow, and greater capital efficiency.

Our US Legacy Products segment generated pre-tax adjusted operating income of $253 million compared to $308 million a year ago. This decrease primarily reflected lower net fee income from ongoing runoff of the variable annuity block, partially offset by equity market appreciation, and less favorable underwriting results in the GUL block.

Now turning to our Japan businesses. As a reminder, last month we restated our international results, moving emerging markets to divested businesses and therefore outside of AOI, our Habitat joint venture to retirement, and presenting Japan on a standalone basis. Our Japan businesses reported pre-tax adjusted operating income of $559 million compared to $750 million in the year-ago quarter. Strong underlying business fundamentals were more than offset by the expenses and lower underwriting results related to the POJ sales suspension, as well as lower alternative investment income. The sales suspension reduced third quarter adjusted operating income by approximately $140 million, bringing the year-to-date impact to approximately $375 million, in line with our expectations.

We continue to expect a full year 2026 impact of approximately $500 million for POJ and $100 million for GIB. Sales were $291 million, down 36% year-over-year due to the POJ sales suspension, but up 11% sequentially, driven by strong third-party distribution. This underscores the underlying strength of the franchise and the value of our diversified distribution model. Retirement and savings products remained a meaningful contributor to sales.

Now let me turn to capital, ESR, and cash flows. Our strong capital position and regulatory capital ratios support our AA financial strength ratings and provide flexibility to invest in and grow our core businesses. We ended the quarter with $4 billion of cash in highly liquid assets, well above our $3 billion minimum liquidity target, as well as substantial off-balance sheet resources. Our Japan businesses remain well-capitalized and are managed to levels aligned with our AA objective.

Later this month, Prudential Holdings of Japan will report a consolidated ESR ratio as of September 30 of approximately 200%, well above our 150% operating target. We do not expect the sales suspension to materially affect capital, ESR, or cash flows in 2026 or 2027. We continue to take actions that support disciplined capital deployment. We intend to deploy the expected proceeds from the sales of our Brazil and Mexico businesses into

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targeted acquisitions that advance our growth strategy. We do not expect the receipt of the proceeds to change our total capital deployment plans, which we will announce with our fourth quarter earnings in February of next year.

Before closing, an update on tax guidance. We now expect a full year effective tax rate of 20% to 21%, down from 21% to 22%, primarily due to moving Emerging Markets into divested businesses. In closing, we delivered another solid quarter, supported by strong underlying earnings momentum, business growth, and expense discipline. At the same time, we continue to address the sales suspension in Japan with urgency and transparency and a strong commitment to reform. We're building a simpler, more focused company with higher quality earnings, greater capital flexibility, and a stronger foundation for long-term growth. This, coupled with consistent execution, is the path to sustain value creation.

With that, let me now turn the call over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] . As a reminder, we ask that you please ask one question and one follow-up, then return to the queue. Our first question today is coming from Tom Gallagher from Evercore ISI, your line is now live.

Thomas Gallagher
Analyst, Evercore ISI

Q

Good morning, first question I had is, I know, just related to the LATAM sale, the $4 billion, I know you mentioned the sale price, can you talk about what the after-tax proceeds are expected to be?

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

A

Yeah, hi, Tom, well first of all, let me start by saying that we're very pleased with the economics from the sale of Brazil and Mexico with the consideration being a total of $4.025 billion, clearly north of $3 billion. The net proceeds will reflect taxes, transaction fees and closing costs, so we expect that value to be approximately $3.1 billion and the majority of the difference there is taxes. We expect to close in the second half of next year and we will confirm the net proceeds at that time.

Thomas Gallagher
Analyst, Evercore ISI

Q

Got you, thanks for that, Yanela. So my follow-up is, Andy, I heard you say, I think asset management and selected benefits businesses are potential focus for M&A. Are you leaning in one direction or the other and should we assume in terms of M&A that you probably need to close on this deal first or would you potentially look to do something sooner? Thanks.

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

A

Yeah so, Tom, good morning. Let me start by reiterating some of the comments I made in my opening. We're pursuing a deliberate sequence capital rotation strategy, so that means step one in the sequence is divesting our emerging market businesses as an important source of capital. Obviously, what we're looking to do there, our

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goals were to have clean exits and to be well paid for the value of the franchises, and I think you could see that we're making great progress.

As far as your question about leaning, we are not leaning in a particular direction. As we look to deploy the capital, we're widening our aperture, and I think that those would be the key words across PGIM, group insurance, and select opportunities for retirement in Europe. As we're doing that, we're ensuring that we're thinking very creatively on a wide range of possible deal structures, and you've heard me use these words before, make sure we're in the know and in the flow.

We believe strongly the best deals happen principle to principle, that we don't rely on investment banking auctions. So the reason I say widening the aperture, M&A is always a low probability endeavor, so you need to have a wide aperture and look at many, many things to make sure that what you do is good and strong for the shareholder. I'll reiterate, we have a high bar. Every opportunity we're measuring against our strategy to make sure it has good strategic fit, make sure it has good return profile, and is a strong contributor over time to earnings and free cash flow growth. So we are certainly looking in asset management and looking at a wide range of opportunities and in group insurance to keep accelerating our strategy.

I would not think of this even though we're pursuing a deliberate sequence rotation, I wouldn't take that literally like we're going to finish one and start the other. We are working on both the divestitures and the acquisitions at the same time. A lot of my time and my senior team's time is actually spent out and about principle to principle, so we have been working on this at the same time. But what you should expect from us is we're going to be patient, we're going to be persistent, and we're going to be disciplined because that's what's required when you're looking at the acquisition side. And we're confident that we'll be able to successfully redeploy this capital in a manner that's going to produce a good shareholder result.

Operator: Thank you. Our next question 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. Maybe start with Japan. Can you just provide some color on how surrenders have trended versus expectations over the past month since the FSA order?

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

A

Yeah, hi, Joel. So first of all, I would say surrenders through the year have been a little bit lower than what we originally estimated. We had the spike early in April when we announced the suspension, but then they moderated down. We did see an uptick of surrenders following the October announcement, but that has also reverted back to normal levels. So we expected this increase. It was part of our estimates, and what I would say is, through the end of the year, we expect that to be consistent with what's built into our estimates.

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC

Q

Got it. That's helpful. And then, can you just talk about corporate losses? Right. It's consistently better than sort of the expectations that you've put out there. Just, what are the drivers, and what should we expect for losses, like a loss run rate, running forward?

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Yanela del Carmen Frias

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

A

Yeah. So we do continue to project the full year 2026 loss at $1.55 billion. I know there's a number of moving pieces with the emerging markets restatement and some timing of expenses. So I would highlight a couple of things. The impact of the emerging markets restatement, which reduced the loss because we removed – increased the loss, excuse me, because we removed some earnings, was largely offset by expense saves. So you heard on my prepared remarks that we are ahead of target with our expense saves, the original $150 million commitment.

So that's coming through within the businesses and in corporate. And then, the offset to that is that we do expect higher losses and higher expenses in the fourth quarter in corporate. That is due to higher benefit expenses, higher brand spend in the fourth quarter, and there is some timing of initiative spend from earlier in the year that got pushed to the fourth quarter.

Operator: Thank you. Our next question today is coming from Ryan Krueger from KBW. Your line is now live.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. I guess, Andy, maybe following up on the M&A discussion, just as you are out there talking and looking for things, like how would you characterize the overall M&A environment in terms of opportunities in the areas that you're targeting?

Andrew F. Sullivan

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

A

Yeah, thanks, Ryan. Well, maybe let me start with that last part of your question. There are many opportunities in the marketplace, so we're not for a lack of things to look at and conversations to have, and that's not surprising. Look, when you talk about asset management and when you talk about group insurance, these are very attractive spaces. They're capital-light, cash-flow-generative type businesses that people want to continue to grow and add on to, and people want to be in.

So, it is competitive for these assets. Both these industries, scale matters more than ever, and I think that's clear. But I think the most important thing is we have a lot to offer counterparties as Prudential. Our capabilities, our size, our scale, our breadth is highly attractive to many of the counterparties that we talk to. If you think about the asset management business, first and foremost, we have $1.5 trillion asset manager that is well diversified with nearly $300 billion in private alternatives. That's an attractive platform in and of itself. But when you couple that with our liability generation capability and our balance sheet, what we see is counterparties want to talk to us.

Similarly, in the group insurance business, we're one of the biggest out there in national account life and disability. So counterparties look and say that they could see where you could produce real synergy. So I would just frame it as it is a competitive M&A environment, but there are a multitude of opportunities. And we think that we have very special characteristics and capabilities that make us highly attractive to counterparties.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. And then on any color you can provide, Yanela, on the improvement in ESR from I think about 20 points, I guess, at the midpoint of your guide from last quarter.

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Yanela del Carmen Frias

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

A

Yeah, Ryan. So a couple things there. As you know, we manage ESR to a cushion above our 150% operating target. And that cushion is meant to support volatility that has absorbed some of volatility we've seen around rates and yen. So it has worked as intended. In addition, we continue to execute actions to manage ESR and help offset the headwinds that we see. And the last item I would highlight is that we did refine some of the assumptions used in the ESR calculation, which, when you combine that with the natural buildup of earnings, did also drive the ESR slightly higher.

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

Suneet Kamath

Analyst, Jefferies LLC

Q

Great. Thanks, good morning. So, first, Andy, on the capital rotation, you gave us a lot of aspirational goals in terms of what you want Prudential to look like post the strategic moves that you're planning on making. Is $3 billion of dry powder enough to kind of get you where you need to be to hit some of those targets, or is this part of a even bigger capital deployment opportunity that you'll need in order to achieve those targets? Thanks.

Andrew F. Sullivan

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

A

Yeah. So, Suneet, thanks for the question. So, where I'd start on that is, remember when we put out these targets that this is a longer-term aspiration, and you should be thinking over a period of five years. So, I would certainly not think that, I would not say $3 billion, oh, that is what the company has as far as firepower to redeploy. And I also wouldn't necessarily draw the conclusion that this is a one-step type capital rotation. There are a multitude of capabilities that we're looking to get into our asset manager and into our Group insurance business. We may or may not find that in one counterparty. So I would expect that this will be a multi-step journey and that we will rotate capital over that five-year period and do not draw the conclusion that that means $3 billion.

The other thing I would say is, this is also about organic growth. We have incredible organic growth opportunities across all of our chosen businesses. We're already in many of them category leaders and in others we're not that far away from getting the category leadership. So, I think we've talked about in the past, but we would expect, as an example in asset management, we said we want to go from 12% of earnings to 2025. At least half of that journey we see line of sight to from an organic growth perspective. So I think it's really important that we don't lose focus on the organic growth potential of the company with this capital rotation strategy. It's about both.

Suneet Kamath

Analyst, Jefferies LLC

Q

Okay, that makes sense. And then I guess just drilling into the annuity business, I think your sales were up maybe 15% year-over-year. I haven't seen the industry data, but my guess is you probably gained some share. If that's the case, what would you attribute that to? And then separately or relatedly, are you seeing anything in terms of features or offerings in the market that give you a little bit of pause? When we hear these annuity guys get aggressive in terms of sales, sometimes there's a downside to it in terms of more aggressive features and feature creep, that kind of thing. So any thoughts there would be helpful. Thanks.

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

A

Yeah, Suneet, maybe let me just give you some overall thoughts and then I'll answer your specific questions. So first and foremost, the individual annuities market continues to just be incredibly strong and growing. This is, the market again is going to be over $120 billion this quarter that's the 12th consecutive quarter it's been above $100 billion. We expect that the market will just continue to grow. It's a $500 billion market as we sit here today. The aging of society that needs protected income, the trillions of dollars of retirement that are in motion.

So, we're executing in this business against a backdrop of a market that has incredible tailwinds. As far as why we're being so successful, it really gets to our strengths and our capabilities. We have a broad all-weather product portfolio across RILA and across fixed annuities. We have incredible distribution. It's very expansive, but that we're adding to as we've entered the IMO space. And then we feel very strongly that we have a brand that's second to none. So we sell on our value prop in that space. I see just continued growth for us as we look ahead.

As for any particular, product features that might give me pause, I'm going to be very upfront about this. We focus on us. We focus on making sure that we put product into the market that provides great consumer value and a great return for the shareholder. We've been an innovation leader. You've seen us do that with FlexGuard and FlexGuard 2.0. So really nothing specific I'd point to that gives me pause in the marketplace.

Operator: Thank you. Our next question is coming from Pablo Singzon from JPMorgan. Your line is now live. Hello, Pablo, perhaps your phone is on mute. Please pick up your handset.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Oh, yeah. Sorry about that. For PGIM, it sounds like you're making good progress in your ETF offering, which is helping offset outflows and active strategy. Do you see the mix shift there being meaningful enough to weigh on your overall fee rate? And I also recognize you're growing private assets. And I guess tied with that, if you'd also discuss your aspiration to improve margins in that business to, I think you had said before, 30% over time. You made good progress so far in 2026, but any sort of indications on what the path might look like from here? Thank you.

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

A

Yeah, Pablo, thanks, a lot in there so let me dissect it. Let me start with your question about active ETFs and what's going on in the equity side. Our active ETF platform continues to be a very important area of growth for us. And we've shown great success both in the quarter and year-to-date. The fact is we've doubled our assets under management. We're now over $40 billion on that ETF platform because we keep innovating from a product perspective and now have over 70 ETFs on the platform. So what you're seeing from us in the ETF space is we continue to move up the League Tables. We're now number 10 in flows and number 10 in assets under management overall. We expect that to continue. I would not, if you step back, we're a $1.5 trillion asset manager. It takes time to move your average fee rate. So you should expect to see that move over years, not over quarters. That doesn't mean that it's not meaningful because you change that fee rate by a couple bps. Over $1.5 trillion it makes a big difference, but you shouldn't be looking quarter to quarter on that.

As far as margins, we have a very intentional strategy to expand our margin to 30% over the multi-year and over the longer period of time to go north of 30%. We are very pleased with what we're showing in PGIM from a margin perspective. As Yanela noted in her remarks, we're well on track to exceed the expectation we set to improve

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margins 200 bps year-over-year. And we expect that that's going to continue, first and foremost, because we expect over time, the fixed income and real estate market will improve. That has been delayed by the macro environment up to this point. Second, we are absolutely seeing positive organic traction in higher fee, higher margin products like direct lending, asset-backed finance, and as we mentioned, ETFs. And finally, and we're very proud of this, we have a laser focus on expense management, and we are ahead of our commitments overall, and we are also ahead of our commitments in our asset management business. So over time, while that margin might fluctuate quarter to quarter, we feel very confident in marching it to 30%, and then over a longer timeframe, marching it north of there.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Thanks, Andy. And then my second question for Yanela perhaps a simpler question. How much were Habitat earnings this quarter, and what is the typical earnings contribution for Habitat on a quarterly basis? Thank you.

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

A

Yeah, so Pablo, the quarterly run rate for Habitat is $25 million a quarter. So you can think about that as the expected earnings. Now, there is some volatility in the Encaje earnings, and this quarter we had a negative impact of about $6 million, and so that's what you see there. Last quarter, last year, third quarter, we had a positive of $10 million, so there was a flip of $16 million in Encaje, but the expected earnings are $25 million per quarter.

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

Wes Carmichael
Analyst, Wells Fargo

Q

Hey, good morning. Just on the retirement segment again, but it's just on earnings. It looked like spreads increased pretty materially sequentially. So I'm just wondering, was there any prepayment or one-time income that helped spread in the quarter? Or do you, I guess said differently, think the $615 million of a pre-tax, $615 million pre-tax implied by the slides is a good run rate going forward?

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

A

Yeah. Hi, Wes. So yes, we had a nice healthy increase in quarter over quarter core earnings. And the majority of that is the benefit of growth in the business. We've had very healthy retail annuities sales, and that is driving the growth. We did have slightly higher prepayment income this quarter versus last quarter. So in second quarter 2026 we had $22 million of prepays in retirement. This quarter we had $30 million. So you're, quarter over quarter an $8 million variance. If you strip that out, that still shows a quarter over quarter growth of $20 million in core earnings. But the $615 million does have $30 million of prepays.

Wes Carmichael
Analyst, Wells Fargo

Q

Got it. That's helpful. Thanks, Yanela. And just a separate topic, but back to capital management, just curious, Andy, as you've had a little more time at the helm, do you think that roughly $2 billion of capital allocated to the

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common dividend with a flattish buyback is kind of the right strategy going forward? And I guess as you're rotating capital in the business, I just wanted to get your updated thoughts around uses of capital on a go forward basis.

Yanela del Carmen Frias

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

A

Yeah, Wes, let me start and Andy could add, I think we have had a very consistent philosophy around capital deployment and capital management. Starts with maintaining our AA strength and strengthening the balance sheet, investing in our organic growth in the business, and then the deployment to the buyback and to dividends. That total deployment plan has not changed. It will not change with the strategy. We obviously will be looking at, and we always look at balancing growth and returns, and that won't change. So we do not expect the total capital deployment plans to change as a result of the capital rotation.

Andrew F. Sullivan

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

A

Yeah, I mean, the only thing I would add, Wes, is that priority order is important. And I think, as you've heard us say before, we've raised the bar on capital deployment expectations, the return levels that we're achieving and expecting inside the company. But we've also been very pleased that given the strength of our franchise, we're able to achieve those levels. And we are seeing very healthy organic opportunities across the business set. So that order of priority is important as we look at how do we want to grow the company and what organic things do we want to deploy capital into.

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

Jack Matten

Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. First one's on group disability. Can you unpack the drivers of the benefit ratio increase this quarter? One of your peers cited a material uptake in behavioral health-related claims incidents. I'm curious if that was a driver for you or were there other underlying drivers you would point to?

Andrew F. Sullivan

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

A

Yeah, Jack, thanks. We experienced a slight increase in our disability benefit ratio this quarter versus a year ago. The primary driver of the year-over-year increase is higher incidence and severity in both short-term disability and long-term disability. And we are aware of what some others have said, and in a similar way, we are seeing higher behavioral health claims, and we are seeing higher claims from high-wage earners. Importantly, this is across most of the sectors that we have business in, so it's not any specific sector or any specific case type.

I would remind you, though, that the way we view this we went through a few years as an industry post-COVID of what we would call abnormally low claims or abnormally strong experience, so it's not surprising to see somewhat of a reversion to the mean. The other thing I would point out is the macro environment is leading to what I would term employment insecurity. This may or may not be a traditional cycle. It may be something more structural, given the shift with AI and job losses. We'll stay all over that.

What's really important is we focus on controlling what we can control. First, ensuring that we have extreme discipline in pricing and underwriting. And where we are seeing higher experience, we are putting rate into the book. Second, and I've been consistent on this all the time, investing in our claims operation as a risk

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management operation. That investment is paying off. And you saw, we had very strong resolutions this quarter. We had the best resolutions in over two years. So while we have a cautious outlook about incidents and severity looking forward, we know that we have the discipline and the capabilities to navigate the environment as it comes.

Jack Matten
Analyst, BMO Capital Markets Corp.

Q

That's helpful, thank you. And then regarding the strong growth in third-party sales in Japan, I'm just curious how the return profile or the product profile of the business you sell through those channels compares to what you sell through your captive distribution and would you expect to continue to see stronger growth in those channels even after the sales suspension ends?

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

A

Yeah, Jack, I would say we're very pleased with the growth in that independent channel. I think it does demonstrate our diverse business there and distribution. And in terms of profitability, we are very comfortable with the profitability of those products and they are well in excess of our cost of capital, as intended.

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

A

So Jack, I would add, when we talk about, we expect to emerge from the issues in Japan a stronger company. There's reasons behind why we say that. And this third-party channel success, I think is a big reason. First, the market opportunity in Japan for retirement and savings products is very, very strong, and is a high growth area. The third party channels are higher growth channels versus the captive channels. So we see great potential to continue to growing in both independent agency and bank channel. What we saw this quarter, a 9% overall growth year over year in the third party channels, and 53% in independent agencies, what we're seeing is institutions candidly vote with their feet and give us a vote of confidence.

So we've expanded the number of agencies that we work with, and we've expanded the shelf space that we have with the banks that we do business with in Japan. That is because they know that we're a high quality organization with a great product portfolio that always follows through, and is why we believe that our brand will be stronger at the end of the day, and why we feel so strongly about our resilience.

Operator: Thank you. Our next question today is coming from Tracy Benguigui from Wolf Research. Your line is now live.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Thank you. A lot of my questions have been asked, so I'm going to ask some follow-ups. First, on the behavioral LTD submissions, I'm just curious, what's a typical duration on behavioral claims in terms of years? Is it like two years? And how deep is your in-house behavioral expertise to manage these claims? Is it to the same rigor as physical disability claims?

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

A

So, Tracy, let me take the second part and then the first part. And I'll start with the word absolutely. We have a very, very strong and deep and broad claims capability. That includes specialists in a number of areas, behavioral

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specialists, VOC specialists, physical therapists, nurses, doctors. So, while the incidence on these types of claims is up, these are claims that we've managed for decades given how long we've been in this business and have everything that we need to be able to manage those types of claims. And it does tie to why we're seeing success on the resolution side.

As far as the duration of the claim, the reality is duration of claim is very individual-specific and is much more tied to the presence or lack of presence of comorbidities and comorbid conditions. So, I wouldn't provide any data around the specific duration of a specific claim type. And I also would be careful to draw any conclusions around that. The punchline is, though, we have strong capabilities to manage the claims and to help all of these individuals get back to productive work.

Tracy Benguigui
Analyst, Wolfe Research LLC

Q

Okay. Another follow-up. It's good to see the ESR at 200%. I'm curious, how many points of that would you attribute to the refinements to the ESR calculation assumptions that you mentioned? Also, how much of the improvement came from sales suspension at POJ? Is it fair to say that with less new business means less capital strain?

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

A

Yeah, Tracy. So, first of all, we don't do that, we don't provide that detail attribution to ESR. There are a number of moving pieces, the earnings build-up, etc. So obviously, it's gone in the right direction. How we manage ESR is working as intended, so I would leave it at that. In terms of the suspension, no, that's not really driving too much of the increase in ESR. Obviously, we have lower earnings, which because of the suspension, including the expenses that we're incurring, to sustain the business and that, those two things kind of offset.

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

Wilma Burdis
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Retail annuity sales have been particularly strong this quarter, but retirement operating earnings have declined year-over-year. Can you just walk us through what primarily drove this? Thanks.

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

A

Hi, Wilma. Yeah, so year-over-year, we did have a decline. We are obviously still seeing the impact of business growth, net of related sales expenses, mainly that increase in annuities, but that has been partially offset by two things. The runoff of PRT, it has been a slower year in general in the industry; although, as we said, we had strong October results. So, we have the runoff of PRT and we also have seen less favorable underwriting mortality in retirement as well.

Wilma Burdis
Analyst, Raymond James & Associates, Inc.

Q

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Excellent. Great. Thank you. And then, how much of the recent fundraising momentum in PGIM is coming from higher fee private asset strategies versus traditional fixed income products, and what are the implications for the segment's margin outlook? Thanks.

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

A

Thanks, Wilma. So, let me just start by talking about how pleased we are with the flows that we are seeing in PGIM. Our total net flow has improved again this quarter. This is the third quarter in a row that total flows have improved in a very good trajectory, with a predominance of this given the softness of the PRT market this year coming from third-party assets that are flowing into the business. As you look at the $9 billion in third-party flows that came in, it was both on the institutional and retail client side, so we're seeing success on both.

The majority of those assets are public credit assets. You are correct that some of the flows are private credit, but the way that works is, we fundraise, and then when we call the capital, that's when the private credit shows up in the business. That is becoming a stronger, more important part of our business over time. As I mentioned, we have a private business now that's approaching $300 billion. That is higher fee and higher margin. It is part of what is strengthening our average fee rate. But I'll go back to the comments I made earlier that, that will be a change that occurs over a few years as we march the margin towards 30% and north of 30%. But that is absolutely core to the strategy and is playing through.

Operator: Thank you. Our next question is coming from Yaron Kinar from Mizuho Securities. Your line is now live.

Yaron Kinar
Analyst, Mizuho Securities USA LLC

Q

Thank you. Good morning. I want to start with the PRT pipeline and the UK partnership. It just seems like year-to-date the deal flow has been quite modest. And even with a pickup in the fourth quarter, should we expect maybe increased competition, just given that year-to-date numbers have been so low? And if so, do you expect the returns and then the profile, maybe the economics of these deals to show some increased competition?

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

A

Thanks, Yaron. So, year-to-date industry volumes, as I just said, have been softer with no jumbos through the end of 3Q. And I'm speaking there up through 3Q. That reduced activity really was driven by the economic and geopolitical uncertainty. CEOs and CFO decision-makers slowed up, for lack of better term. But as we often see, the pipeline has picked up for 4Q, and as I said in my opening remarks, we closed three midsize transactions and anticipate closing more deals in 4Q, expecting to have a strong 4Q. As far as competition, this is a marketplace, I would frame it, it's not different today than it was 12 months ago or 24 months ago.

Over the last five years, it has become a more competitive market with multiple entrants coming into the space and more and more people trying to go up market into the jumbo space. So, it's not more competitive, it's the same. We're well positioned. Candidly, we're a category leader here. We've done most of the large deals in the space over the last 10 to 15 years, and that's because of the strength of our underwriting, the strength of our asset management and our distribution.

We're achieving the returns that we want to achieve. We're quite pleased. We always will stay disciplined. We're about value over volume. And, we've been able to achieve in all the deals we've done this year returns in excess

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of our expectations. So, if the market does get more competitive and returns don't make sense, we won't do the deals.

Yaron Kinar
Analyst, Mizuho Securities USA LLC

Q

Thank you. And then my second question is just around PGIM AUM. Is there any AUM that's attributable to the soon to be disposed of Brazil and Mexico businesses? And if so, what would the impact be on AUM and on fees at PGIM?

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

A

Yaron, PGIM does not manage any assets for Brazil or Mexico, so there is no impact to PGIM.

Operator: Thank you. Our next question is coming from Alex Scott from Barclays. Your line is now live.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Hey, thanks for taking it. So, I wanted to ask about Japan and just the reinsurance. I think there were some comments made intra-quarter about 70% of the business being reinsured now to, I think, some combination of Bermuda and PICA. And I just want to understand how that's trended over the last year or two. And I think it may have increased quite materially if it did. What's happened to the freed-up capital in Japan? I mean, is that just sort of in that higher ESR? Were you able to dividend any of that up in 3Q? I think 3Q is the normal cadence of dividends. I'd just be interested if you could opine on all that. Thank you.

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

A

Yeah. Hi, Alex. So yeah, let me start with sort of how we think about reinsurance and use reinsurance. So, we use reinsurance, especially this internal reinsurance to manage reserves and capital in jurisdictions that best reflect the economics of the products. We have two captives in Bermuda. That is what we use them for. We've been reinsuring business out of Japan since 2019 for this reason. So, this was well before ESR. So, the 70% of Japan business being reinsured out of Japan is something that's accumulated since 2019.

Obviously, we have continued to use reinsurance and will continue to use reinsurance to manage ESR volatility, but there's been no particular increase in reinsurance out of Japan over the last few quarters. We did announce a transaction in October with Prismic for $5 billion of US dollar whole life Japan product. That was actually out of Gib Re, so that had already been managed within our internal captive framework, and that was just a transaction with Prismic for balance sheet optimization.

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

A

So, and Alex, the reinsurance, we've done Bermuda since 2019, we were using the PICA entity before that.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Okay. So, the 70% wasn't materially different going back a year ago?

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

No.

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

No.

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

Absolutely not. It's been a long time.

Alex Scott
Analyst, Barclays Capital, Inc.
Q

Got it. Okay, thanks. And then, just to follow up, are you able to answer at all the question around the dividend? Because I think Japan usually sends up a dividend in 3Q. Is that something you could tell us about?

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

Yeah, no, I mean, obviously timing of dividends varies between these operating companies and what I would say is what we said consistently, the impact of the sales suspension will have, the sales suspension will have no impact on cash flows or dividends out of the Japan businesses.

Operator: Thank you. Our final question today is coming from Mike Ward from UBS. Your line is now live.

Michael Ward
Analyst, UBS
Q

Hi, thank you. So maybe to spin-off of that last one just on the kind of the long-term implications for the Japan business. Definitely appreciate the improvement and the coming out of this stronger company in Japan, but just curious like if you can help us think about the margin profile in the out years and the change in the compensation structure and whatnot, if there's anything incremental you can share?

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

Yeah, Mike, let me start. I mean, we don't expect any material changes to the margin of the products that we sell. In terms of the earnings trajectory, a couple things. As we previously shared, over 90% of the earnings in Japan come from the in-force and we do continue to expect that roughly 15% reduction in the in-force due to the sales suspension. But I would also highlight that we have a higher rate environment, which drives earnings up, as well as strengthen our retirement and savings sales in our other channels as we spoke about earlier in the call. So, I think obviously the sales suspension has negative pressure on earnings, but we see higher rates and the opportunity in Japan through the diversified distribution and the strength of retirement and savings to be a tailwind against those headwinds.

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

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And then, Mike I would add, you had a comment in there about the compensation of life planners, life consultants. That's just a shift in how that compensation occurs. It's not compensating them more or compensating them less. It is just shifting it to be less compensation focused on new sales and more compensation focused on an additional number of elements like compliance, orientation, like customer retention and the pay stream will be over a longer timeframe. Much less in year one and pay out over a multitude of number of years, but it's not a higher level of compensation.

Michael Ward
Analyst, UBS

Q

I see, thank you, Andy, that's helpful. So, it's not literally a shift from sort of variable comp to fixed. It's just kind of spreading out variable?

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

A

There's some of both because we're also implementing a higher base salary that is fixed cost, so it's both effects, but if you look in total the dollars spent across the categories aren't expected to go up or down.

Michael Ward
Analyst, UBS

Q

Okay, thanks. The last one was just on data center finance. Curious about your activity in PGIM in that asset class, both like originating for third parties, but also your exposure on the general account. Thank you.

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

A

Yes. So, Mike, let me take PGIM first and then Yanela will talk about the general account. So, this is a capability that we have in PGIM. If you think about both our private credit business and our real estate business, we have digital infrastructure funds and have done loans for data centers. So, it has been an area of growth in our private alternatives business where we candidly, this isn't new for us. We've been in these businesses for a very long time and have seen some lift in the space. In the overall story of PGIM, though, it's only a component of many different things we're doing to both accelerate the growth and expand the margin.

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

A

Yeah, Mike, and then in terms of the exposure, let me take sort of AI exposure in total because I know it's been an important topic. So, we have a total of $7.2 billion of AI-related exposure in the general account, that is less than 2% of the general account, 60% of that exposure is tied to hyperscaler credit with diversified revenue streams, and we believe that diversification is quite important, $3.1 billion of the exposure is data centers that are either backed by long-term investment grade leases or diversified tenant pools with no specific construction risk. Again, important speculative construction risk. And then lastly, we have $1.1 billion of that $7.2 billion is GPU exposure backed by investment grade leases.

Operator: Thank you. We 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 lines at this time and have a wonderful day. We thank you for your participation today.

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