



Lincoln National Corp (LNC)

Updated May 31st, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	6.5%	Market Cap:	\$13.3B
Fair Value Price:	\$64	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	07/09/2021
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date²:	08/01/2021
Dividend Yield:	2.4%	5 Year Price Target:	\$85	Years of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	5.0%

Overview & Current Events

Lincoln National Corporation offers life insurance, annuities, retirement plan services and group protection. The corporation was founded in 1905 as The Lincoln National Life Insurance Company. Permission from Abraham Lincoln's son to use the former president's name was granted. In 1912, the company entered the reinsurance business. In 1969, Lincoln National Corp begins trading on the New York Stock Exchange and the Midwest Stock Exchange. Today it trades under the ticker LNC. The corporation has grown into a market capitalization of \$13.3 billion. LNC has nearly 11,000 employees. In 2020, Life Insurance made up 41.4% of revenues, followed by Annuities at 24.5%, Group Protection at 26.4% and Retirement Plan Services & Other at 7.7%.

Lincoln National released first quarter results on May 5th. The company generated \$1.16 in net income per share, compared with \$0.15 earned in the same period a year ago. After adjustments, the company generated net income of \$1.82, down 19% from \$2.24 in 1Q 2020. Results were negatively affected by the pandemic, primarily due to mortality impacts. However, capital markets have improved, and the company has a solid sales pipeline.

Operating revenues in all four of LNC's business segments increased year-over-year. Notably, life insurance average in-force face amount grew 8% to \$901 billion. Annuities average account values grew 16% to \$160 billion, and Group Protection insurance premiums grew 2% to \$1.1 billion. The company repurchased 3 million shares of stock for \$155 million in the trailing twelve months, reducing the share count by 2%. Book value per share (including adjusted income from operations (AOCI)) increased 19% compared to the prior year to \$102.50. Book value per share (excluding AOCI) increased 3% to \$72.36.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
ANIPS	\$4.17	\$4.47	\$5.03	\$6.03	\$5.46	\$6.50	\$7.59	\$8.48	\$6.71	\$4.45	\$7.50	\$10.04
DPS	\$0.20	\$0.32	\$0.48	\$0.64	\$0.80	\$1.00	\$1.16	\$1.32	\$1.48	\$1.60	\$1.68	\$2.36
Shares³	291.3	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	186.0	170.0

The COVID-19 pandemic crushed Lincoln National's 2020 results, which resulted in lower earnings growth when setting 2020 as the end date. Ignoring the 2020 outlier year, LNC has grown net income by 6.1% on average over the 8-yr period between 2011 to 2019. In the five years leading up to 2019, LNC grew net income by 2.7% per year on average.

The dividend has grown since it was slashed in 2008 and '09 to \$0.04 annually. The corporation's 2020 dividend of \$1.60 was the first year the dividend returned to this level since 2007. The share count has been reduced meaningfully over the last decade. Continued strong share repurchase would be a tailwind to per share earnings.

We estimate that LNC can grow net income by around 6% going forward. The company has a three-pronged product strategy it is currently enacting. The "reprice, shift & add new product" strategy focused on achieving strong returns while providing consumer value. The corporation will reprice products to ensure appropriate returns, such as 12%+ returns on new business in all business segments achieved in 1Q21. They will also shift to products which have strong

¹ Estimate

² Estimate

³ In millions

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consumer demands and returns, currently 90% of total sales are without long-term guarantees and this should improve. Finally, they will add new products to increase consumer choice, and they are on track for 8 products to be launched in the first half of 2021. Additionally, expense management initiatives should result in increased earnings as well.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/ANIPS	6.0	5.3	7.7	8.6	10.1	7.1	9.2	8.0	9.0	9.1	9.3	8.5
Avg. Yld.	0.8%	1.4%	1.2%	1.2%	1.5%	2.2%	1.7%	1.9%	2.4%	4.0%	2.4%	2.8%

Lincoln National trade at 9.3 times this year's estimated adjusted net income per share of \$7.50. The average price-to-adjusted net income per share has grown from it's 10-year average of 8.0 to a 5-year average of 8.5. We believe shares are a little overvalued here and that it should be trading in-line with its recent historic valuation of 8.5, resulting in an average annual loss of 1.8% due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

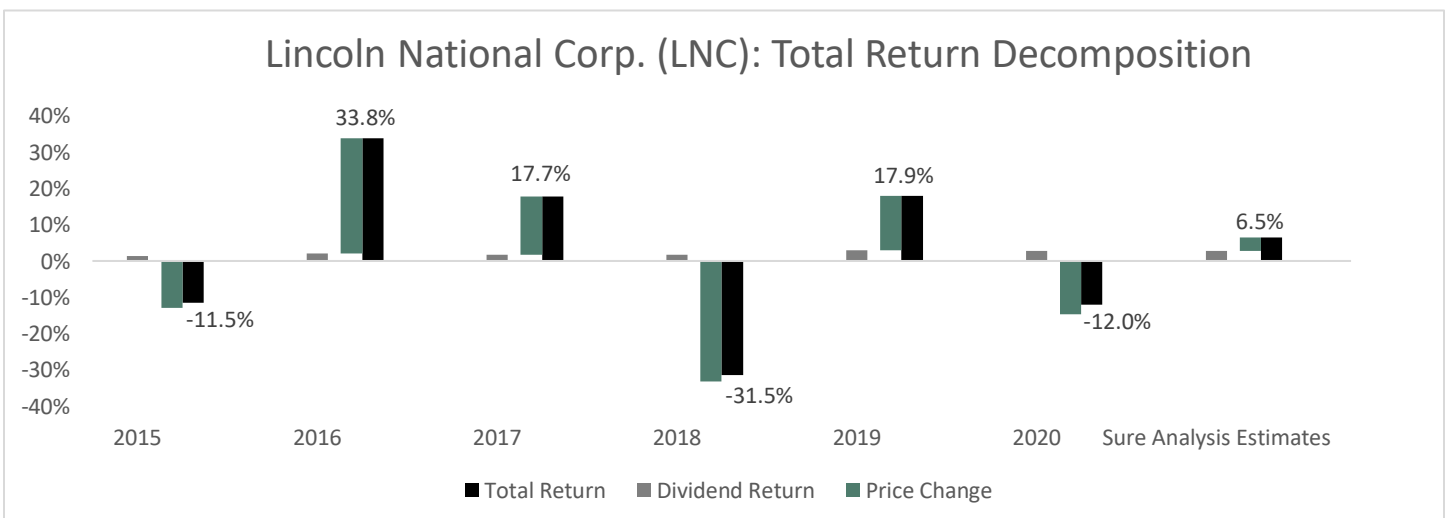
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	5%	7%	10%	11%	18%	20%	13%	18%	34%	63%	22%	23%

Lincoln's earnings fell significantly during the great financial crisis, falling about 40% from peak to trough. As a result, the dividend was cut to near nothing. It took about five years for earnings to return to their prior highs, and as mentioned, the dividend only now eclipsed its previous record. Additionally, LNC was hit hard by the COVID-19 pandemic due to mortality impacts. Today the dividend appears to be strongly covered by adjusted net income, however LNC is not recession resistant. The company lists its automated underwriting within a defined criterion, and its LincXpress product, a simplified issue process, as marketplace competitive advantages. The company has no debt maturity until 2023 and is holding cash of \$758 million.

Final Thoughts & Recommendation

Lincoln National has decent expected earnings growth off the back of the pandemic, however results may still be slightly muted in early 2021. The vaccination roll out is a tailwind for the corporation with a strong life insurance business. We are forecasting total returns of 6.5% in the near term, and the stock is trading at 109% of our estimated fair value. We rate shares a hold as the returns are fair, but the company is trading slightly over our estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	10641	11535	11969	13554	13572	13330	14257	16424	17258	17439
SG&A Exp.	1492	1631	1692	1700	1730	1687	1766	1953	2210	2072
Net Profit	221	1313	1244	1515	1154	1192	2079	1641	886	499
Net Margin	2.1%	11.4%	10.4%	11.2%	8.5%	8.9%	14.6%	10.0%	5.1%	2.9%
Free Cash Flow	1276	1269	799	2526	2243	1272	788	1943	(2686)	534
Income Taxes	274	282	387	483	276	266	(949)	244	33	(76)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	201491	218869	236945	253377	251908	261627	281763	298147	334761	365948
Cash & Equivalents	4510	4230	2364	3919	3146	2722	1628	2345	2563	1708
Accts. Receivable	6934	6829	6461	6203	5999	5695	5303	18318	17609	16982
Goodwill and Intang.	2273	2273	2273	2273	2273	2273	1368	1782	1778	1778
Total Liabilities	188390	203896	223493	237637	238291	247149	264441	283797	315072	343249
Long-Term Debt	5691	5639	5820	5520	5553	5345	5344	5839	6367	6682
Total Equity	13101	14973	13452	15740	13617	14478	17322	14350	19689	22699
D/E Ratio	0.43	0.38	0.43	0.35	0.41	0.37	0.31	0.41	0.32	0.29

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.1%	0.6%	0.5%	0.6%	0.5%	0.5%	0.8%	0.6%	0.3%	0.1%
Return on Equity	1.7%	9.4%	8.8%	10.4%	7.9%	8.5%	13.1%	10.4%	5.2%	2.4%
ROIC	1.2%	6.7%	6.2%	7.5%	5.7%	6.1%	9.8%	7.7%	3.8%	1.8%
Shares Out.	291.3	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3
Revenue/Share	33.79	40.11	43.50	50.58	53.24	56.29	63.02	74.81	85.39	89.68
FCF/Share	4.05	4.41	2.90	9.43	8.80	5.37	3.48	8.85	(13.3)	2.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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