



# Lincoln National Corp (LNC)

Updated November 5<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	9.2%	<b>Market Cap:</b>	\$13.7 B
<b>Fair Value Price:</b>	\$76	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	01/09/2022
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Dividend Payment Date<sup>2</sup>:</b>	02/01/2022
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target:</b>	\$102	<b>Years of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	7.0%

## 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 \$13.7 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 third quarter results on November 3<sup>rd</sup>. The company generated \$1.68 in net income per share, compared to \$2.01 in the third quarter of 2020. After adjustments, the company generated net income of \$1.62 per share, which compares favorably to the \$(0.72) loss per share in the same prior year period. Earnings were driven by continued focus on increasing sales, pricing discipline, ongoing expense management, and share buybacks.

Operating revenues in all four of LNC's business segments increased year-over-year. Notably, annuities sales of \$2.7 billion was up 7%, and retirement plan services average account values of \$97 billion was up 21%.

The company repurchased 8.3 million shares of stock for \$505 million in the trailing twelve months, reducing the share count by 3%. Book value per share (including adjusted income from operations (AOI)) increased 2% compared to the prior year to \$113.77. Book value per share (excluding AOI) increased 8% to \$76.96. Additionally, LNC approved a 7% increase to the quarterly dividend to \$0.45 per share.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>ANIPS</b>	\$4.17	\$4.47	\$5.03	\$6.03	\$5.46	\$6.50	\$7.59	\$8.48	\$6.71	\$4.45	<b>\$8.96</b>	<b>\$11.99</b>
<b>DPS</b>	\$0.20	\$0.32	\$0.48	\$0.64	\$0.80	\$1.00	\$1.16	\$1.32	\$1.48	\$1.60	<b>\$1.80</b>	<b>\$2.52</b>
<b>Shares<sup>3</sup></b>	291.3	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	<b>186.0</b>	<b>170.0</b>

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-year 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%+

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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returns on new business in all business segments achieved in 1Q21. They will also shift to products which have strong 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 have launched 8 products 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	8.1	8.5
Avg. Yld.	0.8%	1.4%	1.2%	1.2%	1.5%	2.2%	1.7%	1.9%	2.4%	4.0%	2.5%	2.5%

Lincoln National trade at 8.1 times this year's estimated adjusted net income per share of \$8.96. 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 undervalued here and that it should be trading in-line with its recent historic valuation of 8.5, resulting in an average annual gain of 0.9% due to valuation expansion.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

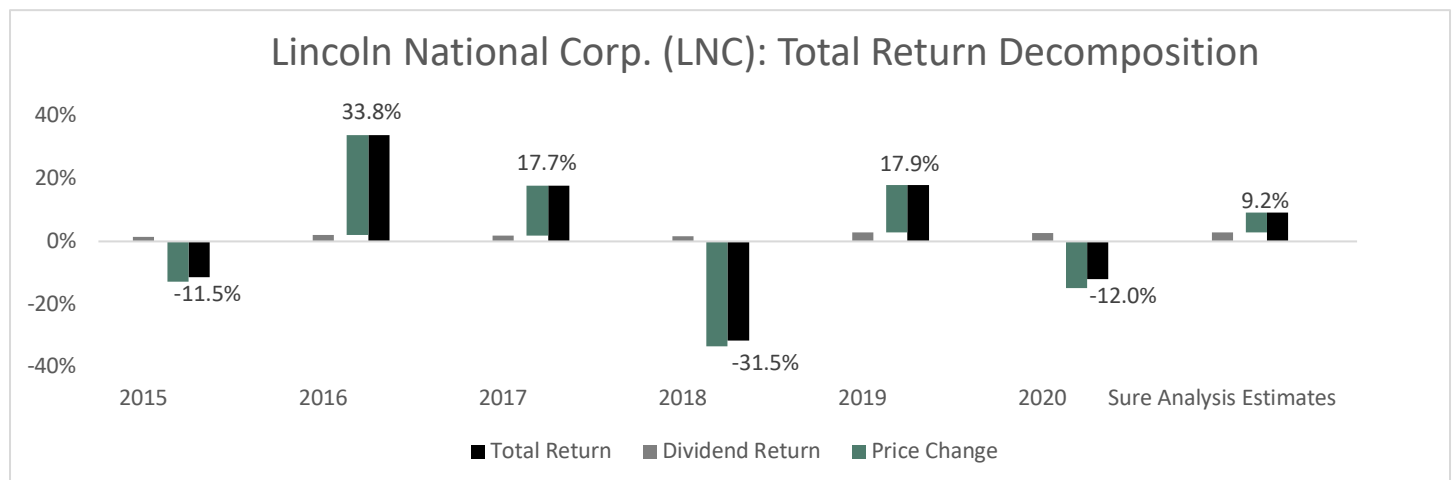
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	5%	7%	10%	11%	18%	20%	13%	18%	34%	63%	20%	21%

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.

## 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 annualized total returns of 9.2% in the near term, and the stock is trading at 96% of our estimated fair value. We rate shares a Buy as the returns are strong, and the company is trading below our fair value estimate.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	201491	218869	236945	253377	251908	261627	281763	298147	334761	365948
<b>Cash &amp; Equivalents</b>	4510	4230	2364	3919	3146	2722	1628	2345	2563	1708
<b>Accts. Receivable</b>	6934	6829	6461	6203	5999	5695	5303	18318	17609	16982
<b>Goodwill and Intang.</b>	2273	2273	2273	2273	2273	2273	1368	1782	1778	1778
<b>Total Liabilities</b>	188390	203896	223493	237637	238291	247149	264441	283797	315072	343249
<b>Long-Term Debt</b>	5691	5639	5820	5520	5553	5345	5344	5839	6367	6682
<b>Total Equity</b>	13101	14973	13452	15740	13617	14478	17322	14350	19689	22699
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.1%	0.6%	0.5%	0.6%	0.5%	0.5%	0.8%	0.6%	0.3%	0.1%
<b>Return on Equity</b>	1.7%	9.4%	8.8%	10.4%	7.9%	8.5%	13.1%	10.4%	5.2%	2.4%
<b>ROIC</b>	1.2%	6.7%	6.2%	7.5%	5.7%	6.1%	9.8%	7.7%	3.8%	1.8%
<b>Shares Out.</b>	291.3	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3
<b>Revenue/Share</b>	33.79	40.11	43.50	50.58	53.24	56.29	63.02	74.81	85.39	89.68
<b>FCF/Share</b>	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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