



# Lincoln National Corp (LNC)

Updated February 7<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$72	<b>5 Year CAGR Estimate:</b>	9.9%	<b>Market Cap:</b>	\$12.8 B
<b>Fair Value Price:</b>	\$89	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/08/2022
<b>% Fair Value:</b>	81%	<b>5 Year Valuation Multiple Estimate:</b>	4.3%	<b>Dividend Payment Date<sup>2</sup>:</b>	05/03/2022
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target:</b>	\$103	<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 \$12.8 billion. LNC has over 10,000 employees.

Lincoln National released fourth quarter and full year results on February 2<sup>nd</sup>. The company generated \$1.20 in net income per share, compared to \$0.74 in the fourth quarter of 2020. After adjustments, the company generated net income of \$1.56 per share, which compares unfavorably to the \$1.78 per share in the same prior year period.

For the full year of 2021, adjusted net income per share of \$8.20 was a massive increase compared to \$4.45 earned for the full year of 2020.

Operating revenues in all four of LNC's business segments increased year-over-year. Notably, annuities sales of \$11.7 billion was up 4% for the full year, and retirement plan services average account values of \$98 billion was up 17%.

The company repurchased 16.2 million shares of stock for \$1.1 billion in the trailing twelve months, reducing the share count by 6%. Book value per share (including adjusted income from operations (AOCI)) decreased 3% compared to the prior year to \$114.41. Book value per share (excluding AOCI) increased 9% to \$78.05.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>ANIPS</b>	\$4.47	\$5.03	\$6.03	\$5.46	\$6.50	\$7.59	\$8.48	\$6.71	\$4.45	\$8.20	<b>\$10.50</b>	<b>\$12.17</b>
<b>DPS</b>	\$0.32	\$0.48	\$0.64	\$0.80	\$1.00	\$1.16	\$1.32	\$1.48	\$1.60	\$1.60	<b>\$1.80</b>	<b>\$2.90</b>
<b>Shares<sup>3</sup></b>	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	192.3	<b>177.0</b>	<b>155.0</b>

The COVID-19 pandemic crushed Lincoln National's 2020 results, but they recuperated strongly in 2021 and we expect this to continue in 2022. LNC has grown net income by 7.0% on average over the 9-yr period between 2012 to 2021. In the trailing five years, LNC grew net income by 4.8% 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 3% going forward off strong 2021 results. 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 on new business in all segments. They will also shift to products which have strong consumer demands and

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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returns, currently roughly 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 more than 8 products in 2021. Additionally, expense management initiatives should result in increased earnings as well.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/ANIPS	5.3	7.7	8.6	10.1	7.1	9.2	8.0	9.0	9.1	8.0	6.9	8.5
Avg. Yld.	1.4%	1.2%	1.2%	1.5%	2.2%	1.7%	1.9%	2.4%	4.0%	2.5%	2.5%	2.8%

Lincoln National trade at 6.9 times this year's estimated adjusted net income per share of \$10.50. The average price-to-adjusted net income per share has grown from it's 10-year average of 8.2 to a 5-year average of 8.7. We believe shares are undervalued here and that it should be trading in-line with its recent historic valuation at 8.5 times net income, resulting in an average annual gain of 4.3% due to valuation expansion.

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

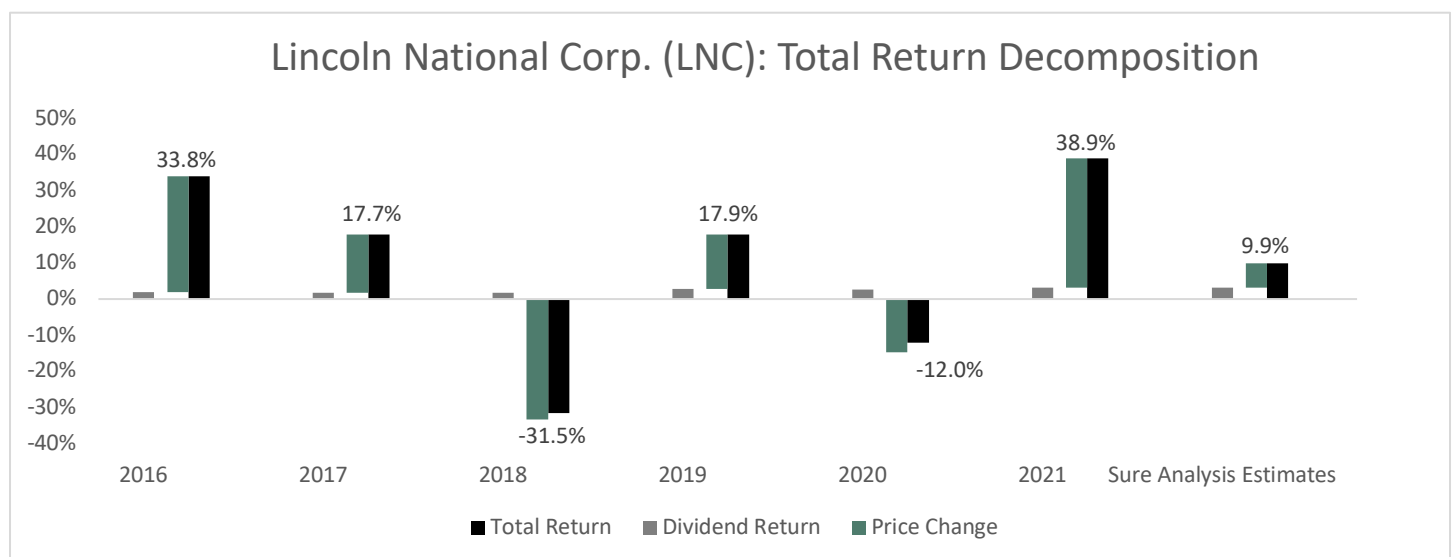
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	7%	10%	11%	15%	22%	23%	14%	20%	37%	63%	17%	24%

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. The vaccination roll out has been a tailwind for the corporation with a strong life insurance business. We are forecasting annualized total returns of 9.9% in the near term, and the stock is trading at 82% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	11,535	11,969	13,554	13,572	13,330	14,257	16,422	17,259	17,556	19,230
<b>SG&amp;A Exp.</b>	1,631	1,692	1,700	1,730	1,687	1,766	1,953	2,210	2,072	
<b>Net Profit</b>	1,313	1,244	1,515	1,154	1,192	2,079	1,641	886	499	1,405
<b>Net Margin</b>	11.4%	10.4%	11.2%	8.5%	8.9%	14.6%	10.0%	5.1%	2.8%	7.3%
<b>Free Cash Flow</b>	1,269	799	2,526	2,243	1,272	788	1,943	-2,686	534	
<b>Income Taxes</b>	282	387	483	276	266	-949	244	33	-76	233

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	218,869	236,945	253,377	251,908	261,627	281,763	298,147	334,761	365,948	387,301
<b>Cash &amp; Equivalents</b>	4,230	2,364	3,919	3,146	2,722	1,628	2,345	2,563	1,708	2,612
<b>Accts. Receivable</b>	6,829	6,461	6,203	5,999	5,695	5,303	18,318	17,609	16,982	20,875
<b>Goodwill and Intang.</b>	2,273	2,273	2,273	2,273	2,273	1,368	1,782	1,778	1,778	1,778
<b>Total Liabilities</b>	203,896	223,493	237,637	238,291	247,149	264,441	283,797	315,072	343,249	367,029
<b>Long-Term Debt</b>	5,639	5,820	5,520	5,553	5,345	5,344	5,839	6,367	6,682	6,625
<b>Total Equity</b>	14,973	13,452	15,740	13,617	144,78	17,322	14,350	19,689	22,699	20,272
<b>LTD/E Ratio</b>	0.38	0.43	0.35	0.41	0.37	0.31	0.41	0.32	0.29	0.33

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	0.6%	0.5%	0.6%	0.5%	0.5%	0.8%	0.6%	0.3%	0.1%	0.4%
<b>Return on Equity</b>	9.4%	8.8%	10.4%	7.9%	8.5%	13.1%	10.4%	5.2%	2.4%	6.5%
<b>ROIC</b>	6.7%	6.2%	7.5%	5.7%	6.1%	9.8%	7.7%	3.8%	1.8%	5.0%
<b>Shares Out.</b>	271.4	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	192.3
<b>Revenue/Share</b>	40.11	43.50	50.58	53.24	56.29	63.02	74.80	85.40	90.28	101.69
<b>FCF/Share</b>	4.41	2.90	9.43	8.80	5.37	3.48	8.85	-13.29	2.75	

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

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