



Lincoln National Corp (LNC)

Updated November 14th, 2022 by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|---|------------|
| Current Price: | \$34 | 5 Year CAGR Estimate: | 9.6% | Market Cap: | \$6.0 B |
| Fair Value Price: | \$36 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date¹: | 01/09/2023 |
| % Fair Value: | 95% | 5 Year Valuation Multiple Estimate: | 1.1% | Dividend Payment Date²: | 02/01/2023 |
| Dividend Yield: | 5.3% | 5 Year Price Target: | \$42 | Years of Dividend Growth: | 11 |
| Dividend Risk Score: | D | Retirement Suitability Score: | B | Rating: | Hold |

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 \$6.0 billion. LNC has over 10,000 employees.

Lincoln National reported third quarter 2022 results on November 2nd, for the period ending September 30th, 2022. The company had a net loss of \$(15.17) per share, which included a goodwill impairment charge of \$(3.73) per share. This compares to \$1.68 in earnings per share in the same prior year period. Lincoln's life insurance business suffered a \$(2.2) billion loss due to the company's annual review of DAC and reserve assumptions. Additionally, annuities average account values shrunk by 13% to \$147 billion and group protection insurance premiums grew 8% to \$1.2 billion.

The company repurchased 17.7 million shares of stock for \$1.2 billion in the trailing twelve months, reducing the share count by 10%. Book value per share (including adjusted income from operations (AOCI)) decreased 88% compared to the prior year to \$13.10. Book value per share (excluding AOCI) decreased 17% to \$64.09.

We now expect the company to post an adjusted net loss instead of income for the full year 2022.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|---------------|
| ANIPS | \$4.47 | \$5.03 | \$6.03 | \$5.46 | \$6.50 | \$7.59 | \$8.48 | \$6.71 | \$4.45 | \$8.20 | (\$4.50) | \$5.22 |
| DPS | \$0.32 | \$0.48 | \$0.64 | \$0.80 | \$1.00 | \$1.16 | \$1.32 | \$1.48 | \$1.60 | \$1.68 | \$1.80 | \$2.90 |
| Shares³ | 271.4 | 262.9 | 256.6 | 243.8 | 226.3 | 218.1 | 205.9 | 196.7 | 192.3 | 192.3 | 170.0 | 155.0 |

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 2009 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% per annum off normalized earnings power of \$4.50 per share. 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 returns, currently roughly 90% of total sales are without long-term guarantees and this should improve.

¹ Estimate

² Estimate

³ In millions

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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 | 7.6 | 8.0 |
| Avg. Yld. | 1.4% | 1.2% | 1.2% | 1.5% | 2.2% | 1.7% | 1.9% | 2.4% | 4.0% | 2.5% | 5.3% | 6.9% |

Lincoln National trade at 7.6 times this year's normalized earnings per share of \$4.50. 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 a smidge undervalued here and that it should be trading in-line with its recent historic valuation at 8.0 times net income, which implies the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

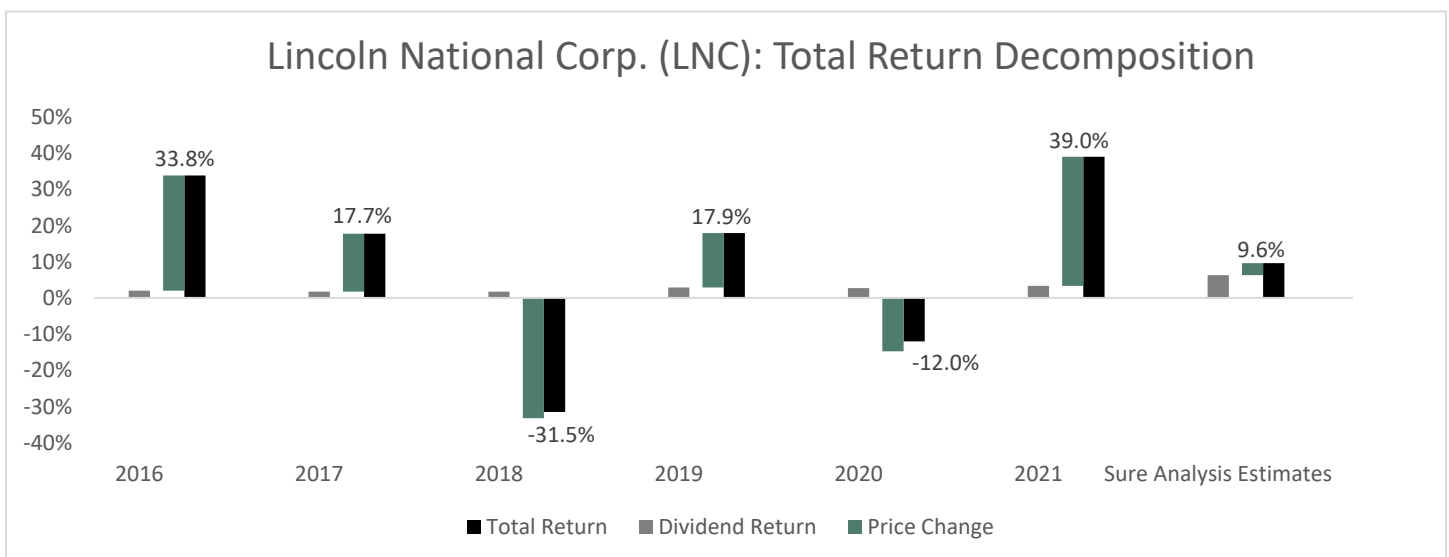
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 7% | 10% | 11% | 15% | 22% | 23% | 14% | 20% | 37% | 63% | --- | 56% |

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 in jeopardy given the significant decline in estimated adjusted net income for 2022, and 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.

Final Thoughts & Recommendation

Lincoln National experienced a terrible third quarter, which saw the stock drop off a cliff. In just the last one month, Lincoln stock has declined by 31%. Year-to-date, the stock is down 51%, which compares unfavorably to the broader market average. We are forecasting annualized total returns of 9.6% in the intermediate term, and the stock is trading at 95% of our estimated fair value. We rate shares as a hold for investors who can stomach the volatility in this insurance business.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 11,535 | 11,969 | 13,554 | 13,572 | 13,330 | 14,257 | 16,422 | 17,259 | 17,556 | 19,230 |
| SG&A Exp. | 1,631 | 1,692 | 1,700 | 1,730 | 1,687 | 1,766 | 1,953 | 2,210 | 2,072 | |
| Net Profit | 1,313 | 1,244 | 1,515 | 1,154 | 1,192 | 2,079 | 1,641 | 886 | 499 | 1,405 |
| Net Margin | 11.4% | 10.4% | 11.2% | 8.5% | 8.9% | 14.6% | 10.0% | 5.1% | 2.8% | 7.3% |
| Free Cash Flow | 1,269 | 799 | 2,526 | 2,243 | 1,272 | 788 | 1,943 | -2,686 | 534 | |
| Income Taxes | 282 | 387 | 483 | 276 | 266 | -949 | 244 | 33 | -76 | 233 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Assets | 218,869 | 236,945 | 253,377 | 251,908 | 261,627 | 281,763 | 298,147 | 334,761 | 365,948 | 387,301 |
| Cash & Equivalents | 4,230 | 2,364 | 3,919 | 3,146 | 2,722 | 1,628 | 2,345 | 2,563 | 1,708 | 2,612 |
| Accts. Receivable | 6,829 | 6,461 | 6,203 | 5,999 | 5,695 | 5,303 | 18,318 | 17,609 | 16,982 | 20,875 |
| Goodwill and Intang. | 2,273 | 2,273 | 2,273 | 2,273 | 2,273 | 1,368 | 1,782 | 1,778 | 1,778 | 1,778 |
| Total Liabilities | 203,896 | 223,493 | 237,637 | 238,291 | 247,149 | 264,441 | 283,797 | 315,072 | 343,249 | 367,029 |
| Long-Term Debt | 5,639 | 5,820 | 5,520 | 5,553 | 5,345 | 5,344 | 5,839 | 6,367 | 6,682 | 6,625 |
| Total Equity | 14,973 | 13,452 | 15,740 | 13,617 | 144,78 | 17,322 | 14,350 | 19,689 | 22,699 | 20,272 |
| LTD/E Ratio | 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 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|-------|--------|
| Return on Assets | 0.6% | 0.5% | 0.6% | 0.5% | 0.5% | 0.8% | 0.6% | 0.3% | 0.1% | 0.4% |
| Return on Equity | 9.4% | 8.8% | 10.4% | 7.9% | 8.5% | 13.1% | 10.4% | 5.2% | 2.4% | 6.5% |
| ROIC | 6.7% | 6.2% | 7.5% | 5.7% | 6.1% | 9.8% | 7.7% | 3.8% | 1.8% | 5.0% |
| Shares Out. | 271.4 | 262.9 | 256.6 | 243.8 | 226.3 | 218.1 | 205.9 | 196.7 | 192.3 | 192.3 |
| Revenue/Share | 40.11 | 43.50 | 50.58 | 53.24 | 56.29 | 63.02 | 74.80 | 85.40 | 90.28 | 101.69 |
| FCF/Share | 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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