



# Lincoln National Corp (LNC)

Updated February 10<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	21.1%	<b>Market Cap:</b>	\$5.7 B
<b>Fair Value Price:</b>	\$66	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/07/2023
<b>% Fair Value:</b>	51%	<b>5 Year Valuation Multiple Estimate:</b>	14.3%	<b>Dividend Payment Date<sup>2</sup>:</b>	05/02/2023
<b>Dividend Yield:</b>	5.3%	<b>5 Year Price Target:</b>	\$77	<b>Years of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$5.7 billion.

Lincoln National reported fourth quarter and full year 2022 results on February 8<sup>th</sup>, 2023, for the period ending December 31<sup>st</sup>, 2022. The company had net income of one penny per share in the fourth quarter, which compared unfavorably to \$1.20 in the fourth quarter of 2021. Adjusted net income equaled \$0.97 per share compared to \$1.56 in the same prior year period. Additionally, annuities average account values shrunk by 16% to \$144 billion and group protection insurance premiums grew 9% to \$1.2 billion.

For the full year, Lincoln suffered an adjusted loss of \$(5.22) per share compared to adjusted net income of \$8.20 in 2021. These results included \$12.21 of net unfavorable items due in large part to the company's annual review of DAC and reserve assumptions.

The company repurchased 8.7 million shares of stock for \$550 million in the trailing twelve months, reducing the share count by 7%. Book value per share (including adjusted income from operations (AOCI)) decreased 84% compared to the prior year to \$18.41. Book value per share (excluding AOCI) decreased 18% to \$63.73.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>ANIPS</b>	\$5.03	\$6.03	\$5.46	\$6.50	\$7.59	\$8.48	\$6.71	\$4.45	\$8.20	(\$5.22)	<b>\$8.25</b>	<b>\$9.56</b>
<b>DPS</b>	\$0.48	\$0.64	\$0.80	\$1.00	\$1.16	\$1.32	\$1.48	\$1.60	\$1.68	\$1.80	<b>\$1.80</b>	<b>\$2.64</b>
<b>Shares<sup>3</sup></b>	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	189.1	172.7	<b>170.0</b>	<b>155.0</b>

The COVID-19 pandemic crushed Lincoln National's 2020 results, but they recuperated strongly in 2021 before plummeting in 2022. For 2023, we expect the company's adjusted earnings to normalize once again. LNC had grown net income by 7.0% on average over the 9-year period between 2012 to 2021.

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 2023's forecast for \$8.25 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

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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demands and 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 in 2021, launched more than 8 new products. Additionally, expense management initiatives should result in increased earnings as well.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/ANIPS	7.7	8.6	10.1	7.1	9.2	8.0	9.0	9.1	8.0	-	4.1	8.0
Avg. Yld.	1.2%	1.2%	1.5%	2.2%	1.7%	1.9%	2.4%	4.0%	2.5%	3.4%	5.3%	3.5%

Lincoln National trade at just 4.1 times this year's adjusted net income expectations of \$8.25 per share. The average price-to-adjusted net income per share for Lincoln has been 8.5X for the trailing five and nine years. We believe shares are a quite 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 significant valuation tailwind.

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

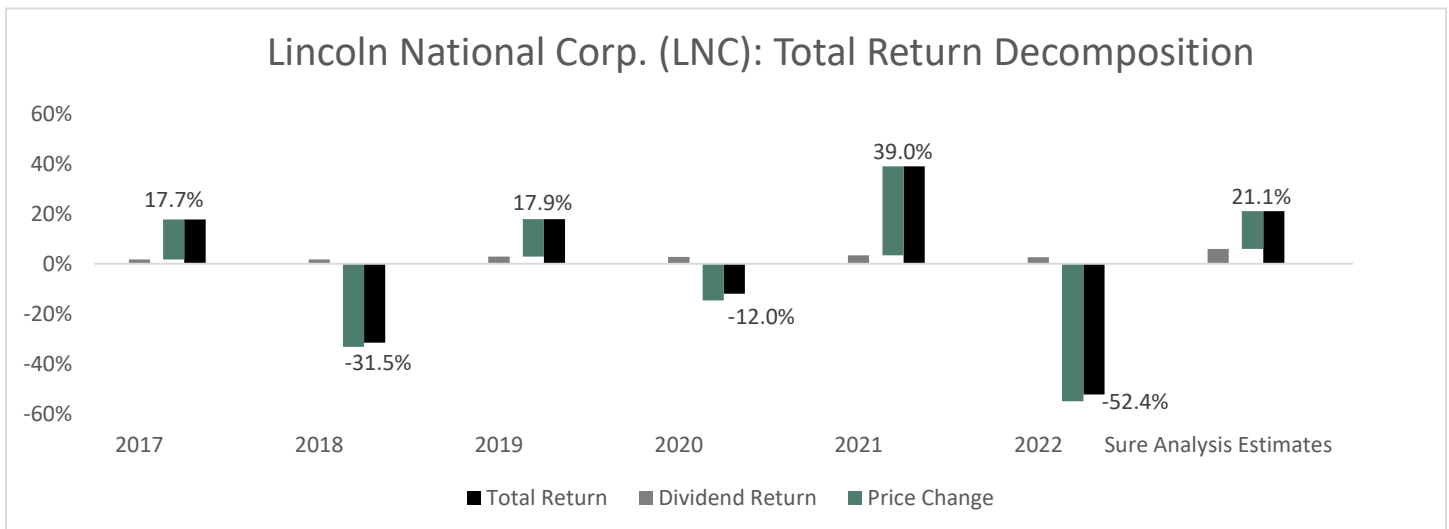
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	10%	11%	15%	15%	15%	16%	22%	36%	20%	-	22%	28%

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 safe territory with an expected payout ratio of 22% for 2023, but LNC is not recession resistant and could face headwinds from a slowing economy. 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

Following a massive decline over 2022, Lincoln National looks poised to outperform from here on out. The stock is up nearly 10% year-to-date, which compares favorably to the broader market average. We are forecasting annualized total returns of 21.1% in the intermediate term, and the stock is trading at just 51% of our estimated fair value. We rate shares as a buy for investors who can stomach the volatility in this insurance business.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	11,969	13,554	13,572	13,330	14,257	16,422	17,259	17,556	19,116	18,784
<b>SG&amp;A Exp.</b>	1,692	1,700	1,730	1,687	1,766	1,953	2,210	2,072	2,251	
<b>Net Profit</b>	1,244	1,515	1,154	1,192	2,079	1,641	886	499	1,405	-2,227
<b>Net Margin</b>	10.4%	11.2%	8.5%	8.9%	14.6%	10.0%	5.1%	2.8%	7.31%	-11.9%
<b>Free Cash Flow</b>	799	2,526	2,243	1,272	788	1,943	-2,686	534	151	
<b>Income Taxes</b>	387	483	276	266	-949	244	33	-76	233	-584

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	236,945	253,377	251,908	261,627	281,763	298,147	334,761	365,948	387,301	335,437
<b>Cash &amp; Equivalents</b>	2,364	3,919	3,146	2,722	1,628	2,345	2,563	1,708	2,612	3,343
<b>Accts. Receivable</b>	6,461	6,203	5,999	5,695	5,303	18,318	17,609	16,982	20,875	19,882
<b>Goodwill and Intang.</b>	2,273	2,273	2,273	2,273	1,368	1,782	1,778	1,778	1,778	1,144
<b>Total Liabilities</b>	223,493	237,637	238,291	247,149	264,441	283,797	315,072	343,249	367,029	331,336
<b>Long-Term Debt</b>	5,820	5,520	5,553	5,345	5,344	5,839	6,367	6,682	6,625	6,455
<b>Total Equity</b>	13,452	15,740	13,617	144,78	17,322	14,350	19,689	22,699	20,272	3,115
<b>LTD/E Ratio</b>	0.43	0.35	0.41	0.37	0.31	0.41	0.32	0.29	387,301	335,437

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	0.5%	0.6%	0.5%	0.5%	0.8%	0.6%	0.3%	0.1%	0.33	1.57
<b>Return on Equity</b>	8.8%	10.4%	7.9%	8.5%	13.1%	10.4%	5.2%	2.4%	0.4%	-0.6%
<b>ROIC</b>	6.2%	7.5%	5.7%	6.1%	9.8%	7.7%	3.8%	1.8%	6.5%	-19.0%
<b>Shares Out.</b>	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	5.0%	-11.9%
<b>Revenue/Share</b>	43.50	50.58	53.24	56.29	63.02	74.80	85.40	90.28	189.1	172.7
<b>FCF/Share</b>	2.90	9.43	8.80	5.37	3.48	8.85	-13.29	2.75	101.09	108.77

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

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