



Lincoln National Corp (LNC)

Updated May 17th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	28.4%	Market Cap:	\$3.3 B
Fair Value Price:	\$51	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	07/07/2023
% Fair Value:	40%	5 Year Valuation Multiple Estimate:	20.4%	Dividend Payment Date²:	08/01/2023
Dividend Yield:	8.8%	5 Year Price Target:	\$60	Years of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	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 \$3.3 billion.

On May 2nd, 2023, Lincoln National announced it will cede \$28 billion of in-force ULSG, MoneyGuard and fixed annuity statutory reserves to Fortitude Re. This reduces Lincoln's balance sheet risk, improves its risk-based capital ratio, and is expected to increase annual free cash flow by more than \$100 million.

Lincoln National reported first quarter 2023 results on May 9th, 2023, for the period ending March 31st, 2023. The company had a net loss of \$(5.37) per share in the first quarter, which compared unfavorably to \$8.39 in the first quarter of 2022. The large net loss in the quarter was due primarily to unfavorable impacts as a result of a portion of the MRB and hedge instrument fair value changes from the recent adoption of LDTI.

Adjusted income from operations equaled \$1.52 per share compared to \$1.55 in the same prior year period. Additionally, annuities average account balances shrunk by 9% to \$146 billion and group protection insurance premiums grew 7% to \$1.3 billion.

The company repurchased 2.8 million shares of stock for \$150 million in the trailing twelve months, reducing the share count by 3%. Book value per share (including adjusted income from operations (AOCI)) decreased 59% compared to the prior year to \$33.89. Book value per share (excluding AOCI) decreased 12% to \$56.04.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
ANIPS	\$5.03	\$6.03	\$5.46	\$6.50	\$7.59	\$8.48	\$6.71	\$4.45	\$8.20	(\$5.22)	\$7.35	\$8.52
DPS	\$0.48	\$0.64	\$0.80	\$1.00	\$1.16	\$1.32	\$1.48	\$1.60	\$1.68	\$1.80	\$1.80	\$2.64
Shares³	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	189.1	172.7	170.0	155.0

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 of \$7.35 per share. The company continues to shift to products which have strong consumer demands and returns, and with more risk-sharing

¹ Estimate

² Estimate

³ In millions

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with customers. Lincoln also actively adds new products to increase consumer choice, and in 2021, launched more than 8 new products.

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	-	2.8	7.0
Avg. Yld.	1.2%	1.2%	1.5%	2.2%	1.7%	1.9%	2.4%	4.0%	2.5%	3.4%	8.8%	4.4%

Lincoln National trade at just 2.8 times this year's adjusted net income expectations of \$7.35 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 could be trading at a 7.0 P/E ratio in 2028, which implies the potential for a significant valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

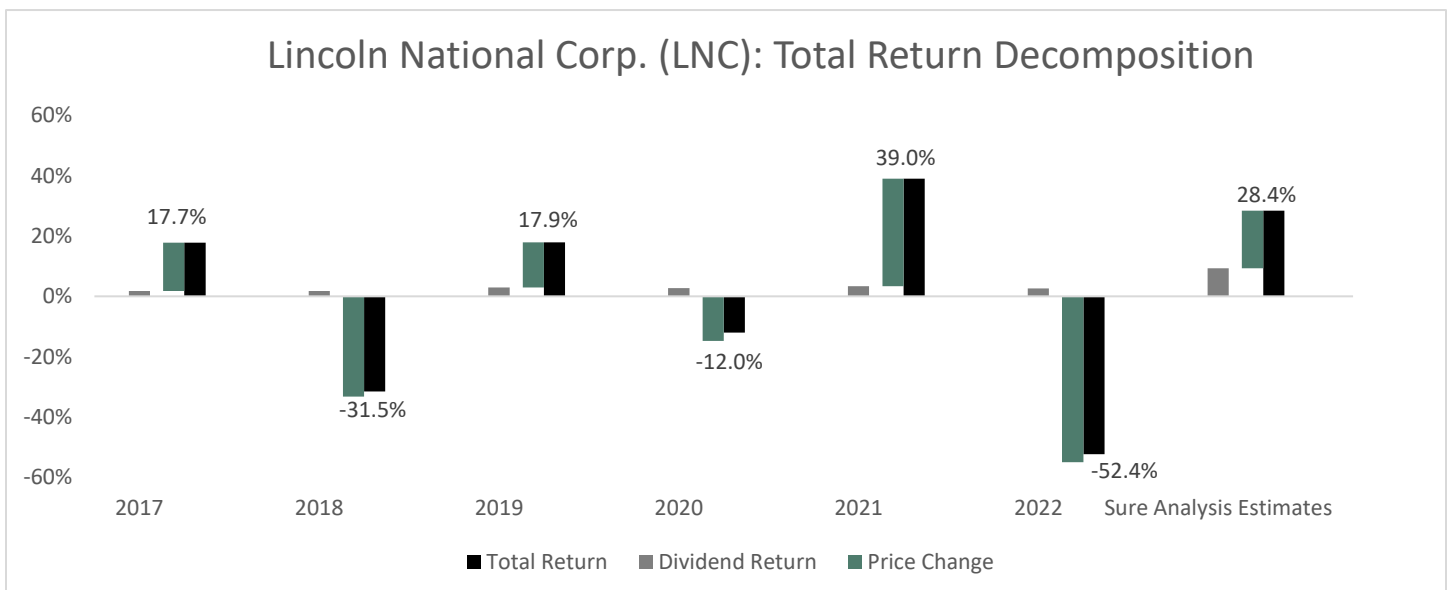
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	10%	11%	15%	15%	15%	16%	22%	36%	20%	-	24%	31%

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 24% 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

Shares of LNC are down 32% year-to-date, which compares unfavorably to the broader market average. We are forecasting annualized total returns of 28.4% in the intermediate term, and the stock is trading at just 40% 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
Revenue	11,969	13,554	13,572	13,330	14,257	16,422	17,259	17,556	19,116	18,784
SG&A Exp.	1,692	1,700	1,730	1,687	1,766	1,953	2,210	2,072	2,251	
Net Profit	1,244	1,515	1,154	1,192	2,079	1,641	886	499	1,405	-2,227
Net Margin	10.4%	11.2%	8.5%	8.9%	14.6%	10.0%	5.1%	2.8%	7.31%	-11.9%
Free Cash Flow	799	2,526	2,243	1,272	788	1,943	-2,686	534	151	
Income Taxes	387	483	276	266	-949	244	33	-76	233	-584

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	236,945	253,377	251,908	261,627	281,763	298,147	334,761	365,948	387,301	335,437
Cash & Equivalents	2,364	3,919	3,146	2,722	1,628	2,345	2,563	1,708	2,612	3,343
Accts. Receivable	6,461	6,203	5,999	5,695	5,303	18,318	17,609	16,982	20,875	19,882
Goodwill and Intang.	2,273	2,273	2,273	2,273	1,368	1,782	1,778	1,778	1,778	1,144
Total Liabilities	223,493	237,637	238,291	247,149	264,441	283,797	315,072	343,249	367,029	331,336
Long-Term Debt	5,820	5,520	5,553	5,345	5,344	5,839	6,367	6,682	6,625	6,455
Total Equity	13,452	15,740	13,617	144,78	17,322	14,350	19,689	22,699	20,272	3,115
LTD/E Ratio	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
Return on Assets	0.5%	0.6%	0.5%	0.5%	0.8%	0.6%	0.3%	0.1%	0.33	1.57
Return on Equity	8.8%	10.4%	7.9%	8.5%	13.1%	10.4%	5.2%	2.4%	0.4%	-0.6%
ROIC	6.2%	7.5%	5.7%	6.1%	9.8%	7.7%	3.8%	1.8%	6.5%	-19.0%
Shares Out.	262.9	256.6	243.8	226.3	218.1	205.9	196.7	192.3	5.0%	-11.9%
Revenue/Share	43.50	50.58	53.24	56.29	63.02	74.80	85.40	90.28	189.1	172.7
FCF/Share	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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