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# LINCOLN TO ACQUIRE LIBERTY MUTUAL GROUP BENEFITS BUSINESS



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# OVERVIEW OF LIBERTY MUTUAL GROUP BENEFITS ACQUISITION

## Strategic benefits for Group Protection

- Significantly increases scale of Group business
- Expand into large-case market and national brokers
  - Opportunity to increase employee-paid sales
- Leading claims and absence management capabilities

## Strategic benefits for the enterprise

- EPS and ROE accretion
- Increases mortality and morbidity sources of earnings
  - Will hold Top 5 market position in most businesses

**\$1.446B total net investment<sup>1</sup>**

Premium of ~\$2B and margins of 5-7%  
when fully integrated

## Funding sources

\$946M in cash  
\$500M in new debt

<sup>1</sup> Total net investment includes purchase price for Liberty Mutual Group Benefits business and required capital.

# STRATEGIC RATIONALE FOR ACQUISITION

## Group Protection

- ✓ Significantly increases scale of Group Protection business
  - Top 3 group benefits provider; largest seller of disability insurance
  - Nearly double in-force market share<sup>1</sup>
- ✓ Comprehensive product offering across all customer sizes
  - Further expand into large-case market; complements current model
  - Premiums balanced across all case sizes
  - Opportunity to accelerate growth in employee-paid sales
- ✓ Leading claims and absence management capabilities
  - Industry-leading disability claims management<sup>2</sup>
  - Significant increase in absence management covered lives
- ✓ Increases presence within large national brokers
  - Nearly 1/3 of premium from the top 4 national brokers

## Enterprise

- ✓ Expected to be accretive to EPS and ROE<sup>3</sup>
  - Expect accretion beginning in 2019
- ✓ Increases mortality and morbidity sources of earnings
  - Group Protection operating earnings expected to more than double vs. trailing 12 months<sup>4</sup>
  - In line with objective of increasing mortality and morbidity sources of earnings
- ✓ Top 5 market position in Annuities, Life and Group

1 Source: LIMRA, based on total premiums collected as of 12/31/16.

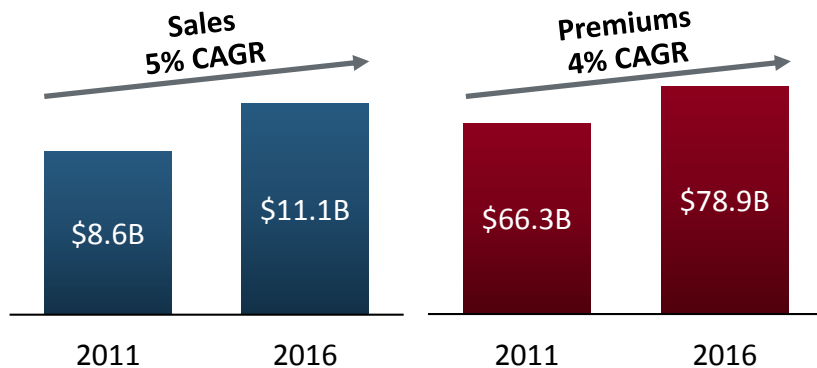
2 Liberty Mutual ranked best with LTD outcomes 23% better than the average of the 10 companies studied in *2015 US LTD Claims Management Performance Benchmark Study from Claim Analytics and Munich Re*.

3 Excludes integration costs.

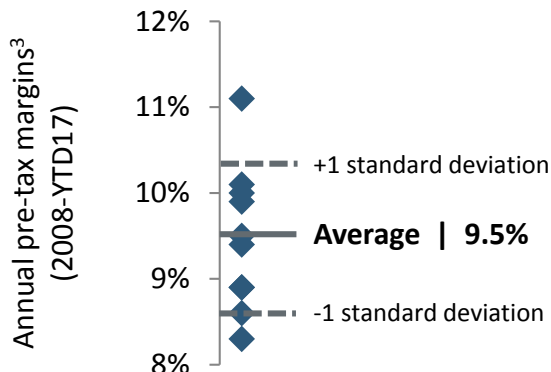
4 Based on projected earnings in 2020.

# GROUP INSURANCE PROVIDES ATTRACTIVE GROWTH PROFILE

## Steady industry growth<sup>1</sup>



## Consistently strong profitability



- Mid-single digit industry growth
  - 5% CAGR in sales
  - 4% CAGR in premiums
  - Upside with current economic environment
- Fast-growing employee-paid market
  - Employee-paid sales growth ~2X overall market
- Disability penetration rates to improve further
  - LTD and STD rates up 3% points in past decade<sup>2</sup>
  - Growth to continue; disability under-insured risk
- Strong profitability and risk characteristics
  - Industry pre-tax margin of 9.5% over past decade
  - Lower capital, short-term guarantee business
  - Less correlated with interest rates and equity markets than other businesses; minimal cyclicality
  - Natural growth as economy expands

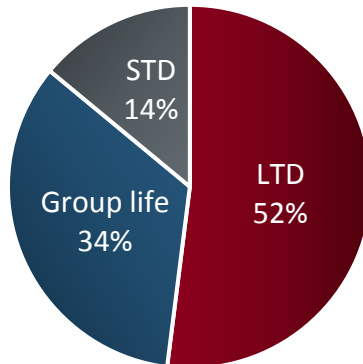
<sup>1</sup> Source: LIMRA.

<sup>2</sup> Department of Labor, Bureau of Labor Statistics.

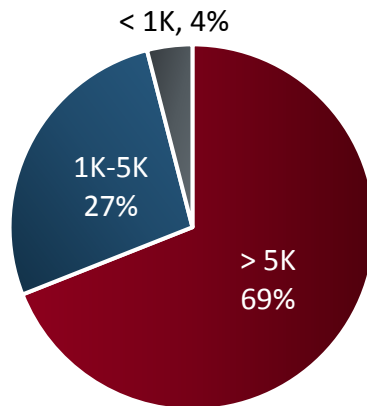
<sup>3</sup> Industry averages include AET, AIZ, CI, HIG, LNC, MET, PFG, PRU, SFG, SLF, UNM and VOYA. SFG results through 2015. SLF and VOYA results since 2011. Does not include group medical coverage. YTD17 refers to cumulative data for the first three quarters of 2017.

# LIBERTY MUTUAL GROUP BENEFITS BUSINESS OVERVIEW

## Premiums by product<sup>1</sup>



## Premiums by employer size<sup>1</sup>



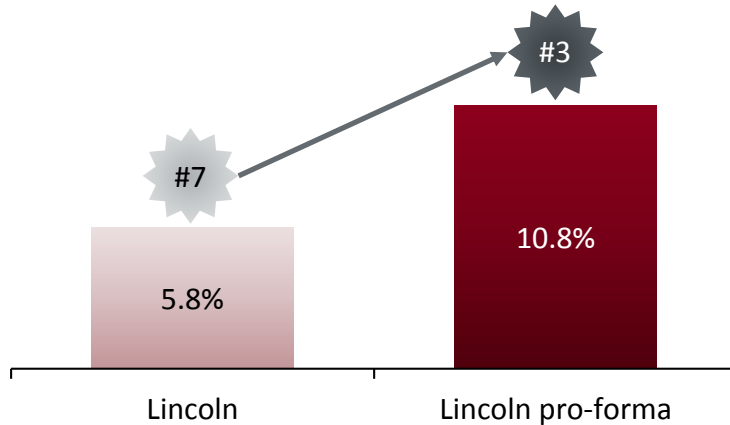
- Top 10 group benefits provider
  - \$1.7B of premiums and ~\$300M of sales in 2017<sup>1</sup>
  - 2/3 of premium is disability insurance<sup>1</sup>
- Focus on large-case market
  - More than 2/3 of premium from > 5K lives
- Leading disability claims and absence management capabilities
  - Best-in-class clinical model focused on recovery and return to work
  - 2+ million absence management covered lives
- Strong growth profile<sup>1</sup>
  - 18% CAGR in premiums since 2014
  - 10% CAGR in premiums from 2010 to 2014
- Recent earnings performance pressured
  - Margins pressured recently given rapid growth
  - Pricing remediation started in 2017; will continue

<sup>1</sup> Company data estimated for 2017. Short-term and long-term disability abbreviated as STD and LTD, respectively. Employer size based on number of employees.

# SIGNIFICANTLY INCREASES SCALE IN GROUP INSURANCE

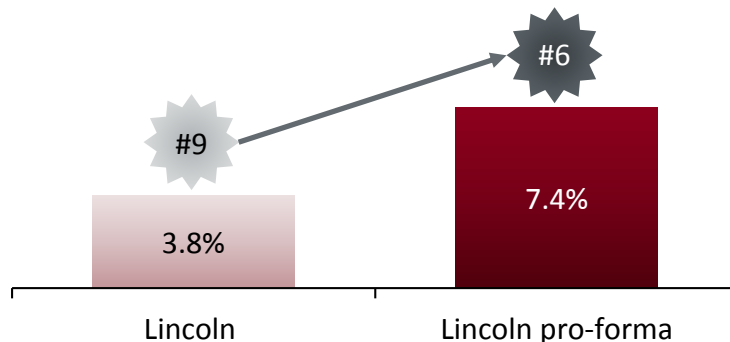
## Top 3 group benefits provider

### Sales rank and market share<sup>1</sup>



## Premium nearly doubles

### Premium rank and market share<sup>1</sup>

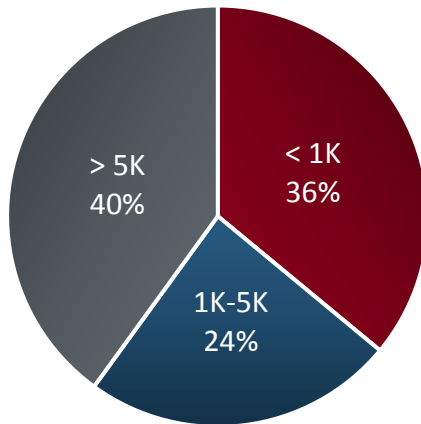


- Increases group benefits market position<sup>1</sup>
  - Sales rank increases to #3 from #7
  - Will become #1 seller of group disability insurance; market share of 14.1% vs. 7.2%
  - Premium nearly doubles to 7.4% from 3.8%
- Ability to spread fixed costs over larger book of business
  - Supports investments in technology to develop competitive advantages
  - Results in increased ability to sustain top-line growth while achieving target margins
- Creates significant operating synergies
  - Run-rate synergies estimated at \$100M pre-tax
  - Full synergies expected to be realized in 2020
  - Integration costs estimated at \$150M pre-tax

<sup>1</sup> Source: LIMRA, based on total premiums collected as of 12/31/16.

# COMPREHENSIVE PRODUCT OFFERING ACROSS ALL CASE SIZES

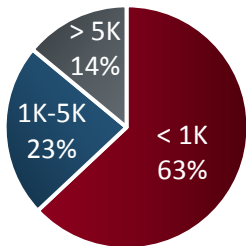
## Balanced premium profile



Lincoln pro-forma premiums: \$3.7B<sup>1</sup>

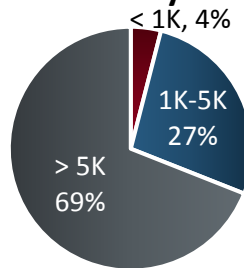
## Case sizes pre-acquisition

### Lincoln



Premiums: \$2.0B<sup>1</sup>

### Liberty



Premiums: \$1.7B<sup>1</sup>

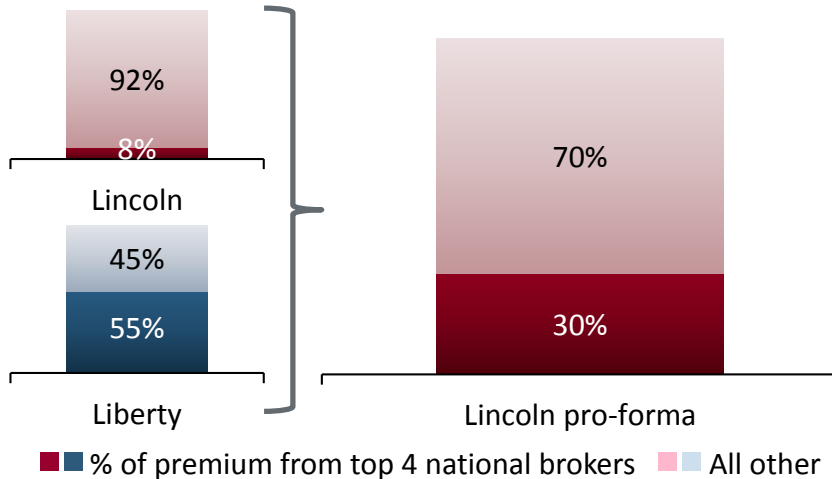
- Complementary models; limited sales overlap
  - Further expand into large-case market
  - Premiums balanced across all case sizes
  - Cross-sell life to Liberty's large disability block
- Comprehensive group benefits offering
  - Full suite of products including employer and employee-paid
  - Access to 10M insureds, up from ~4M, expands potential for employee-paid and voluntary sales
- Superior distribution management
  - Leverage Lincoln's strength in small-mid market with Liberty's expertise in large-cases
- Well defined integration plans
  - No ties to other employee benefit lines of business (i.e. medical and retirement) reduces execution risk

<sup>1</sup> Company data estimated for 2017.



# STRENGTHENS CAPABILITIES AND COMPETITIVE POSITION

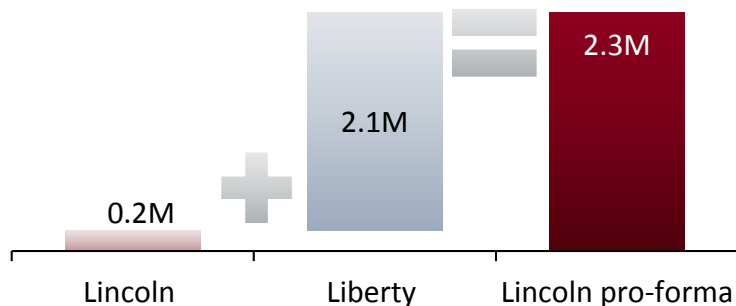
## Significant expansion into large brokers



- Broad distribution reach to brokers
  - ~1/3 of premiums expected to come from top 4 national brokers vs. 8% currently
- Enhanced customer capabilities
  - Improved self-service web and mobile features
  - Advanced employer reporting
- Ability to leverage disability claims management expertise
  - Best-in-class clinical model focused on recovery and return to work
  - Comprehensive disability case management tailored to the individual
- Addition of market-leading absence management capabilities
  - Ability to provide this value-added service

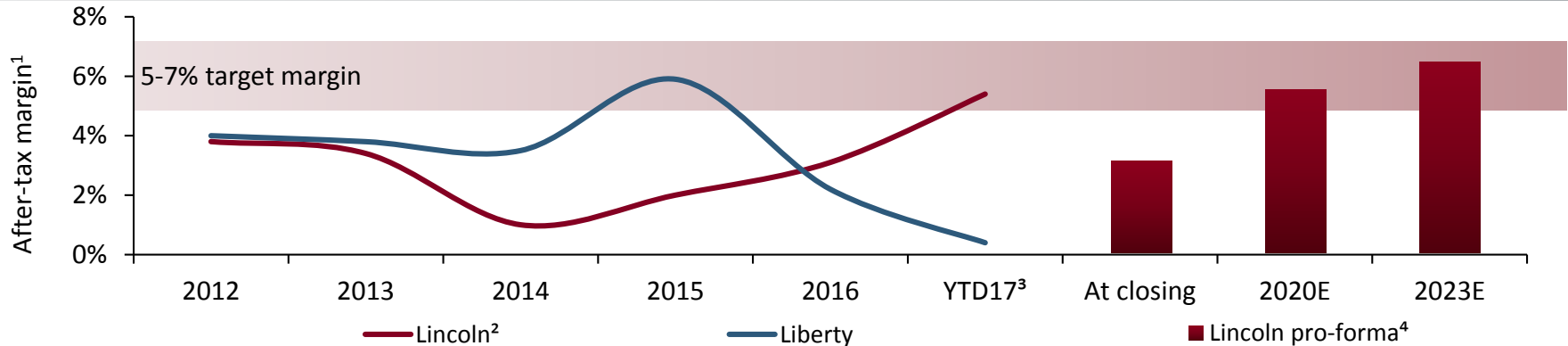
## Strong absence management capabilities

### Significant increase in covered lives



# PROVEN ABILITY TO RESTORE PROFITABILITY

## Significant opportunity to improve margins



## Lincoln has strong track record of improving margins

### What we did

- Track record of restoring margins through pricing actions and claims management
  - Improved more than 4% points in three years
- Demonstrated ability to balance impact on sales, persistency and premiums during repricing

### What we are going to do

- Continue repricing remediation that Liberty began in 2017
- Develop \$100M, pre-tax, of cost savings
- Margin expansion over two 3-year rate cycles
- Expect modest premium growth during repricing

1 Lincoln after-tax margin shown on GAAP basis; Liberty after-tax margin shown on statutory basis.

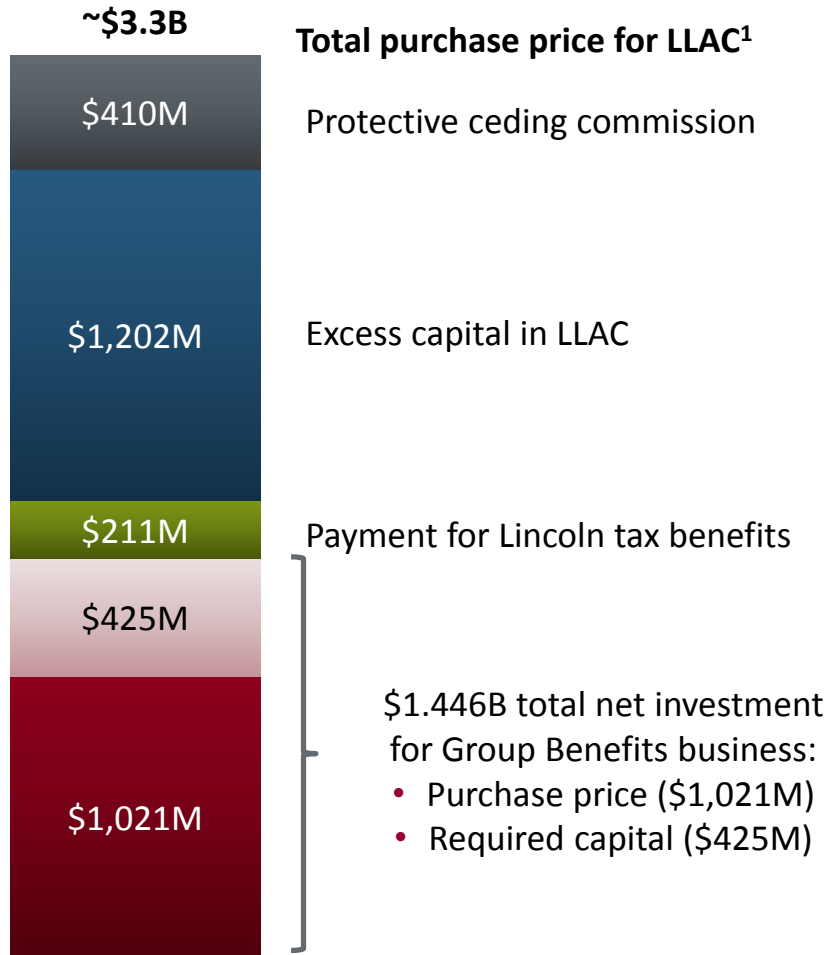
2 Results have been adjusted to reflect a \$5M after-tax gain for a favorable disability reserve refinement in 2016 and a \$3M after-tax gain related to the recapture of previously reinsured business in 2017.

3 Lincoln results through 9/30/17; Liberty results for FY17 forecasted by Liberty management.

4 Excludes integration costs. At closing margin reflects YTD17 results for Lincoln and Liberty.

# COMPONENTS OF ACQUISITION AND PURCHASE PRICE

## Transaction overview



- Lincoln to acquire LLAC from Liberty Mutual
  - Will retain Group Benefits business
- Will reinsure individual life and annuity business to Protective Life
  - Includes \$13B of traditional life and annuity liabilities
  - Backed by assets held in trust on Lincoln's behalf
- Will use short-term borrowings for excess capital and tax benefits
- Funding for \$1.446B Group Benefits total net investment includes cash and debt issuance
  - \$500M from incremental debt capacity
  - \$571M from excess capital
  - \$375M from reduction in share repurchases
    - \$250M remaining as of 12/31/17

<sup>1</sup> Liberty Life Assurance Company of Boston is abbreviated as LLAC.

# KEY FINANCIAL METRICS REMAIN STRONG

Pro-forma financial metrics expected to remain within Lincoln and rating agency targets<sup>1</sup>

**Leverage ratio**

~25%

**Coverage ratio**

> 5X

**RBC**

~460%

**Holding company cash**

> \$450 million

<sup>1</sup> Pro-forma metrics exclude impacts from tax reform.

# HIGHLY STRATEGIC AND FINANCIALLY COMPELLING TRANSACTION

<b>Highly strategic</b>	<b>Significantly increases scale of group business</b>	✓ Top 3 based on total group life and disability sales <sup>1</sup>
	<b>Complements current model</b>	✓ Expand into large-case market and national brokers; opportunity to accelerate growth in employee-paid sales
	<b>Now a market leader in nearly all our businesses</b>	✓ Top 5 in Annuities, Life Insurance and Group Protection <sup>1</sup>
	<b>Diversifies earnings</b>	✓ Expect Group Protection earnings to more than double; increases mortality and morbidity sources of earnings <sup>1</sup>
<b>Financially compelling</b>	<b>Accretive to EPS and ROE</b>	✓ Expect accretion beginning in 2019
	<b>Meaningful operating synergies</b>	✓ Anticipate run-rate synergies of \$100M pre-tax
	<b>Modest impact on buyback program</b>	✓ Expect to resume share repurchases no later than 3Q18
	<b>Maintain financial strength</b>	✓ All financial metrics remain within Lincoln and rating agency targets

<sup>1</sup> Pro-forma estimates.