



# 2023 and long-term outlook



**PRINCIPAL FINANCIAL GROUP**

March 1, 2023

# Financial supplement enhancements

**Reflects recast results under long-duration targeted improvements accounting guidance (LDTI)**

**Enhanced and refined supplement highlights the earnings drivers of our businesses**

## **Retirement and Income Solutions**

- Retirement and Income Solutions reported in total, reflecting our integrated approach to providing comprehensive, end-to-end retirement solutions

## **Principal Asset Management**

- Principal Global Investors and Principal International reported under a new segment, Principal Asset Management
- Principal International (PI) results by country include corresponding PI overhead expenses, providing a fully allocated view; historical periods have been recast for this change with no impacts to PI in total

## **Benefits and Protection**

- U.S. Insurance Solutions updated to Benefits and Protection
- Individual Life updated to Life Insurance, reflecting our business market focus

# Long-term enterprise financial targets

EPS<sup>1</sup> annual growth:

**9-12%**

ROE<sup>2</sup> target:

**14-16%**

Free capital flow conversion<sup>3</sup>:

**75-85%**

1 Non-GAAP operating earnings per diluted share.

2 Non-GAAP return on equity, excluding cumulative change in fair value of funds withheld embedded derivative and AOCI other than foreign currency translation adjustment.

3 Based on net income attributable to PFG excluding income or loss from exited business.

# 2023 and long-term guidance

Ranges exclude anticipated significant variances from lower than expected variable investment income

		2022 EPS <sup>1</sup> x-SV	2023	Long-term guidance	
<b>Total Company</b>	EPS growth	\$6.52	3 - 6%	9 - 12%	
		2022 revenue, x-SV <sup>2</sup> (in millions)	2023 revenue growth & margin guidance, x-SV	Long-term guidance	Impact from LDTI
<b>Retirement and Income Solutions</b>					
Retirement and Income Solutions	Net revenue	\$2,598	1 - 4%	2 - 5%	-
	Operating margin		35 - 39%	36 - 40%	(1)%
<b>Principal Asset Management</b>					
Principal Global Investors	Operating revenues less pass-through expenses <sup>3</sup>	\$1,578	(5) - (1)%	4 - 7%	-
	Operating margin		34 - 37%	34 - 38%	-
Principal International	Combined net revenue (at PFG share) <sup>3</sup>	\$902	7 - 11%	7 - 11%	-
	Operating margin		30 - 34%	34 - 38%	-
<b>Benefits &amp; Protection</b>					
Specialty Benefits	Premium and fees	\$2,805	8 - 10%	7 - 10%	-
	Operating margin		12 - 16%	12 - 16%	-
	Incurred loss ratio		60 - 65%	60 - 65%	1%
Life Insurance	Premium and fees	\$914	0 - 3%	1 - 4%	-
	Operating margin		14 - 18%	15 - 19%	(4) - (2)%
<b>Corporate</b>	Pre-tax operating losses		\$(375)M - \$(425)M	\$(375)M - \$(425)M	-

1 Non-GAAP operating earnings per diluted share. 2 2022 revenue amounts reflect LDTI and exclude the impacts from the significant variances; see slide 11 for details.

3 This is a non-GAAP financial measure. See reconciliation on slide 12. See slide 12 for definitions of measures.

# 2023 Outlook modeling considerations

## Anticipated significant variances (excluded from guidance ranges)

- **Variable Investment Income:** Expected to lag 2022 levels and long-term run rates driven by lower performance of alternative investments, real estate sales and prepayment fees

**Full year base case credit drift and losses: ~ \$125M**

## Assumptions

- **Non-GAAP operating earnings effective tax rate:** 16%-19%
- **Equity markets:** 8% annual total return (6% price appreciation) as of 12/31/2022
- **Interest rates:** follow forward curve as of 12/31/2022
- **FX rates:** follow external consensus<sup>1</sup> as of Jan 2023

# Disciplined capital management strategy

With emphasis on actively returning excess capital to shareholders

	Targeted range as a percentage of net income <sup>1</sup> :	
Organic capital deployment	15-25%	Capital efficient business mix
Consistent dividend payout ratio	40%	Growth of dividend will track growth in net income <sup>1</sup>
Share repurchases	35-45%	Active return of excess capital to shareholders through share repurchases
M&A	0-10%	Enhancement of capabilities and support of organic growth through strategic M&A

# Appendix

# Non-GAAP operating earnings impacts from LDTI

(in millions)

	2022 Pre-LDTI			2022 LDTI Recast			2022 LDTI vs. Pre-LDTI x-SV
	Reported	Impacts of significant variances	x-SV	Recast	Impact of significant variances	x-SV	
Retirement and Income Solutions	\$1,090.4	\$84.5	\$1,005.9	\$959.1	\$9.8	\$949.3	\$(56.6)
Principal Global Investors	604.0	-	604.0	604.0	-	604.0	-
Principal International	308.6	21.7	286.9	298.7	18.7	280.0	(6.9)
Principal Asset Management	912.6	21.7	890.9	902.7	18.7	884.0	(6.9)
Specialty Benefits	361.0	(19.1)	380.1	416.3	30.8	385.5	5.4
Life Insurance	170.7	(33.6)	204.3	154.0	(27.2)	181.2	(23.1)
Benefits and Protection	531.7	(52.7)	584.4	570.3	3.6	566.7	(17.7)
Corporate	(469.4)	(73.3)	(396.1)	(469.4)	(73.3)	(396.1)	-
<b>Non-GAAP pre-tax operating earnings (losses)</b>	<b>\$2,065.3</b>	<b>\$(19.8)</b>	<b>\$2,085.1</b>	<b>\$1,962.7</b>	<b>\$(41.2)</b>	<b>\$2,003.9</b>	<b>\$(81.2)</b>
Income taxes	364.4	7.9	356.5	343.9	3.5	340.4	(16.1)
<b>Non-GAAP operating earnings (losses)</b>	<b>\$1,700.9</b>	<b>\$(27.7)</b>	<b>\$1,728.6</b>	<b>\$1,618.8</b>	<b>\$(44.7)</b>	<b>\$1,663.5</b>	<b>\$(65.1)</b>
Net realized capital gains (losses)	(193.3)	1.8	(195.1)	(165.6)	1.8	(167.4)	27.7
Income (loss) from exited business	3,304.0	60.5	3,243.5	3,303.7	2.8	3,300.9	57.4
<b>Net income (loss) attributable to Principal Financial Group, Inc.</b>	<b>\$4,811.6</b>	<b>\$34.6</b>	<b>\$4,777.0</b>	<b>\$4,756.9</b>	<b>\$(40.1)</b>	<b>\$4,797.0</b>	<b>\$20.0</b>
<b>Non-GAAP operating earnings per share (EPS)</b>	<b>\$6.66</b>	<b>\$(0.11)</b>	<b>\$6.77</b>	<b>\$6.34</b>	<b>\$(0.18)</b>	<b>\$6.52</b>	<b>\$(0.25)</b>



# Full year 2022 significant variances under LDTI

## Business unit impacts of significant variances (in millions)

	Actuarial assumption review	Variable investment income <sup>1</sup>	COVID-19 claims	IRT integration	Encaje & inflation <sup>2</sup>	Other	Total significant variances
Retirement and Income Solutions	\$7.8	\$8.6	\$2.8	\$(9.4)	-	-	\$9.8
Principal International	-	\$20.8	-	-	\$3.1	\$(5.2)	\$18.7
Specialty Benefits	\$55.6	\$5.0	\$(29.8)	-	-	-	\$30.8
Life Insurance	\$5.6	\$(9.2)	\$(23.6)	-	-	-	\$(27.2)
Corporate	-	\$(73.3)	-	-	-	-	\$(73.3)
<b>Total pre-tax impact</b>	<b>\$69.0</b>	<b>\$(48.1)</b>	<b>\$(50.6)</b>	<b>\$(9.4)</b>	<b>\$3.1</b>	<b>\$(5.2)</b>	<b>\$(41.2)</b>
<b>Total after-tax impact</b>	<b>\$54.5</b>	<b>\$(47.9)</b>	<b>\$(40.0)</b>	<b>\$(6.9)</b>	<b>\$(0.4)</b>	<b>\$(4.1)</b>	<b>\$(44.8)</b>
<b>EPS impact</b>							<b>\$(0.18)</b>

# Non-GAAP operating earnings sensitivities

Estimated impacts of changes in key macroeconomic conditions on annual non-GAAP pre-tax operating earnings relative to the next 12 months, prior to management expense actions

If macroeconomics change by...	Equity market return <sup>1</sup> +/- 10%	Interest rates <sup>2</sup> +/- 100 bps	FX: U.S. dollar <sup>3</sup> +/- 2%	Certain alternative investment valuation <sup>4</sup> +/- 10%
Then Principal's annual non-GAAP pre-tax operating earnings will change by...	+/- 5-8%	+/- (1)-1%	-/+ < 1%	+/- < 8%
And the primary businesses impacted are...	RIS PGI	All	PI	RIS Life Insurance SBD

**Short-term interest rates:** Our exposure to short-term interest rates (i.e., IOER/IOERB) has declined as we moved a majority of the related cash balances onto our balance sheet. Fluctuations in short-term rates are expected to have a relatively immaterial impact going forward.

1 Assumes an immediate 10% change in the S&P 500 followed by 2% growth per quarter thereafter. 2 Excludes the impact of actuarial unlockings. 3 Principal is primarily impacted by changes in Latin American and Asian currencies. Inverse relationship between movement of the U.S. dollar and impact to non-GAAP pre-tax operating earnings. 4 Includes hedge funds, private equity, infrastructure, and direct lending assets. Separate and distinct from our equity risk associated with a decline in the S&P 500 index, assumes an immediate 10% decline in the value of these assets, followed by a 2% per quarter increase. Note: The impact to income before income taxes is materially consistent with the impact to non-GAAP pre-tax operating earnings.

# 2022 significant variances

## Business unit revenue impacts of significant variances

(in millions)

Revenue metric		2022 revenue, as reported Pre-LDTI	Impact of LDTI	2022 revenue, as reported LDTI	Actuarial assumption review	Other <sup>1</sup>	2022 revenue, x-SV
<b>Retirement and Income Solutions</b>	Net revenue	\$2,771	\$154	\$2,617	\$8	\$12	\$2,598
<b>Principal Asset Management</b>							
Principal Global Investors	Operating revenue less pass-through commissions	\$1,578	-	\$1,578	-	-	\$1,578
Principal International	Combined net revenue (at PFG share)	\$925	\$4	\$921	-	\$19	\$902
<b>Benefits and Protection</b>							
Specialty Benefits	Premium and fees	\$2,805	-	\$2,805	-	-	\$2,805
Life Insurance	Premium and fees	\$935	\$12	\$923	\$9	-	\$914

<sup>1</sup> Includes impacts from higher than expected VII in Retirement and Income Solutions and Principal International, COVID-19 claims in Retirement and Income Solutions, higher than expected encaje performance and impacts of Brazilian inflation in Principal International, and impacts from loss-at-issue in Principal International.

Numbers may not add due to rounding.

# Measure definitions & non-GAAP financial measure reconciliations

## Measure definitions

**Net revenue:** operating revenues less benefits, claims and settlement expenses; liability for future policy benefits remeasurement (gain) loss; market risk benefit remeasurement (gain) loss; and dividends to policyholders.

**Pre-tax operating earnings:** operating earnings before income taxes and after noncontrolling interest.

**Operating revenues less pass-through expenses:** the company has determined this measure is more representative of underlying operating revenues growth for Principal Global Investors as it removes commissions and other expenses that are collected through fee revenue and passed through expenses with no impact to pre-tax operating earnings.

**Combined net revenue (at PFG share):** reflects our share of net revenue less pass-through commissions for all Principal International companies. The company has determined combined net revenue (at PFG share) is more representative of underlying net revenue growth for Principal International as it reflects our proportionate share of consolidated and equity method subsidiaries. In addition, using this net revenue metric provides a more meaningful representation of our profit margins.

**Premium and fees:** premiums and other considerations plus fees and other revenues.

**Operating margin:** is calculated as follows for each operating segment:

Retirement and Income Solutions: pre-tax operating earnings divided by net revenue

Principal Global Investors: pre-tax operating earnings, adjusted for noncontrolling interest, divided by operating revenues less pass through expenses

Principal International: pre-tax operating earnings divided by combined net revenue (at PFG share)

Benefits and Protection: pre-tax operating earnings divided by premium and fees

## Non-GAAP financial measure reconciliations

(in millions)

	Twelve months ended
<b>Principal Global Investors operating revenues less pass-through expenses</b>	<b>12/31/22</b>
Principal Global Investors operating revenues	\$1,715
Principal Global Investors commissions and other expenses	(137)
<b>Principal Global Investors operating revenues less pass-through expenses</b>	<b>\$1,578</b>
	Twelve months ended
<b>Principal International combined net revenue (at PFG Share)</b>	<b>12/31/22</b>
Principal International pre-tax operating earnings	\$299
Principal International combined operating expenses other than pass-through commissions (at PFG share)	622
<b>Principal International combined net revenue (at PFG share)</b>	<b>\$921</b>

# Use of non-GAAP financial measures

A non-GAAP financial measure is a numerical measure of performance, financial position, or cash flow that includes adjustments from a comparable financial measure presented in accordance with U.S. GAAP.

The company uses a number of non-GAAP financial measures management believes are useful to investors because they illustrate the performance of the company's normal, ongoing operations which is important in understanding and evaluating the company's financial condition and results of operations. While such measures are also consistent with measures utilized by investors to evaluate performance, they are not, however, a substitute for U.S. GAAP financial measures. Therefore, the company has provided reconciliations of the non-GAAP financial measures to the most directly comparable U.S. GAAP financial measure within the slides. The company adjusts U.S. GAAP financial measures for items not directly related to ongoing operations. However, it is possible these adjusting items have occurred in the past and could recur in future reporting periods. Management also uses non-GAAP financial measures for goal setting, as a basis for determining employee and senior management awards and compensation and evaluating performance on a basis comparable to that used by investors and securities analysts.

The company also uses a variety of other operational measures that do not have U.S. GAAP counterparts, and therefore do not fit the definition of non-GAAP financial measures. Assets under management is an example of an operational measure that is not considered a non-GAAP financial measure.

# Forward looking statements

Certain statements made by the company which are not historical facts may be considered forward-looking statements, including, without limitation, statements as to non-GAAP operating earnings, net income attributable to PFG, net cash flow, realized and unrealized gains and losses, capital and liquidity positions, sales and earnings trends, and management's beliefs, expectations, goals and opinions. The company does not undertake to update these statements, which are based on a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. Future events and their effects on the company may not be those anticipated, and actual results may differ materially from the results anticipated in these forward-looking statements. The risks, uncertainties and factors that could cause or contribute to such material differences are discussed in the company's annual report on Form 10-K for the year ended Dec. 31, 2022, filed by the company with the U.S. Securities and Exchange Commission, as updated or supplemented from time to time in subsequent filings. These risks and uncertainties include, without limitation: adverse capital and credit market conditions may significantly affect the company's ability to meet liquidity needs, access to capital and cost of capital; conditions in the global capital markets and the economy generally; volatility or declines in the equity, bond or real estate markets; changes in interest rates or credit spreads or a prolonged low interest rate environment; the elimination of the London Inter-Bank Offered Rate ("LIBOR"); the company's investment portfolio is subject to several risks that may diminish the value of its invested assets and the investment returns credited to customers; the company's valuation of investments and the determination of the amount of allowances and impairments taken on such investments may include methodologies, estimations and assumptions that are subject to differing interpretations; any impairments of or valuation allowances against the company's deferred tax assets; the company's actual experience for insurance and annuity products could differ significantly from its pricing and reserving assumptions; the pattern of amortizing the company's DAC asset and other actuarial balances on its universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change; changes in laws, regulations or accounting standards; the company may not be able to protect its intellectual property and may be subject to infringement claims; the company's ability to pay stockholder dividends, make share repurchases and meet its obligations may be constrained by the limitations on dividends or other distributions Iowa insurance laws impose on Principal Life; litigation and regulatory investigations; from time to time the company may become subject to tax audits, tax litigation or similar proceedings, and as a result it may owe additional taxes, interest and penalties in amounts that may be material; applicable laws and the company's certificate of incorporation and by-laws may discourage takeovers and business combinations that some stockholders might consider in their best interests; competition, including from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance; technological and societal changes may disrupt the company's business model and impair its ability to retain existing customers, attract new customers and maintain its profitability; damage to the company's reputation; a downgrade in the company's financial strength or credit ratings; client terminations, withdrawals or changes in investor preferences; the company's hedging or risk management strategies prove ineffective or insufficient; inability to attract, develop and retain qualified employees and sales representatives and develop new distribution sources; an interruption in information technology, infrastructure or other internal or external systems used for business operations, or a failure to maintain the confidentiality, integrity or availability of data residing on such systems; international business risks including changes to mandatory pension schemes; risks arising from fraudulent activities; risks arising from participation in joint ventures; the company may need to fund deficiencies in its "Closed Block" assets; a pandemic, terrorist attack, military action or other catastrophic event; the company's reinsurers could default on their obligations or increase their rates; risks arising from acquisitions of businesses; risks in completing the company's announced reinsurance transaction for its in-force U.S. retail fixed annuity and universal life with secondary guarantee blocks of business within the terms or timing contemplated; loss of key vendor relationships or failure of a vendor to protect information of our customers or employees; the company's enterprise risk management framework may not be fully effective in identifying or mitigating all of the risks to which the company is exposed; and global climate change.