



# 2022 Outlook



**PRINCIPAL FINANCIAL GROUP**

March 2, 2022

# 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, 2021, 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 sustained 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 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 ongoing COVID-19 pandemic and the resulting financial market impacts; the company's reinsurers could default on their obligations or increase their rates; risks arising from acquisitions of businesses; risks related to the company's acquisition of Wells Fargo Bank, N.A.'s IRT business; 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.

# 2022 Outlook key takeaways

## 10-13% growth in non-GAAP operating EPS<sup>1</sup> for refined business portfolio

- Excludes (4)-(5)% impact to EPS of lost earnings and stranded costs from transactions; 6-8% enterprise EPS growth post-transactions

## Plan to return \$2.5B - \$3.0B of capital to shareholders

- Includes \$2.0-\$2.3B of share repurchases and a 40% targeted dividend payout ratio

## Transactions meaningfully enhance our future financial and risk profile

## Well positioned to achieve financial targets in 2023, fueled by strong organic growth in the businesses:

- 9-12% annual growth in EPS
- 15%+ ROE<sup>2</sup>
- 75-85% free capital flow

1 Non-GAAP operating earnings per diluted share. On a post-transaction basis and excludes estimated 2022 impacts of COVID-19 mortality/morbidity in RIS-Spread, Specialty Benefits and Individual Life; and IRT integration expenses in RIS-Fee. Growth rates relative to 2021 excluding significant variances. 2 Non-GAAP operating return on average equity, excluding AOCI other than foreign currency translation adjustment.

# 2022 guidance

Ranges are on a post-transaction basis and exclude anticipated significant variances

		2021 revenue, x-SV <sup>2</sup> (in millions)	2022 revenue growth & margin guidance, x-SV <sup>3</sup>	2022 guidance excluding transaction impacts
<b>RIS-Fee</b>	Net revenue	\$2,116	3 - 6%	
	Pre-tax return on net revenue		25 - 29%	
<b>RIS-Spread</b>	Net revenue	\$685	(20) - (25)%	0-3%
	Pre-tax return on net revenue		75 - 80%	73-77%
<b>PGI</b>	Operating revenues less pass-through expenses <sup>5</sup>	\$1,668	2 - 6%	<(1)% impact from transaction
	Pre-tax return on operating revenues less pass-through expenses		39 - 42%	
<b>Principal International</b>	Combined net revenue (at PFG share) <sup>5</sup>	\$963	(2) - 2%	
	Pre-tax return on combined net revenue (at PFG share)		30 - 34%	
<b>Specialty Benefits</b>	Premium and fees	\$2,530	6 - 10%	
	Pre-tax return on premium and fees		12 - 16%	
	Incurred loss ratio		60 - 64%	
<b>Individual Life</b>	Premium and fees	\$1,268	(23) - (27)%	1-4%
	Pre-tax return on premium and fees		16 - 20%	13-17%
<b>Corporate</b>	Pre-tax operating losses		\$(370)M - \$(400)M	\$(340)M - \$(370)M

## Total company EPS<sup>1</sup> growth: 6-8%

- Relative to 2021 EPS x-SV of \$6.64
- Includes (4)-(5)% impact due to lost earnings and stranded costs from transactions partially offset by additional share repurchases from net proceeds
- 10-13% growth in EPS for refined business portfolio

1 Non-GAAP operating earnings per diluted share. 2 Excludes the impacts from the significant variances from 2021 earnings calls; see slide 9 for details. 3 On a post-transaction basis and excludes estimated 2022 impacts of COVID-19 mortality/morbidity in RIS-Spread, Specialty Benefits and Individual Life; and IRT integration expenses in RIS-Fee. 4 Includes lost earnings and stranded costs, partially offset a benefit from use of proceeds for additional share repurchases. 5 This is a non-GAAP financial measure. See reconciliation on slide 11. See slide 11 for definitions of measures.

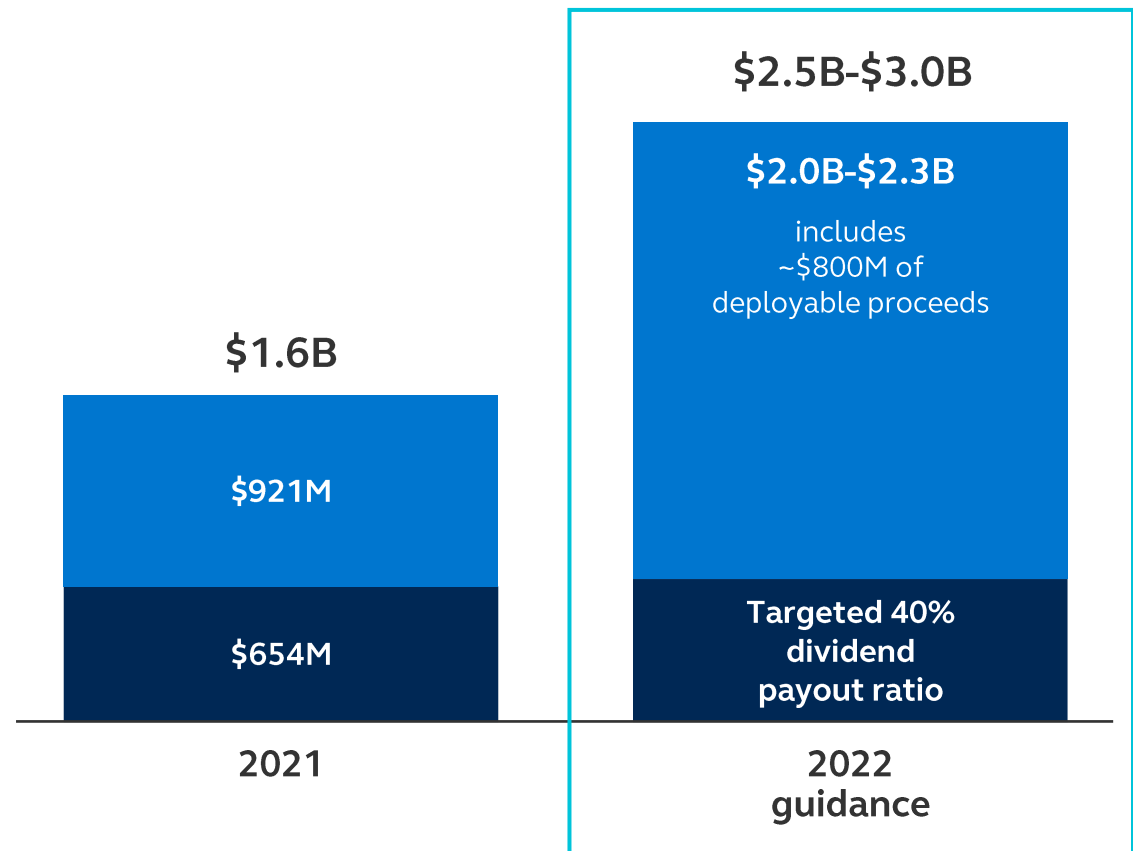
# Increased capital return to shareholders

Plan to return \$2.5 - \$3.0B of capital in 2022:

- \$2.0B - \$2.3B of share repurchases
- Targeted 40% dividend payout ratio

Plan to return \$2.5B - \$3.0B of capital to shareholders in 2022 and up to \$4.6B between 2021-2022

● Share repurchases ● Common stock dividends



# 2022 Outlook modeling considerations

## Anticipated significant variances (excluded from guidance ranges)

- **Updated COVID sensitivity:**
  - Estimating \$(15)-\$(20)M after-tax earnings impact for every 100K U.S. COVID-related deaths
    - Increase from the prior \$(10)M estimated after-tax impact reflecting transactions and a greater impact on working age populations
    - Reflects pre-tax impacts of approximately \$(20)M in Specialty Benefits, \$(15)M in Individual Life, partially offset by +\$10M in RIS-Spread for every 100K U.S. COVID related deaths
  - Estimating 270K U.S. COVID-19 related deaths in 2022 with the majority occurring in 1Q 2022
- **IRT:** ~\$10M pre-tax Institutional Retirement & Trust (IRT) integration expenses in RIS-Fee in 1Q22

## Assumptions

- **Non-GAAP operating earnings effective tax rate<sup>1</sup>:** 17 - 20%
- **Weighted average diluted shares outstanding:** 248M - 256M
- **Equity markets:** 8% annual total return (6% price appreciation) as of 12/31/2021
- **Interest rates:** follow forward curve as of 12/31/2021
- **FX rates:** follow external consensus<sup>2</sup> as of Jan 2022

1 The operating earnings effective tax rate is a non-GAAP measure and, on a total company basis, is approximately 4% higher than the U.S. GAAP net income effective tax rate primarily due to net realized capital gains and losses (NRCG) and income (loss) associated with exited businesses through reinsurance. The tax rate guidance does not contemplate impacts from potential changes in the U.S. federal corporate tax rate. 2 Latin America uses local Central Bank estimates; Asia uses Bloomberg.

# Transaction impacts

Including reinsuring the U.S. retail fixed annuity & ULSG blocks of business

- **Reinsurance transaction is expected to close in 2Q 2022 with a 1/1/2022 effective date**
  - 1Q 2022 financial results will not be impacted
  - 2Q 2022 financial results will reflect a YTD true-up as we will transfer all of the associated revenue and earnings to the counterparty
- **Continue to expect ~\$800M of deployable proceeds**
- **~\$(130)M after-tax non-GAAP OE impact for full year 2022, included in guidance ranges**
  - Includes lost earnings in RIS-Spread, Individual Life, and PGI as well as stranded costs
- **Stranded costs:**
  - At close, ~\$75M pre-tax of stranded costs will remain; across RIS-Spread, Individual Life and Corporate
  - Plan to eliminate within 24 months after close; 2022 net impact included in guidance ranges
- **AUM impact:**
  - \$(21)B net impact to the General Account; will continue to manage ~\$4B of commercial mortgages and private credit
- **Accounting treatment:**
  - One-time expense impacts at close as well as ongoing reinsurance accounting impacts will be reported in net income but excluded from non-GAAP OE in a new reconciling line item (Income (loss) of exited businesses through reinsurance)
  - \$25B funds withheld liability embedded derivative will be marked-to-market each quarter; reported in net income via NRCG



# Non-GAAP operating earnings sensitivities

Estimated impacts of changes in key macroeconomic conditions on annual non-GAAP pre-tax operating earnings, 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...	+/- 6-8%	+/- 1-2%	-/+ < 1%	+/- < 7%
And the primary businesses impacted are...	RIS - Fee PGI	All	PI	RIS - Spread Individual Life 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.

# Appendix

# 2021 significant variances

Business unit revenue impacts of significant variances from 2021 earnings calls

(in millions)

Business unit	Revenue metric	2021 revenue, as reported	Actuarial assumption review & model refinements	COVID-19 claims	Variable investment income	Encaje & Inflation	2021 revenue, x-SV
<b>RIS-Fee</b>	Net revenue	\$2,038	\$(78)	-	-	-	\$2,116
<b>RIS-Spread</b>	Net revenue	\$928	-	\$65	\$178	-	\$685
<b>PGI</b>	Operating revenue less pass-through commissions	\$1,668	-	-	-	-	\$1,668
<b>Principal International</b>	Combined net revenue (at PFG share)	\$972	\$(5)	-	\$28	\$(15)	\$963
<b>Specialty Benefits</b>	Premium and fees	\$2,530	-	-	-	-	\$2,530
<b>Individual Life</b>	Premium and fees	\$1,254	\$(13)	-	-	-	\$1,268

# Measure definitions & non-GAAP financial measure reconciliations

## Measure definitions

**Net revenue:** operating revenues less benefits, claims and settlement expenses less dividends to policyholders

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

**Pre-tax return on net revenue:** pre-tax operating earnings divided by net revenue

**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.

**Pre-tax return on operating revenues less pass-through expenses:** pre-tax operating earnings, adjusted for noncontrolling interest divided by operating revenues less pass-through expenses

**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.

**Pre-tax return on combined net revenue (at PFG share):** pre-tax operating earnings divided by combined net revenue (at PFG share)

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

**Pre-tax return on premium and fees:** 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>12/31/21</b>
Principal Global Investors operating revenues	\$1,828
Principal Global Investors commissions and other expenses	(160)
<b>Principal Global Investors operating revenues less pass-through expenses</b>	<b>\$1,668</b>
	Twelve months ended
<b>Principal International combined net revenue (at PFG Share)</b>	<b>12/31/21</b>
Principal International pre-tax operating earnings	\$309
Principal International combined operating expenses other than pass-through commissions (at PFG share)	663
<b>Principal International combined net revenue (at PFG share)</b>	<b>\$972</b>