



OSPREY FINANCIAL GROUP

Prudential Financial Inc. (PRU)

October 29, 2005

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Stock Data

Current Price: \$ 71.11 (10/28/05)
52-Week Range: 45.95 - 72.06
Market Cap: \$ 36.48B
Shares Outstanding: 513M
Average Volume: 1,734,660 (3 mo)
Institutional Ownership: 51.70%
Short Interest: 3.76M
Sector: Financial
Industry: Life Insurance
P/E Ratio(ttm): 15.17
PEG Ratio: 1.08
Dividend: \$0.63
Dividend Yield: 0.90%
Beta: 0.58 (moneycentral.msn.com)
Earnings Announcement: 11/2/05
Price Target: \$ 79.60

Source: finance.yahoo.com



Company Profile

Prudential is one of the largest U.S. financial services companies, and also serves customers in approximately 30 other countries. PRU's businesses consist of the financial services businesses and the closed block businesses. PRU's publicly traded common stock reflects the performance of the financial services businesses, while its private Class B stock reflects the performance of the closed block businesses.

The financial services businesses operate through three divisions -- insurance (38% of 2004 operating revenues), investments (25%), and international insurance and investments (34%), as well as a corporate and other segment (2.6%). The insurance division consists of two segments. The individual life and annuities unit (49% of the division's 2004 operating revenues) distributes variable, universal and term life insurance, fixed and variable annuities, and other non-participating life insurance protection products to the U.S. retail market. The group insurance unit (51%) distributes group life, disability and related insurance products through employee and member benefit plans.

The investment division serves institutional and retail clients and consists of three segments. The asset management segment (29% of the division's 2004 operating revenues) provides a broad array

of investment management and advisory services, mutual funds, and other structured products, and includes proprietary investments. The financial advisory segment (6.4%) includes PRU's 38% stake in Wachovia Securities as well as PRU's own equity sales, trading and research operations. The retirement services segment (64%) provides retirement plan products and services to public, private, and not-for-profit clients, as well as funding agreements and guaranteed investment contracts (GICs).

The international insurance and investments division consists of two segments -- insurance (94% of the division's 2004 operating revenues) and investments (6.5%). Individual life insurance products are primarily distributed in Japan, Korea, and other countries. Proprietary and non-proprietary asset management, investment advice and product choice services are offered in selected international markets.

In February 2004, PRU purchased an 80% stake in Hyundai Investment and Securities Co., with the remaining interest possibly to be acquired in three to six years. In April 2004, the company acquired Cigna's retirement business, for \$2.1 billion in cash. In November 2004, PRU acquired Aoba Life Insurance Co. for \$191 million in total consideration.

Beginning July 2005, PRU may, subject to limitations, require Wachovia to purchase its interest in Wachovia Securities. Prior to July 2008, the purchase price generally would equal \$1 billion plus PRU's share of the joint venture's transition costs, adjusted for additional investments. Beginning July 2008, the purchase price generally would equal PRU's share of the appraised public equity value of the venture plus a control premium.

Source: <http://www.netadvantage.standardpoor.com>

What we like about PRU

1. Life insurance industry is expected to outperform overall financial sector. The rising interest rates will help insurance companies to increase their investment income. Insurance companies have been facing a very tight spread because of low interest rate environment. The insurance companies who are able to diversify their earnings stream are expected to fare well.
2. PRU is one of the biggest life insurance companies in US. It serves 15 million customers, has \$2 trillion life insurance policies in force, \$500 B of assets in management and has presence in 30 countries.
3. Diversified revenue sources
Although Prudential has been classified in Life Insurance industry, it has very diversified revenue sources:
 - Insurance (38% of revenue)
 - Investments (25% revenue)
 - International (35% revenue)
 - Corporate and others (3% of revenue)

These diversified sources of revenues are expected to generate a stable stream of income. Each of the able four business segments has shown growth in recent quarters.

4. Geographical diversification

Prudential's best performing segment is its international insurance business, which contributes approximately 40% of operating income. Primarily focused on Japan and Korea, the firm has used disciplined hiring policies and attractive compensation to outperform competitors in terms of agent and customer retention, and productivity. The firm's Life Planners, the sales agents in Japan focused on affluent customers, are particularly valuable. The firm also acquired a majority stake in Korean asset manager, Hyundai Investment. These moves have proved successful, and the Asian market offers a profitable opportunity due to its aging demographic profile. This is particularly true of the Japanese market, which is also affected by a struggling statesponsored health system. Furthermore, the privatization of Japan Post, Kampo, which is expected by 2007, would eliminate key competitive

advantages for the government-owned company and may present a growth opportunity for Prudential.

Prudential has partnered with Everbright corporation, a leading investment services company in China. Their joint venture (Everbright Primarica) received operational license from China Securities Regulatory Commission and started offering mutual funds in 2004.

Together, Japan, Korea and China offer strong growth potential for the company.

5. Growth at a reasonable price

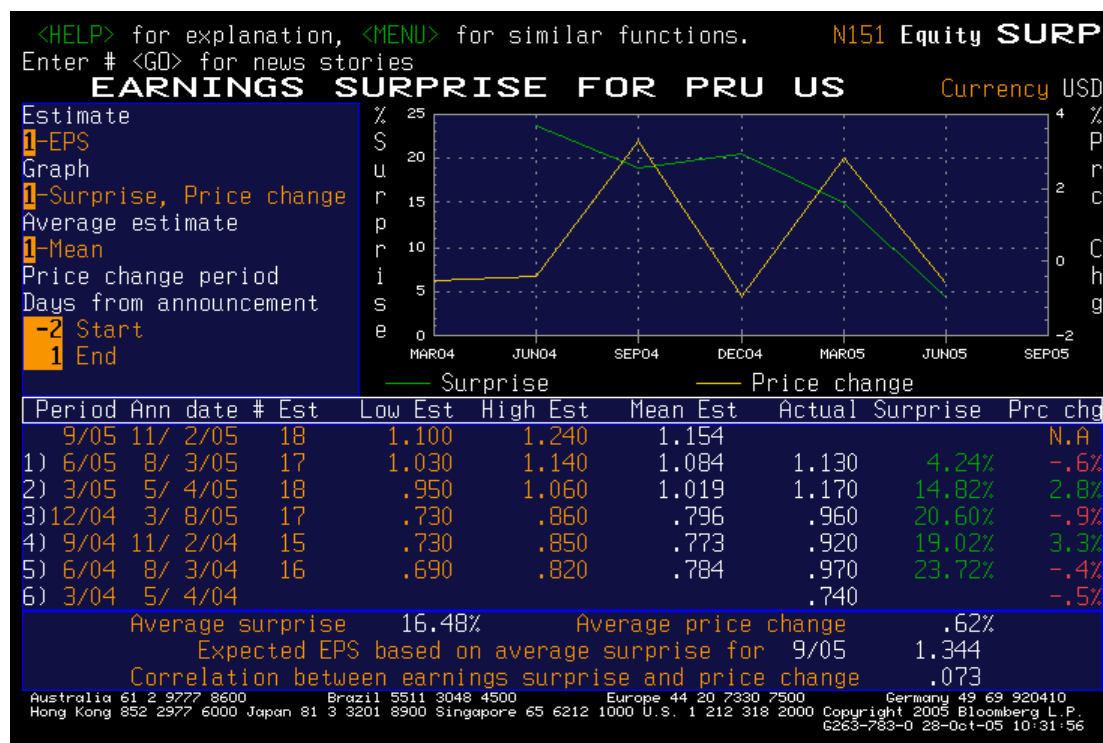
This company has been growing at a faster rate than its peers in the industry. Also, the growth over next 5 years expected to be higher than the industry average. At the same time, the PEG ratio is close to 1.

Growth Est	PRU	Industry
This Year	29.5%	15.2%
Next Year	14.8%	11.7%
Past 5 Years (per annum)	32.1%	N/A
Next 5 Years (per annum)	14.0%	11.33%
Price/Earnings (avg. for comparison categories)	15.1	13.66
PEG Ratio (avg. for comparison categories)	1.08	1.21

Source: Finance.yahoo.com

6. Consistent positive earnings surprises

PRU has delivered positive earnings surprises over last 5 quarters. The average surprise has been 16.48%.



- A \$720 M tax refund was announced last week (week ending 10/28/2005). This was a result of favorable conclusion of IRS inquiries regarding the company's tax returns from 1997 to 2001. To put this number in perspective, this is close to 31% of the companies net earnings for 2004 (\$2,314 M).

Considering 513 million shares outstanding, this represents a tax refund of \$1.4 per share. At the current P/E of around 15, this could mean a difference of \$21 in the share price.

This tax refund is expected to be used to accelerate share purchase plan or to make acquisitions or to pay down debt.

- The company has not only been growing in past several quarters, but also increasing profitability on almost all measures consistently:

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Financial Analysis

PRU US Equity Favorites: Profitability Fdit Ontinns PRUDENTL.FINL

Period 5 Quarters Sort Descending Currency USD View Table

	06/2005*	03/2005*	12/2004*	09/2004*	06/2004*	5Q GeoGr
2) Pretax margin	14.69	13.26	11.60	11.76	10.23	11.79
3) Eff tax rate	29.56	29.64	30.99	30.87	21.68	-1.01
4) Return on assets	0.80	0.76	0.62	0.64	0.51	11.38
5) Return on Com Eqty	14.11	12.58	10.34	10.45	8.41	15.99
6) Return on cap.	5.97	5.37	4.72	4.94	3.82	17.12
7) Oper Inc/Tot Capital	3.05	2.93	2.69	2.50	1.51	16.95
8) Int&Invmt Inc/Invmt Asst	1.40	1.39	1.22	1.34	1.23	2.46

[Note: As Reported Data Links are available for Quarterly data]

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- Technical indicators are very positive at this point

We have been following this stock for 5 weeks now and it was trading in a range. However, recently it broke through a resistance and it appears that the uptrend is resuming. This may be a good sign ahead of the 2005 Q3 announcement on Wednesday 11/2/2005.

- Share repurchase plan: In June 2005, Prudential authorized an increase of \$600.0 million to its existing stock repurchase program, bringing the total authorized share repurchases to \$2.1 billion for 2005. During the second quarter of 2005, the company repurchased 7.8 million shares of its common stock, at a total cost of \$476.0 million.
- PRU has been outperforming our current holdings in financial sector: XLF



What we don't like about PRU

1. The long term debt to capital ratio of PRU is about 40% which is one of the highest in the industry (average 20%). While a greater leverage is good in good times, it will hurt the company if operating income drops.
2. P/E ratio (15) is higher than the industry average (13), however it seems justifiable under the current growth expectations.

Valuation

Applying current P/E of 15.17 to the high and low earnings estimate for 2006, we get the following price projections:

1. High earnings estimate (\$ 5.52): price target \$ 83.78
2. Low earnings estimate (\$ 5.17): price target \$ 78.43

We also ran the DDM on Bloomberg and it came up with intrinsic value of \$77.60.

<HELP> for explanation, <MENU> for similar functions.

N151 Equity DDM

DIVIDEND DISCOUNT MODEL

PRU US

Prudential Financial Inc

Earnings/share FY1	4.640	Bond Rate	4.549%
Earnings/share FY2	5.340	Country Premium	4.94
Earnings/share FY3	6.250	Applied Beta	1.13
Dividends/share FY1	0.766	1)Risk Premium	5.576%
Growth Years	?	Payout during Growth yrs	16.509%
Transitional Years	10	Payout at Maturity	45.000%
Long Term Growth Rate	13.120%	Growth Rate at Maturity	5.568%
Closing Price	71.20	Currency	USD

Computed values based on above assumptions

Theoretical Price	77.60
Percent Change from Close	8.99%
Internal Rate of Return	10.41%
Expected Return	15.01%
Implied Growth Rate	12.15%

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Taking average of the 3 price estimates, we are setting a price target of \$79.60.

Earnings Estimates

Earnings Est	Current Qtr Sep-05	Next Qtr Dec-05	Current Year Dec-05	Next Year Dec-06
Avg. Estimate	1.15	1.20	4.65	5.34
No. of Analysts	18	16	19	19
Low Estimate	1.10	1.13	4.55	5.17
High Estimate	1.19	1.30	4.79	5.52
Year Ago EPS	N/A	N/A	3.59	4.65

Price Chart



Industry Comparisons

Source finance.yahoo.com

Growth Est	PRU	Industry
Current Qtr.	26.1%	12.1%
Next Qtr.	25.0%	2.9%
This Year	29.8%	15.2%
Next Year	14.6%	11.7%
Past 5 Years (per annum)	32.1%	N/A
Next 5 Years (per annum)	14.0%	11.33%
Price/Earnings (avg. for comparison categories)	15.3	13.66
PEG Ratio (avg. for comparison categories)	1.09	1.21

List of Competitors

Source: www.fidelity.com

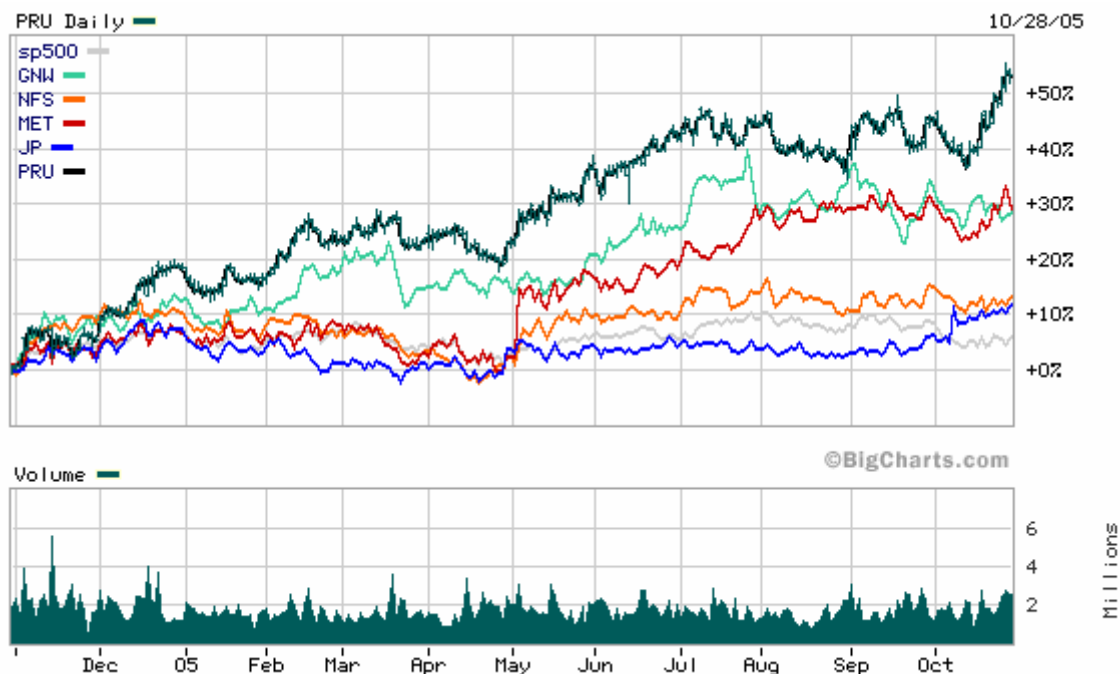
Name	Prudential Financial Inc.	Jefferson-Pilot Corp.	Nationwide Financial Services Inc. CI A	MetLife Inc.	Genworth Financial Inc. CI A
Industry	Life Insurance	Life Insurance	Life Insurance	Life Insurance	Life Insurance
Current Share Price	71.11	54.05	39.25	49.00	30.82
Market Value	\$36,526 mil	\$7,180 mil	\$5,937 mil	\$38,278 mil	\$14,413 mil
Revenues	\$30,854 mil	\$4,170 mil	\$4,352 mil	\$41,344 mil	\$10,333 mil
Net Earnings	\$3,118 mil	\$578 mil	\$580 mil	\$4,438 mil	\$1,224 mil
5-yr. Sales Growth	NA	5.97%	7.07%	NA	NA
5-yr. Earnings Growth	NA	3.99%	.04%	NA	NA
Net Profit Margin	10.10%	13.90%	13.30%	10.70%	11.80%
Short Interest	2.1	2.3	1.2	2.7	3.0
Est. EPS Growth Rate	12.4%	8.5%	10.7%	10.4%	10.9%
Forward P/E	15.3	12.9	10.5	12.0	12.4
PEG	1.23	1.51	.98	1.15	1.13
Price/Sales	1.2	1.7	1.4	0.9	1.4
Price/Cash Flow	10.9	11.8	10.0	7.4	11.6
Price/Book	1.5	1.8	1.1	1.4	1.1
ROE	14.1%	14.8%	11.2%	12.4%	9.6%
ROA	0.8%	1.6%	0.5%	0.8%	1.2%
Dividend	\$0.63	\$1.67	\$0.76	\$0.52	\$0.30
Dividend Yield	.88%	3.00%	1.93%	.91%	.88%
Payout Ratio	14.0%	37.2%	19.2%	8.2%	8.4%
Total Return (12-mos.)	54.6%	13.6%	14.2%	33.1%	29.5%
Total Return (3-yr.)	149.1%	43.4%	47.0%	115.7%	NA
Beta	0.6	0.3	1.2	0.6	1.2
% Off 52-wk. High	-1.32%	-1.26%	-2.87%	-4.26%	-8.00%
% Above 52-wk. Low	53.59%	14.73%	16.61%	31.40%	28.95%
On Balance Volume Index	111	300	76	79	93
Consensus Analyst Recommendation	moderate buy	hold	hold	hold	moderate buy

News Headlines

Source: www.fidelity.com

Time/Date	News Item	Source
10/28/2005	Dow +107 Despite Semi Decline (-1.6%); Libby Indictment [delayed]	Knobias
10/26/2005	Will rate increases buoy insurance brokers Marsh, Aon?	MarketWatch
10/26/2005	Prudential gets favorable \$720M adjustment from tax ruling	MarketWatch
10/26/2005	Prudential sees \$720 mln tax decrease from review	Reuters
10/26/2005	8-K: PRUDENTIAL FINANCIAL INC	Edgar Online
10/25/2005	Prudential Retirement Selected to Administer New Jersey State Employees Deferred Compensation Plan	BusinessWire
10/20/2005	Pfizer 3Q Earnings Fall, Reduces Outlook	AP Online
10/19/2005	Prudential Retirement Names Steven Hart to Lead TPA Channel Management	BusinessWire
10/19/2005	Prudential Inducted Into Working Mother 100 Best Companies Hall Of Fame	BusinessWire
10/18/2005	Prudential Financial to Serve as Title Sponsor for Inaugural 2005-2006 Northeast Sled Hockey League; Launch of PNESHL Marks First-Ever Organized, Multi-State Adult Sled Hockey League in the U.S.	BusinessWire
10/13/2005	Prudential Financial Appoints Helen M. Galt Senior Vice President	BusinessWire
10/10/2005	More life insurance mergers likely-analysts	Reuters
10/07/2005	3C Financial Partners Report, "Platform Made Perfect", Provides a Road Map for Banks Seeking to Improve Their Position in the High Net Worth Market	BusinessWire
10/06/2005	Hillwood sells big stake in AllianceTexas	Knight-Ridder Open
10/04/2005	Prudential Equity Group shuts technical research unit	MarketWatch
10/04/2005	8-K: PRUDENTIAL FINANCIAL INC	Edgar Online
10/04/2005	Fortis completes acquisition of Dryden	Reuters
10/04/2005	Fortis Completes Acquisition of Dryden Wealth Management	Hugin AS
10/03/2005	Prudential Financial to Announce Third Quarter 2005 Earnings; Schedules Conference Call	BusinessWire
10/03/2005	Prudential Financial Study Says Service, Not Lowest Price, Most Important to Employee Benefit Managers; Group Insurance Division Launches 'Peak Performance' Program to Better Address Plan Sponsor Needs	BusinessWire

Comparison of Competition and Benchmark



Earnings Report

Source: www.fidelity.com

Annual Financials					
	Jun 2005	Dec 2004	Dec 2003	Dec 2002	Dec 2001
Revenues	\$30,854 mil	\$28,348 mil	\$27,907 mil	\$26,675 mil	NA
Net Earnings	\$3,117 mil	\$2,314 mil	\$1,264 mil	\$194 mil	NA
Net EPS	\$4.51	\$3.42	\$2.30	\$.33	NA
Pre-tax Margin	14.7%	11.6%	7.0%	0.2%	NA
Net Margin	10.1%	8.2%	4.5%	0.7%	NA
EBITDA	NA	\$3,287 mil	\$3,788 mil	\$1,910 mil	NA
Long-Term Debt	\$8,734 mil	\$7,627 mil	\$5,610 mil	\$4,757 mil	NA
Interest Coverage	NA	NA	2.1	1.0	NA
Inventory	NA	NA	NA	NA	NA
Current Assets	NA	NA	NA	NA	NA
Current Liabilities	NA	NA	NA	NA	NA
Common Equity	\$23,574 mil	\$22,344 mil	\$21,292 mil	\$21,330 mil	NA
Dividends	\$.63	\$.63	\$.50	\$.40	NA
Payout Ratio	13.97%	18.42%	21.74%	121.21%	NA

Financial Trends	12 Mo. Period			Quarterly		
	Jun 2005	Jun 2004	%CHG.	Jun 2005	Jun 2004	%CHG.
Revenues	\$30,854 mil	\$27,429 mil	12.49	\$8,361 mil	\$6,884 mil	21.46
Net Earnings	\$3,117 mil	\$1,881 mil	65.71	\$883 mil	\$529 mil	66.92
Net EPS	\$4.51	\$3.07	46.91	\$1.48	\$1.00	48.00
Operating Margin	NA	11.89%	NA	15.74%	9.85%	-6.48
Net Margin	10.10%	6.90%	47.23	10.10%	6.90%	46.38
EBITDA	NA	\$3,260 mil	NA	\$1,316 mil	\$678 mil	94.10
Long-Term Debt	\$8,734 mil	\$6,187 mil	41.17	\$8,734 mil	\$6,187 mil	41.17
Inventory	NA	NA	0.00	NA	NA	0.00

Disclaimer

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