Assurant 1Q 2018 Earnings Transcript

PARTICIPANTS

Corporate Participants

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Alan B. Colberg – President, Chief Executive Officer & Director, Assurant, Inc.
Richard S. Dziadzio – Executive Vice President, Chief Financial Officer and Treasurer, Assurant, Inc.

Other Participants

John Nadel - Analyst, UBS Securities LLC
Mark D. Hughes – Analyst, SunTrust Robinson Humphrey, Inc.
Jamminder Singh Bhullar - Analyst, J.P. Morgan Securities LLC
Gary Ransom – Analyst, Dowling & Partners

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Assurant's First Quarter 2018 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Suzanne Shepherd, Vice President of Investor Relations. You may begin

Suzanne Shepherd, Vice President, Investor Relations, Assurant, Inc.

Thank you, Christina, and good morning, everyone. We look forward to discussing our first quarter 2018 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our results for the first quarter of 2018. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with brief remarks from Alan and Richard before moving into a Q&A session.

Some of the statements made today may be forward-looking. Forward-looking statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by these statements. Additional information regarding these factors can be found in yesterday's earnings news release, as well as in our SEC reports.

During the first quarter, we completed the financing related to our acquisition of The Warranty Group, or TWG. This included a $1.3 billion debt issuance, of which $350 million replaced debt that matured during the quarter and a $288 million mandatory convertible preferred stock issuance. The acquisition is expected to close in the second quarter, subject to regulatory approval and other customary closing conditions.

As such, our first quarter 2018 results and full year 2018 outlook do not include any contributions from The Warranty Group nor the impact of the $1.2 billion of acquisition-related financing.

Prior to closing, net operating income and net operating income per diluted share will exclude the interest expense and dilutive impact of the mandatory convertible preferred stock issued in connection with the acquisition financing. These amounts, however, will be reflected in our GAAP results. Once the transaction closes, we will include the related interest expense and dilutive impact of the shares in operating results using the if-converted accounting methodology.

During today's call, we will also refer to other non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the two, please refer to yesterday's news release and financial supplement available on assurant.com.

I will now turn the call over to Alan.

Alan B. Colberg, President, Chief Executive Officer & Director, Assurant, Inc.

Thanks, Suzanne. Good morning, everyone. Overall, we are pleased with our first quarter performance. Results were in line with our expectations. A lower effective tax rate, following the enactment of U.S. tax reform, was the primary driver of the earnings increase as well as modest underlying business growth. This growth was partially offset by increased corporate expenses and higher catastrophe losses. We also continued to make good progress preparing for the closing of The Warranty Group acquisition. This included submitting the required filings and raising the necessary funds to support the acquisition.

Integration planning efforts continue and position us well post-closing. Our teams have developed detailed road maps to successfully bring together our business operations within Global Lifestyle, leveraging our combined talent and product offerings worldwide. So far, we have received several regulatory approvals and still expect to close the transaction in the second quarter, subject to the remaining regulatory and customary closing approvals. Overall, we remain bullish on the growth opportunities ahead with The Warranty Group and also more broadly across our key Lifestyle and Housing businesses.

Let me now share some highlights from the quarter. Starting with Global Housing, our focus remains on sustaining our leadership position within lender-placed insurance. This quarter, we migrated our first significant client to our single processing platform. As this work continues, we expect to drive net savings later this year with more expected in 2019 and beyond. This will help us maintain strong returns within lender-placed and deliver an even better customer experience.

With over 1.8 million insured renters, our multi-family housing business continues to generate strong revenue and earnings growth. This quarter, we extended our resident bond offering to include commercial property owners, management companies and their tenants. Now, both residential and commercial property managers can offer a surety bond payment as an alternative to a security deposit. This increases protection while also reducing the tenants' upfront move-in cost.

As we look to further expand our presence in the rental economy, we recently launched a partnership with ApartmentJet to provide multi-family housing owners an insurance solution that covers both nightly and extended-stay guest. While we were pleased with the performance and growth momentum within multi-family housing, mortgage solutions results remained disappointing. Ongoing weak client demand and soft market conditions, especially in new loan originations and field services, continue to pressure results in the first quarter. We expect this environment will remain challenging for the rest of the year.

While mortgage solutions is not a significant portion of the segment's results, we are continuing to aggressively take actions to improve performance. This includes continuing to manage expenses, while actively pursuing new business opportunities.

Turning to Global Lifestyle. We continue to expand our mobile business, now protecting 38 million devices worldwide. A significant portion of that increase is coming from our continued success with KDDI, the second largest carrier in Japan. Since yearend, enrollments in that program nearly doubled. We expect to continue to strengthen our mobile business in the region, building on our recent accomplishments in Japan, South Korea and Australia and also leveraging The Warranty Group's existing footprint in Asia.

While first quarter results in the vehicle business were lower, we saw sustained double-digit revenue growth from strong prior-period sales through third-party administrators, recreational vehicle distributors and our partnerships with leading OEMs. We now protect 15 million vehicles. Along with The Warranty Group, we believe we can further extend our leadership position and capitalize on emerging growth trends over time.

We also continue to make select investments in the Connected Living market. During the quarter, this included strengthening our connected home capabilities through an investment in a company, which specializes in home installation and technical support services. We also made a modest investment in an Asia-Pacific trade-in and device disposition provider, as we reinforce our presence in that region.

Overall, we believe our efforts to maintain growth momentum and to drive margin improvement across our portfolio positions us well to deliver profitable growth in 2018.

Turning to our financial results. We currently measure our success against three key metrics. Net operating income, net operating income per diluted share and operating return on equity, all excluding catastrophe losses. These metrics exclude the impact of our pending acquisition of TWG and our recently completed acquisition financing.

For the first quarter, Assurant's net operating income increased by 8% to $115 million compared to the first quarter of last year. This was driven by a lower effective tax rate and modest underlying growth in the business, offset mainly by higher corporate expenses. Operating earnings per diluted share was $2.14, up 14% year-over-year, reflecting both growth and earnings and 2017 share repurchases.

Annualized operating return on equity excluding AOCI was 11.2%, up 40 basis points since yearend. For full year 2018, we continue to expect Assurant stand-alone net operating earnings excluding reportable catastrophes to increase 10% to 14% from 2017 reported results of $413 million. This reflects a lower effective tax rate and modest underlying segment earnings growth.

Expansion within our Connected Living, multi-family housing and vehicle protection businesses are expected to offset ongoing declines in lender-placed and credit insurance. As we previously communicated, we'll be redeploying a portion of the tax savings to support growth long term with investments accelerating later this year. As always, we will continue to focus on actively reducing expenses to expand margins over time.

For 2018, we also continue to expect net operating income per diluted share to grow in excess of net operating income, benefiting from 2017 share repurchase activity. This outlook does not include any impact from The Warranty Group acquisition or the related financing. We will update our outlook for the year to include TWG sometime in the third quarter.

In regard to our longer-term financial metrics and targets, we plan to refresh those to reflect the enhanced financial profile of our combined operations at a later date. We are confident in our ability to continue to grow earnings and cash flow long term. Our attractive business portfolio, combined with a more efficient operating structure, will produce more diversified earnings. This allows us to continue to invest in the business and return excess capital to shareholders over the long term.

I'll now turn the call over to Richard to review our first quarter 2018 results in greater detail. Richard?

Richard S. Dziadzio, Executive Vice President, Chief Financial Officer and Treasurer, Assurant, Inc.

Thank you, Alan, and good morning, everyone. Let's start with Global Housing. Net operating income for the first quarter totaled $71 million, a $9 million increase from the prior-year period. The lower effective tax rate of 21% drove $14 million of additional income. Results also reflected $8 million of higher reportable catastrophes mainly related to the severe winter storms in the northeast.

Excluding both the reportable catastrophes and the impact of tax reform, underlying earnings increased slightly. Higher contributions from international housing products, growth in multi-family housing and modest income from processing the residual flood claims from Hurricane Harvey were the key drivers. The increase was partially offset by ongoing lender-placed normalization.

Looking at our key metrics. The risk-based combined ratio for our lender-placed and manufactured housing businesses increased to 85.3% from 82.9% in the prior-year period. This was mainly due to higher reportable catastrophes noted earlier. Excluding cats, the risk-based combined ratio was roughly flat. The pre-tax margin for the fee-based, capital-light offerings increased to 11.4% from 8.8% in the first quarter of last year, largely reflecting strong growth in multi-family housing.

Moving to revenue. Total Global Housing net earned premium and fee income decreased 2% in the first quarter. Lower placement rates and reductions in real estate-owned volumes in lender-placed drove the decline. Fee income was impacted by a decrease in mortgage solutions, as Alan mentioned earlier. The placement rate dropped 22 basis points year-over-year or 4 basis points from the fourth quarter, in line with our expectations. This reduction reflects the overall improvement in the housing market and the higher mix of low placement loans.

For the rest of the year, we expect ongoing declines in the placement rate averaging 4 to 5 basis points per quarter, assuming continued growth in the housing market. The overall revenue decrease was partially offset by continued growth mainly from affinity partners in multi-family housing.

For 2018, we continue to expect Global Housing's earnings excluding catastrophe losses to increase, reflecting a lower effective tax rate of approximately 20% to 21%. A portion of tax savings is expected to be reinvested into the segment for future growth later this year. Excluding the tax impact, underlying earnings should be lower as a result of the ongoing normalization of lender-placed and mortgage solution declines. Continued profitable growth in multi-family housing, driven by the expansion of our affinity and property management relationships as well as increased product penetration will help to mitigate the decrease.

Moving to Global Lifestyle. The segment reported earnings of $56 million for the first quarter compared to $52 million in the prior period of last year. The first quarter of 2017 included $7.5 million of one-time client recoverables. Excluding this disclosed item and the $7 million benefit from tax reform, net operating income increased $4 million.

Underlying results benefited from mobile growth within Connected Living, which was largely attributable to the new mobile programs implemented last year, as well as growth from existing clients. We also recorded a benefit related to the revised client contract terms. While this is part of our normal course business operations, the benefit was higher than anticipated, and it's not expected to recur in the second quarter. Results were partially offset by less favorable vehicle protection results and lower earnings from our U.S. credit business.

Turning to revenue. Net earned premiums and fees were up 14% in the quarter. Contributions from new mobile programs, including subscribers and continued growth in vehicle protection, were partially offset by reduced mobile trade-in volumes.

Looking at the segments' profitability metrics. The combined ratio for the risk-based businesses increased to 99.1% from 92.2%. This was mainly due to less favorable results in the vehicle protection business, including elevated expenses and higher loss experienced compared to a favorable prior period. As a reminder, the prior-year period also included $4.3 million of pre-tax benefit from a one-time client recoverable in the credit business. Excluding this benefit, the combined ratio increased 5.6 points due to the factors noted earlier.

The pre-tax margin for fee-based, capital-light businesses was 8.2% in the first quarter, up from 7.1% in the prior-year period. Excluding the $6.7 million of client recoverables from last year, the margin expanded 2.3 points, driven by profitable growth in new and existing programs. Overall, lower margins on trade-in activity partially offset this increase.

We are pleased with Lifestyle's first quarter results. For the full year, we still believe net operating income growth will be modest before taking into account the tax reform. Mobile will remain a significant contributor, driven by growth from programs implemented in 2017 and continued expansion of our offerings with existing clients.

In addition, as we have mentioned before, mobile trade-in activity may fluctuate depending on the success of new phone introductions and mobile carrier promotional activity. Despite a softer first quarter for the vehicle business, we continue to expect profitable growth for 2018 as strong sales from prior periods continued to earn.

Contributions from credit insurance, however, will continue to decline, reflecting runoff business and discontinued partnerships, particularly in the third and fourth quarters. As always, across our business, we will continue to manage expenses.

After factoring in the lower effective tax rate, now expected to be roughly 22% to 24%, Global Lifestyle reported earnings should be even higher in 2018. While a portion of tax savings are expected to be reinvested into the business for future growth, we anticipate the investments to occur during the latter part of the year.

Next, let's move to Global Preneed. The segment recorded $10 million in the first quarter net operating income, consistent with the prior-year period. Excluding the $2 million benefit from the lower tax rate, earnings were down. This was primarily related to higher IT expenses as we transition to a new operating platform. Despite the harsh flu season this year, mortality was only slightly elevated compared to the first quarter of 2017, which was also seasonally high. Revenue in Preneed was up 5%, driven mainly by growth in the U.S., including sales of our Final Preneed product in prior periods. Face sales decreased 5%, primarily due to lower Final Need sales, as we shift the focus to higher return, multi-pay products.

In 2018, we expect Global Preneed revenue and earnings to continue to increase modestly, driven by expansion from new and existing clients and adjacent product offerings. Preneed results will also reflect a lower effective tax rate of approximately 22% with a portion of savings reinvested into the business later in 2018.

At Corporate, the net operating loss was $20 million, a year-over-year increase of $10 million. This was due to higher employee-related expenses compared to a favorable prior period and a $2 million adverse effect from the lower tax rate.

For 2018, we continue to expect the full year Corporate net operating loss to be approximately level with the $63 million loss reported in 2017. After taking into account the lower tax rate of roughly 20% and some level of reinvestments, we expect the net loss to increase to around $80 million.

Turning to capital. Excluding the $1.2 billion of financing proceeds related to The Warranty Group acquisition, we ended March with $575 million in total company capital or about $325 million of deployable capital, after adjusting for a risk buffer. Dividends in the quarter from Global Housing, Global Lifestyle and Global Preneed totaled $182 million, which included $140 million of capital related to the reduction in deferred tax liabilities following tax reform. This increased our dividend capacity, providing more cash to the holding company and allowed us to lower the amount of equity issued as part of our TWG financing, effectively bringing forward the share repurchases originally planned for later this year. As a result, we did not purchase any shares in the quarter.

In terms of uses of cash, we did, however, pay $30 million in shareholder dividends and paid $42 million for the final claims reserve settlement associated with the 2015 sale of our general agency business. This settlement payment was previously accrued for and therefore had no material impact to our income statement. And finally, we invested $8 million towards strengthening our connected home and asset disposition capabilities, as Alan mentioned earlier.

In 2018, we now expect dividends from our operating segments to be greater than segment operating earnings because of the increased dividends made available following the reduction in our deferred tax liability. Dividends from the underlying businesses are expected to approximate the segment earnings.

Overall, our dividend outlook is subject to customary rating agency and regulatory capital requirements as well as the growth of the businesses. We believe that this will provide ongoing flexibility to invest in our businesses and support The Warranty Group integration. We continue to believe share buyback activity will be unlikely for the balance of the year, but we will revisit post close.

As noted earlier, following the closing of The Warranty Group acquisition, we will update our presentation and results and outlook for the full year. Among other things, post-closing, our net operating income will include The Warranty Group results and approximately $36 million after-tax of additional annual interest expense related to the acquisition debt financing. This also accounts for the amortization of gains from derivative transactions that were used to hedge interest rate risk.

And for the purposes of net operating income per diluted share, results will reflect the dilutive impact of the mandatory convertible preferred stock on an if-converted accounting basis. Prior to closing, however, the impact of the $1.2 billion acquisition financing will only impact GAAP net income and GAAP diluted net income per share.

In the next few weeks, we expect to file a summary of TWG's first quarter results. At this stage in their close process, we believe the business performance continues to track against our expectations and reflects ongoing momentum in their vehicle business.

In summary, we're pleased with our performance in the first quarter and remain focused on delivering on our commitments for the full year.

And, with that, operator, please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is coming from John Nadel from UBS.

<A – Alan Colberg – Assurant, Inc.>: Hey. Good morning, John.

<Q - John Nadel – UBS>: Hey. Good morning. Good morning, Alan. How are you?

<A – Alan Colberg – Assurant, Inc.>: Good.

<Q - John Nadel – UBS>: So, I think one – the first question I have is just a housekeeping item. So, at the end of 1Q, equity ex-AOCI was $4.4 billion. So, when you close on The Warranty Group deal and issued the shares to the seller, is it as simple as adding roughly $1 billion to your equity upon the closing so, on a pro-forma basis, your equity all else equal should be around $5.4 billion?

<A - Richard Dziadzio – Assurant, Inc.>: Yeah. Good morning. John, it's Richard. That's right...

<Q - John Nadel – UBS>: Hi, Richard.

<A - Richard Dziadzio – Assurant, Inc.>: We'll issue the equity, the 10.4 million shares. Obviously, we'll have P-GAAP at the time of closing upon opening the balance sheet. So, there might be some adjustment there – adjustments there, but it is like you say.

<Q - John Nadel – UBS>: Okay. So, then, if we take a step back and think about roughly $5.5 billion of equity, give or take, a couple of years out, maybe it's even growing a bit a few years out, I want to go back to the 15% ROE target in 2020. If I look at this quarter's results, ex-cats, and maybe make a few other adjustments, it looks like you're annualizing to earnings of about $450 million – maybe a little bit higher than $450 million.

But if I think about that 15% ROE target, it suggests your earnings need to be somewhere between $800 million and $900 million a few years from now. I know TWG is going to add a significant amount to that, but it still feels like there is a pretty big gap to get there. Can you just walk us through maybe a few of the more important drivers of filling that gap over the next few years?

<A – Alan Colberg – Assurant, Inc.>: Yeah – no, certainly, John. And as background for everyone, John is referring to the 15% ROE target we put out at the January or February 2016 Investor Day. Start with our earnings and then add in significant earnings for The Warranty Group. Important to remember the synergies that we've talked about.

<Q - John Nadel – UBS>: Yep.

<A – Alan Colberg – Assurant, Inc.>: We said $60 million hard cost synergy run rate. We've said there, clearly, are going to be some revenue synergy upsize, but we haven't attempted to quantify or value those in our model. And then, if you look at our business, we grew earnings in 2017, which was an important step in our transformation. We're going to grow earnings again in our outlook that we provided in 2018.

And when you get into 2019 and 2020 with lender-placed normalization nearing its end, we are well positioned to grow earnings rapidly as Assurant. And then, we have opportunities to manage that equity and to go through combined operations and release some capital out of our businesses.

With all that said, we are going to, later this year, as I mentioned in the prepared remarks, look at the combined company and put out what we think are the right long-term metrics. But for now, we feel like we have momentum toward that ROE target. As I mentioned, we're up 40 basis points versus yearend, and we see good progress in our company.

<Q - John Nadel - UBS>: Okay. So, we'll look forward to a more - I guess I'll call it a more wholesome update, inclusive of TWG later this year. But that stabilization of LPI and the capital that - for the cash flow that it will throw off gives you two key drivers, right? One is no more earnings growth pressure as that shrinks; and, two, the opportunity to be active in capital management.

<A - Alan Colberg - Assurant, Inc.>: Correct, John. And then, the other thing that's important to remember, Lifestyle, we put out back in 2013 a long term - we can grow earnings 10% a year on average, and we have more than delivered on that over the last five years. And we certainly have reaffirmed that we expect, on average, we can grow at 10% on average Lifestyle. So, that combined with a different profile for lender-placed when we get into 2019 and beyond positions us very well for earnings growth.

<Q - John Nadel - UBS>: Okay. That's helpful. Thank you. And then, second question is just thinking about the vehicle protection business. I don't think you're trying to tell us that the margins there - underwriting results there were weak. I think it was just the year ago that was so good. So, the comparison was tough. But can you just confirm that? And obviously, vehicle protection is so important to TWG. Are they seeing similar results there?

<A - Richard Dziadzio - Assurant, Inc.>: Yeah, John. I'll take that one. It's Richard. So, yeah, I think you hit it on the head. We're really comparing to last year results of 92% for risk-based in Lifestyle, whereas our long-term target is 96% to 98% that we put out. We came in at 99%. There were some increase in expenses in there - some one-time increase in expenses in there and a little bit higher non-GAAP loss ratio. But for the full year, we fully expect to be within the bands that we've talked about previously.

<A - Alan Colberg - Assurant, Inc.>: Yeah. And on The Warranty Group, we'll provide a summary of their Q1 sometime in the next few weeks. But as was mentioned, all indications are their business continues to progress as we expect with good momentum in the vehicle business.

<Q - John Nadel - UBS>: Thank you. If I can sneak one more in just - because this has become such a significant topic in the industry here in the last couple of weeks, but just a question on your old long-term care insurance business. I know that was sold to John Hancock something like 18 years ago via a co-insurance transaction...

<A - Alan Colberg - Assurant, Inc.>: That's correct, John. Yes.

<Q - John Nadel - UBS>: But I just want to confirm - and I think it's helpful for folks if you can confirm that you have no obligations related to that block of business, correct?

<A - Alan Colberg - Assurant, Inc.>: That business is - I would say it's on our books. It's reinsured. It's reinsured to, I would say, a party of very high credit standing. And in addition to that, the reserves - or the assets across some reserves are held in trust. So, we're feeling extremely secure about that business.

<Q - John Nadel - UBS>: Thank you very much.

<A - Alan Colberg - Assurant, Inc.>: John, thank you.

Operator: Our next question is coming from Mark Hughes from SunTrust. Your line is open.

<A - Alan Colberg - Assurant, Inc.>: Hey. Good morning, Mark.

<Q - Mark Hughes - SunTrust>: Thank you. Good morning. Yeah. Did I hear correctly that, in the Connected Living, the favorable client contract term amendment - was that kind of a one-time boost? And if I - and if that's right, how much was that?

<A - Alan Colberg - Assurant, Inc.>: So, yes and no is the answer to that. The ordinary course for us is we're routinely going through all of our client contracts and truing up collecting if there are things that aren't performing as were agreed. So, it's a pretty normal course. The reason we called it out, it was a little bit bigger than we normally see in a quarter but nowhere near the size of the one from the first quarter of 2017.

<Q - Mark Hughes - SunTrust>: Okay. So, less than that, but you haven't quantified it?

<A - Alan Colberg - Assurant, Inc.>: We haven't quantified it...

<Q - Mark Hughes - SunTrust>: At least for public purposes?

<A - Alan Colberg - Assurant, Inc.>: Right.

<Q - Mark Hughes - SunTrust>: Yeah. The mobile trade-in volume, I think you suggested was down in Q1 and it looks like industry shipments have been soft lately. Any body language on the last couple of months? Is that kind of still the same trajectory, possibly better?

<A - Alan Colberg - Assurant, Inc.>: Yeah. I think the important thing in our Mobile and Lifestyle business, as you saw, we had a strong first quarter despite relatively weak mobile trade-in volumes because we have many other sources of revenue and earnings in mobile. So, we've weathered now many quarters in a row of pretty soft trade-in volumes with continued strong overall growth for our Lifestyle business. We - as we look forward, we still expect later this year that we'll see a pickup in mobile trade-in volumes. But if we do or don't, we continue to have strong momentum in Lifestyle, independent of that.

<Q - Mark Hughes - SunTrust>: Understood. The KDDI enrollments are quite strong in the quarter. Is - anything we should think about in terms of the pattern of growth there? Is it kind of frontend-loaded? And the relationship, you're getting a nice pop? Or is this something that you'll see sustained pickup? How should we think about that?

<A - Alan Colberg - Assurant, Inc.>: I think we're going to continue to see continued strong growth in that relationship for the foreseeable future. And at this point, our relationship with them only covers one major manufacturer, and we have opportunities to expand that to other manufacturers. So, I think we feel good about how that program is going so far with significant growth over time in front of us.

<Q - Mark Hughes - SunTrust>: And with respect to the T-Mobile situation, what's the latest take on your opportunity there?

<A - Alan Colberg - Assurant, Inc.>: Yeah. As we've talked about, T-Mobile is an important partner for us. We've been embedded in their operations and a key part of their on-carrier strategy for many years now. So, we feel well positioned with an important client however things play out in the marketplace over time.

<Q - Mark Hughes - SunTrust>: Any opportunity to take share as a consequence of this?

<A - Alan Colberg - Assurant, Inc.>: Hard to speculate on what will actually ever happen with the potential merger that's been announced. But the good news for us is we have a strong partnership with T-Mobile, and that creates opportunities over time.

<Q - Mark Hughes - SunTrust>: Thank you.

<A - Alan Colberg - Assurant, Inc.>: Thanks, Mark.

Operator: Our next question is coming from Jimmy Bhullar from JPMorgan.

<A - Alan Colberg - Assurant, Inc.>: Hey. Good morning, Jimmy.

<Q - Jimmy Bhullar - JP Morgan>: Hi. Good morning. First, I just wanted to clarify your comments on buybacks. I think you had initially said that you would evaluate buybacks after the closing. And are you implying that it's unlikely that you will buy back stock this year even in the second half?

<A - Alan Colberg - Assurant, Inc.>: Yeah. So, a couple of comments on that. One, as you know, what we've said is that, as of now, we think buybacks are unlikely in 2018. But we've said we will revisit that post close. We'll take a look at our capital and cash position post-closing.

Fortunately, we have a very long history and a very strong track record of creating value for our shareholders and a large part of that is returning capital. That hasn't changed. The only thing that's happened this year is we've effectively brought forward the share buybacks that we had planned for this year by issuing 3 million fewer shares as part of purchasing The Warranty Group. So, we will revisit post-close. But for now, the expectation is that we don't anticipate further buybacks this year.

<Q - Jimmy Bhullar - JP Morgan>: And then, on the mortgage solutions business, obviously, there's been some industry headwinds as well. But it doesn't seem like the industry environment is as weak as your results would suggest. So, are there things that are going on in the market that sort of – or related to your business where you've been able to find reasons where you're performing worse? And what's your view on the likelihood of stabilization and/or recovery in that business.

<A - Alan Colberg - Assurant, Inc.>: Well, I think our perspective at this point is that it's going to be remaining challenging for the balance of the year. With that said, we've taken aggressive expense actions, and we'll continue to take appropriate expense actions. The real challenge we've been dealing with is both the market. And then, as we brought the companies together, we had some client issues that cost us some volume last year.

With that said, we're starting to see some good business opportunities. In fact, we're onboarding several new clients right now in our field services business. So, what we tried to message in the outlook is we don't see it recovering this year. We see it remaining challenging. But we feel like we've taken appropriate actions to really stabilize that business.

<Q - Jimmy Bhullar - JP Morgan>: Okay. And then, just lastly on the placement rates in the LPI business and I realized long term there is not a lot of visibility on what happens with that. But any reason to believe

that, beyond 2018, if the housing market stays strong, that it wouldn't continue to decline maybe at a slower pace?

<A - Alan Colberg - Assurant, Inc.>: Yeah – no. Certainly, there is a natural kind of bottom to placement rate because, important to remember, some of the homes we insure are actually the consumer choosing to buy our product, and it's actually a pretty significant portion of what we do now in lender-placed. But I think, as we get into 2019, we will see placement rates moderate, even if the housing market remains strong, the rate of decline will moderate.

Importantly though, we've been taking significant action with the investment we've been making in technology that will really create, we expect, cost savings in 2019 and beyond, which should allow us to perform in that business even if we continue to have placement rate declines.

<Q - Jimmy Bhullar - JP Morgan>: Okay. All right. Thank you.

[Operator Instructions]

Operator: Our next question is coming from Gary Ransom from Dowling & Partners.

<A - Alan Colberg - Assurant, Inc.>: Hey. Good morning, Gary.

<Q - Gary Ransom - Dowling>: Good morning. I – most of my questions have been answered, but on – I had a question on the accounting treatment after the deal of the amortization of intangibles. And I just wondered if you could give us any estimate of the size of that or – and just to clarify whether that's actually in your definition of operating or whether that's below the line.

<A - Richard Dziadzio - Assurant, Inc.>: Yeah. Good morning, Gary. It's Richard. Yeah. In terms of intangibles, at the time of the acquisition, the first announcement, we talked about $30 to $35 million per year in terms of intangible amortization. No update as of the call today. I have no reason to believe that there's going to be a change from that.

And as I mentioned earlier, when we get to close, that's when we'll do our opening balance sheet and that would be a part of the operating earnings that we have today. The amortization of intangibles that we have from various acquisitions goes through that as well. We are, however, as we've said in the past, looking at ways to show the market the cash generation power that this company has. And we'll be updating that as part of the update later this year that Alan mentioned earlier.

<A - Alan Colberg - Assurant, Inc.>: And, Gary, just one other thing on that. In the outlook that we provided on The Warranty Group where we said the deal was modestly accretive on a run rate basis with the synergies that we expect, we included in that analysis the amortization. So, it's modestly accretive, including the amortization that Richard just highlighted.

<Q - Gary Ransom - Dowling>: Right. Okay, okay. And just one other broad-based question on your comment about migrating one big housing client onto your one platform, could you maybe give us a little bit more color on what that means for that client and then what it means for you in terms of expense?

<A - Alan Colberg - Assurant, Inc.>: Yes. So, our environment today is complicated. It's a legacy of many different systems that were built either by us or through acquisitions. So, in order to effectively serve clients and consumers today, it's a fairly complicated training process a representative has to go through. This new system is a massively superior consumer and client experience. It's a single system that has all the information. We can have a new representative up and running much quicker than in the past. And as we

install it, we'll be able to take a lot of cost and complexity out of our business with a better outcome for our clients and their consumers.

<Q - Gary Ransom - Dowling>: And your intention is to get everyone on this platform?

<A - Alan Colberg - Assurant, Inc.>: Yes. We've been working with our clients for many years now. In fact, the system was designed with a client council that provided continuous input into what they needed to operate their business better. And so, in the short term, it's actually hurting our expenses because we're carrying both the existing system and we're starting to invest, and we've been investing in this new system. But that's why we've said, beginning later this year and especially in 2019 and beyond, we should have significant improvements in our expense ratio as we're able to get a critical mass of clients on the new system.

<Q - Gary Ransom - Dowling>: Okay. Thank you very much for those answers.

<A - Alan Colberg - Assurant, Inc.>: All right. Thanks, Gary.

Operator: Our last question is coming from John Nadel from UBS.

<Q - John Nadel - UBS>: Hey. So, I just wanted to follow up on one of the comments you made, Alan, which was - I found interesting that a good portion of the lender-placed, the placed policies are actually sort of voluntarily chosen as opposed to force-placed. And so, if I think about the 1.74% placement rate - and I know you guys talked about it declining at least through the end of this year. So, give or take, about 600,000 policies enforced, can you give us a sense what portion of that 600,000 policies is actually voluntary as opposed to force-placed?

<A - Alan Colberg - Assurant, Inc.>: Yeah, yeah. So, John, I'm not going to answer it exactly. But the way to think about this is, before the crisis, if you go back to the 2005-2006 type range, we had placement rates, call it 1.5, a little bit around that range, and that was largely from voluntary purchase by consumers and that was in an era when our rates were substantially higher than voluntary products.

You fast forward to today, we've completely redone the product over the last five years. Our product is actually relatively competitive now with the existing voluntary products. And so, what we're finding now is we're having greater consumer choice to pick our product. And then, there's always going to be some lever - or level of volume that comes from the foreclosed inventory, the seriously delinquent, just moved into foreclosure, just moved into REO, which is why we feel pretty well positioned that even the placement rate was going to continue to modulate a little bit which it could if the housing market remains strong. We're not far from the bottom at this point.

<Q - John Nadel - UBS>: That's really helpful. Thank you so much.

<A - Alan Colberg - Assurant, Inc.>: Great. Thank you.

<Q - John Nadel - UBS>: Thank you.

Alan B. Colberg, President, Chief Executive Officer & Director, Assurant, Inc.

Thanks, everyone, for participating in today's call. We're pleased with our first quarter performance and believe we're off to a strong start for the year. We look forward to updating you on our progress on our second quarter earnings call in early August. Please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions. Thanks, everyone.

Operator: Thank you. This does conclude today's teleconference. Please disconnect your lines and have a wonderful day.