



ASSURANT®

Assurant Fireside Chat - BofA Securities Conference

PARTICIPANTS

Corporate Participants

Keith Demmings - President & Chief Executive Officer, Assurant, Inc.

Other Participants

Grace Carter, Analyst, BofA Securities

FIRESIDE CHAT DISCUSSION SECTION

Grace Carter - BofA Securities

Hi everyone, welcome back to the conference. We have Keith Demmings with Assurant with us right now. Keith assumed the role of CEO at the beginning of this year. Prior to that he's been with Assurant for 25 years in various positions. Most recently before CEO he was the President of the Global Lifestyle lines. Keith, would you like to start us off with a bit of an introduction to Assurant?

Keith Demmings - Assurant

Sure, and thanks for having me, Grace. Happy to be here. Assurant is a Fortune 300 company. We operate globally around the world in 21 different countries. We've been really transforming the business fairly significantly over the last several years to become a provider of housing and lifestyle protection services, very much focused on supporting evolving needs of the connected consumer.

We've tried to drive the business forward by focusing more on capital-light, fee-income income product lines. We specialize in mobile device protection, service contracts for appliances and electronics, a lot of products and service that wrap around the automotive industry. We also operate renters insurance and we support the mortgage services industry with our lender-placed homeowners insurance business. So again, we've got marketing-leading positions in a number of product line, a big US presence and then 16,000 global employees around the world.

Grace Carter - BofA Securities

Thank you. Y'all have got an Investor Day coming up in a few weeks. Thinking about the next three-year plan, what should investors really be keeping in mind, heading into the Investor Day? And I mean like what you mentioned with the transitioning towards more capital-light businesses, how should we think about the phase in the evolution? Does the Preneed sale kind of mark the last major chapter of that transition? Just how should we think about where we are today?

Keith Demmings - Assurant

If you think about the journey that we've been on, we've really transformed the portfolio of businesses. We used to have a fairly significant health operation, employee benefits business and then a Preneed funeral insurance, really a life insurance company. And we've divested of those assets to really focus the portfolio down where we really think we've got market-leading positions and some significant competitive advantages.

I think as you look toward the future, no doubt we'll continue to transform the company, but really trying to transform our core offerings. We've got positions of strength in all of our product lines. We've got growth happening in all of our international locations, so a lot of focus on how do we evolve products and

services to make sure we're delivering value for our major clients; keeping up with the needs of consumers; and investing more in technology, in our digital assets, in innovation, product development and really trying to drive the customer experience.

So, a lot more transformation of the core businesses that we're in and less about rationalizing the portfolio. And we'll definitely spend time at Investor Day talking about our three-year vision, our long-term financial outlook. But you've seen good growth of our core businesses, revenue growth, profitability growth and a lot of focus on efficiency as we deliver for our clients.

Grace Carter - BofA Securities

Thank you. Speaking of technology and innovation, y'all have been working on fortifying a lot of your offerings in the past few years, most recently in-store repair in the mobile line comes to mind. Could we talk about technology innovation, what are the pros and cons of going about that organically versus inorganically? When you're having conversations with potential new partners and existing partners, how important is your willingness to innovate? And just any sort of impact you see on policy uptake and persistency from your capabilities that you've added.

Keith Demmings - Assurant

I will happily talk a little bit about what we've done with in-store repair. And I think one of the advantages that Assurant has is we've been very innovative. Part of it is we're extremely focused. We stay very close to our clients. We're always researching the changing needs of the end consumer to adapt our offerings.

A really good example is what we've done around the mobile device protection business. So we're much broader than a traditional insurance company. We operate repair operations, physical depots. We also operate walk-in repair so that we can actually fix a consumer's device and get it back to them the same day. So that's been a fairly big transformation, I would say, over the last few years.

Ten years ago, we acquired a company that gave us capabilities to run major depots and manufacturing facilities to refurbish devices. So that was a core part of our value proposition, giving the consumer a refurbished device in the event they had an accidental damage or a loss or a stolen phone. That has evolved fairly significantly over time as consumers today want their device repaired. They want it repaired within an hour or two. They want it done conveniently and proximate to where they live.

So, we've gone down a path to really augment our capabilities. We bought a company called CPR. CPR by Assurant, which had almost 600 walk-in repair facilities around the country. We also bought a company called Fixt that gave us a platform to deliver company new technicians to service the consumer either at their home or at their place of business. And then recently we rolled out 500 T-Mobile stores where we're actually fixing devices inside of T-Mobile's operations around the country.

And again, that's based on the feedback from customers and their preferences for getting service. And we've significantly invested in those capabilities. And had we not made the acquisitions we made in the walk-in repair space, we wouldn't have been competent and capable to organically build what we deployed for T-Mobile in a matter of three or four months.

Grace Carter - BofA Securities

Thank you. Moving on. Most of the business segments currently operate under a B2B2C model. I was wondering if you could talk about the benefits of that versus direct to consumer. If market conditions permit it, if you would be interested in organically pivoting to any direct-to-consumer businesses; how feasible that would be; and at the right valuation, would you be interested in D2C M&A?

Keith Demmings - Assurant

If you think about Assurant, and this is true across all the product lines we operate in, and really in all of our geographies, everything that we do is B2B2C. We partner with the world's leading brands to deliver products and services to their end customers. I think that's very much core of who we are; and it's part of what gels us together as an enterprise.

And I think we've become extremely proficient at managing large-scale relationships. And also, everything we do is to protect the brand of our client. How do we make sure we're executing service for their end customers in a way that positively reflects on their brand image, and done so at the standards that they feel are appropriate? So, there's a lot of customization in how we deliver our service model, and it very much plays well in the large-scale B2B side of the marketplace.

And it's a huge competitive advantage, I think, from my perspective, that clarity of who you are and that's our distribution model. It allows us to scale very quickly. We obviously have major clients across every single product line. And we've got great access to end consumers.

If you think about our business model - I'll give a couple of simple examples - what we do for the mobile network operator, what we do with an automobile dealer or a retailer. The products are typically sold at the time when the good is purchased. There's a great opportunity for us to work with our partners to enable that transaction at the most appropriate time, at point-of-sale, where the underlying product needs to be protected.

So, our model tends to work well in that respect, and then obviously we can scale more quickly because we're partnered with major players around the world.

Now would we ever do direct to consumer, I think was the second part of the question? Probably the answer is no. And the reality is, for us to get into direct to consumer would mean that we would have to compete with our clients. And we pride ourselves in avoiding that conflict in the marketplace. Not only do I not think our products are best offered in a B2C model, I think they're very well positioned the way they're sold today, by the brands that are selling them where they have trust with the end consumer.

But to do something that in any way would compete with our own clients, I think that creates an inherent conflict of interest. And that would be problematic for us as we think about who we are and what our brand stands for in the marketplace.

Grace Carter - BofA Securities

Thank you. Pivoting to think about maybe capital deployment. Historically Assurant's targeted 75% of operating earnings going back to shareholders in the form of repurchases and dividends. It's going to be a little bit elevated in the near term, just thinking about proceeds from the recent Preneed transaction. I mean, past those proceeds, how should we think about whether that 75% target is still appropriate; and just the balance between returning capital to shareholders and the attractive opportunities that you have to reinvest in the business?

Keith Demmings - Assurant

I think we've got great opportunities in front of us for growth. I think one thing I would say is we've been very disciplined in terms of our capital management philosophy. That will continue to be true as we move forward. I think we've done some really strong acquisitions. If I look back over the last handful of years, the acquisition of The Warranty Group; the acquisition of Hyla Mobile; the acquisition of AFAS. I think all very smart strategic acquisitions. They play to our strengths, and they've created even stronger competitive advantages.

I think that will continue to be true as we move forward. I think when we talked about capital management on last week's call, part of it is that we want to preserve a little bit more flexibility and not be so prescriptive with how we define our go-forward capital management posture. Not because it's going to change dramatically, but because we think having a little bit more flexibility will benefit us as we think about the opportunities that are in front of us. Whether it's investing a little bit more in our own organic opportunities or looking for other M&A that could be really strategically relevant.

But we will continue to have a balance mix between share buybacks and potential M&A. And we're always going to look to make the best decision that's going to create shareholder value over the longer term. So, our signal wasn't that there's a big pivot in terms of our approach. It was just a little bit more flexibility, becoming less prescriptive with how we define capital return, so that we give ourselves the opportunity to look for really exciting opportunities in the marketplace.

It will continue to evolve over time; but I think the market will see us being disciplined, being prudent and ultimately trying to invest in long-term growth.

Grace Carter - BofA Securities

Thank you. Inflation is a topic on a lot of people's minds these days. The Lifestyle business has been insulated from part of that, just due to the nature of these contracts. They have reinsurance back to the client and profit-sharing mechanisms. How should we think about how enduring those contract aspects are? And then in periods of claims volatility, what is the likelihood that your partners might want to change that so that they don't have to take on as much of the risk?

Keith Demmings - Assurant

Yeah, I think we've seen that evolve over many, many years. So, in the Lifestyle side, if I think about our mobile business or the automotive business, many of the contracts are either reinsured or profit shared. One of the things that we pride ourselves on is transparency with our partners. So, the deal structures tend to be quite transparent in their structure.

We tend to make stated fees for performing various services, and then ultimately try to manage the overall profitability of the program, in partnership with our clients, to make sure we're delivering the right outcomes for the customer, but also for our clients as well.

That's evolved I'd say over many years. I think our clients are comfortable with the risk that they're taking. Obviously because of the level of transparency that they have. And certainly our P&L is not completely insulated from inflation, but I think Assurant overall has weathered the storm quite well in large part because of the contracts that we have in place where we're really not on the frequency or severity risk for a lot of the business that we support; and the fee income streams tend to be more manageable with less volatility, certainly.

I don't expect that to change. I think our clients are very comfortable with the risk and have become comfortable over a longer period of time. And ultimately there's some volatility that they take, but I think the rewards are certainly worth it from the client perspective.

If I look at maybe Assurant overall, we've also done really well with respect to navigating inflation, navigating the pandemic. In our Housing business we've got average insured values have been increasing, which is offsetting the increased costs for parts and labor in our Housing business. That's proved beneficial for us. I think about the automotive business broadly. We've got a really nice balance between new vehicle, service contract and used vehicle.

So, as we've seen some shifting in the market with a lot more sales of used cars, as new inventory has been pressured, we've just seen a shift in our mix to more used cars. But again, we're quite insulated from that perspective as well.

Grace Carter - BofA Securities

Thanks. Thinking about the Housing book, lender-placed. So, with the pandemic there's been a moratorium on foreclosures. Could we talk about how you all think about the likelihood of the sort of moratorium becoming a more normal occurrence in the future? How that might impact demand for lender-placed over the longer term? And how that might impact the more traditional counter-cyclical of this business?

Keith Demmings - Assurant

Yeah, I still think lender-placed is counter-cyclical. I don't think maybe to the extremes that we would have seen in 2008, 2009 certainly. But if there is a downturn of the economy, if there is a downturn in the housing market, we'd expect to see the placement rates on that business rise. It's been pretty stable if you look over the last three, four quarters. We're predicting modest upticks in placement rates over the balance of 2022.

We also expect as there are more foreclosures, there'll be more policies that we have in-force, relative to the real estate owned side of our business, which is really at all-time lows today. So, there are some natural tailwinds in terms of what we might expect to see in terms of our overall placement rates and premium rates in that business. I don't expect to see anything dramatic from that perspective. And certainly, there's a lot more equity today in the housing market.

You're seeing a lot of effort by servicers and mortgage companies to work with lenders, to restructure the loans. You've also got a ton of equity in homes. So, if consumers can't afford the loan, there's an opportunity to sell the real estate and pay off the loan. So, I definitely think it'll be a moderated level of increased placement rate over time. And like we said, signaling a small uptick in the second half of the year.

Grace Carter - BofA Securities

Thanks. The investment portfolio -- thinking about rising interest rates. Assurant has a little bit of a longer duration than a lot of more kind of standard property and casualty players, just due to the nature of certain warranty contracts. How should we think about an impact on rising interest rates on the portfolio yields and the target allocation? And what sort of investment yield expectations are built into the outlook for 2022?

Keith Demmings - Assurant

We definitely looked at the latest rates in the market as we put our outlook in the market last week. We came out with an expectation to grow our EBITDA 8 to 10% across 2022. That's on the heels of delivering a 9% growth in EBITDA in 2021. And part of obviously our modeling looked at what do we think future interest rates are going to do. And obviously that may change as we move forward.

I wouldn't expect it to have a huge impact on 2022 overall in those goals. First of all, I would say our average duration is around five years. We've got a fixed income portfolio, investment grade for the most part. And overall, been very conservative with how we've managed our investment portfolio, which I think has served us very well.

As we think about new money available to invest, certainly the new money can be invested at slightly higher yields. If rates are to continue to rise, that will have a modest positive effect on 2022's numbers overall. But in the grand scale of our investment portfolio and the amount of new money available is relatively small. And I wouldn't expect it to have a meaningful impact either way in 2022.

But certainly, as interest rates rise over time, there's an opportunity for us to start to see benefits falling through in the out years.

Grace Carter - BofA Securities

Thank you. I think we're actually approaching the time limit. Just one more quick one just on kind of the pivot to Adjusted EBITDA guidance from prior Adjusted Operating Income. If you could just remind everyone on the line as kind of a quick take on y'all's thought processes behind that.

Keith Demmings - Assurant

We introduced EBITDA early last year and as we're coming up on Investor Day, spend some time thinking about the most appropriate operating metric to use as we move forward. We were measuring both net operating income ex-cats and then EBITDA ex-cats as well. Thought it would make sense to, number one, simplify to a single operating metric.

We've obviously reshaped the company significantly over the last several years, transformed much more toward fee-income, capital light. Feel like EBITDA for the lion's share of our organization is the most appropriate metric for us to be measured by and compared against peers. And we thought it was the right time to make that change. And obviously it signals where we're going in the future and the company that we're looking to continue to become over time.

So, we'll spend more time on that at Investor Day, but that was the basic rationale there.

Grace Carter - BofA Securities

Great. Thank you so much for being here today. We really appreciate your participation. A lot of really interesting stuff. Thank you.

Keith Demmings - Assurant

My pleasure. Thanks Grace.