42nd Annual William Blair Growth Stock Conference Transcript

PARTICIPANTS

Corporate Participants

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

Other Participants

Jeff Schmitt – Analyst, William Blair

OPENING REMARKS

Operator: Good morning, everyone. Let's kick off here. My name is Jeff Schmitt. I'm a research analyst at William Blair, who covers financial services and technology stocks. Assurant is a leading provider of warranties for major consumer purchases and niche property solutions. It's really transformed over the last, call it, five years in a much more kind of a fee-driven services company. We think that's put the company on a much better path. This is actually our top stock pick for the year, and it's done really well. We think it will continue to do well.

We have with us today, the CEO, Keith Demmings; the CFO, Richard Dziadzio; and the President of Global Connected Living, Biju Nair. Also, I'm required to inform you that for a complete list of disclosures or potential conflicts of interest, please visit our website at williamblair.com.

And with that, I'll turn it over to Keith to discuss the business.

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

Right. Thanks, Jeff, and it's great to be here today. This is our first time presenting at the conference. Hearing that we're your top pick, I was thinking about letting you do the whole presentation. But I guess I'll do it myself. So a couple of thoughts. First of all, thank you for joining today. Really excited to be here. I've become President and CEO as of January.

So just to give everyone a little bit of background, I've been with Assurant for 25 years. I started out running our Canadian business for many years. I moved to Atlanta to run the international division of Assurant. I ran Global Lifestyle for about six years and then took over as President last May, CEO in January, and it's been a really well-orchestrated, well-planned transition, been incredibly smooth. We've got great momentum as we exited 2021.

I established a new management committee on January 1, very much focused on driving growth, serving clients, focused on innovation and bringing a P&L mindset to everything that we do and all of the decisions that we make, very much disciplined around capital management and strategic decision-making.

So really pleased with the company that I inherited. My predecessor did an incredible job setting us up. We'll talk about it in a minute just through really a tremendous transformation of the company and excited to take

the company forward for the next part of the journey. I do need to acknowledge our Safe Harbor statement, so I'll put that up on the screen and give everyone a chance to take a look at that.

As I think about the company today, we're definitely positioned to continue to outperform. We've had a strong track record of outperformance. If we look back over the last several years, we've dramatically simplified the portfolio. We exited the health insurance business. We sold our employee benefits business. We sold our Preneed funeral insurance business, very much focused our portfolio on products where we thought we had a significant opportunity to drive growth and material market advantages. We've historically been viewed more as a specialty insurer. As Jeff mentioned, we've really transformed a lot of the company to focus on fee income and capital-light businesses, which now comprised a significant portion of the overall portfolio.

Today, we're definitely more akin to a business services company. And as you think about the vision that we put forward at Investor Day, it's to be the leading global business services company supporting the advancement of the connected world. And I'll just highlight a couple of things. First, we're very much a global organization. We operate in 21 countries around the world. We've continued to scale our international presence, really focusing on key markets where we think we can drive scale and competitive advantage. We also believe in bringing a global mindset to help us drive learnings and innovation back into all of our core businesses.

We're very much a business services company. If you think about our business model, always in partnership with major consumer brands. Everything we do is B2B2C. We don't operate direct-to-consumer. We've got clarity of purpose, and we partner with the world's leading companies to help them deliver products and services and ultimately help them build their brands in the marketplace. And then we're very much focused on the connected world. And that's our role in supporting, connecting and protecting major consumer purchases and then continuing to invest in digital delivery and digital solutions to really evolve the company as the consumer continues to evolve around us.

As I think about the forward-looking future of the company, I talked a little bit about the outperformance. We've had five years of profitable growth, consistent profitable growth. And I think that's something as a company we're very proud of. Doing that while we've transformed the organization is something I think that's very exciting, and we expect that to continue as we move forward. We've got superior cash flow generation and very much disciplined capital deployment, and our philosophy hasn't changed with me taking over as CEO. Very much we've strengthened our position around a disciplined mindset.

We generate a tremendous amount of cash flow. It gives us significant financial flexibility. It allows us to invest both organically and inorganically. It also allows us to do significant capital return to shareholders. We also maintain our dividend and expect to do that as we move forward. And we've got a really strong history of discipline. If you think about the divestitures of both Preneed, as well as employee benefits, the vast majority of those proceeds were distributed back to our shareholders through share repurchases, and we expect that mindset will continue as we move forward.

We've got meaningful leadership positions with scale advantages in the key markets that we play in. As we talked about, we focused the portfolio. I believe in focusing on areas where we think we can clearly be the leader in the market, the number one player, and putting our energy into doubling down where we have significant advantages. We've got an incredible culture, very much purpose-driven, focused on a commitment to sustainability, which is important. Our purpose as an organization is helping people thrive in a connected world. We've got incredibly strong core values of common sense, common decency, uncommon thinking and uncommon results.

And we recently refreshed our culture as an organization to help our leaders understand what we expect and to help our employees understand what it takes to continue to be successful, very much focused on helping our clients and our customers and delivering with passion and purpose, focus on value creation and the importance of prioritization as an organization and that back to the focus and simplification point, investing in innovation and embracing a mindset of curiosity, focusing on execution.

Everything we do is to serve major partners. They demand world-class execution, world-class customer experience, and we've got to bring grit and determination to deliver for our clients every single day. And then we've got to have an investment in great talent, great leadership that understands our clients' businesses and understands how to provide value over time.

We also talked at Investor Day that we believe we've got a compelling valuation story. We think that will bear out over time as we continue to evolve our portfolio as we continue to demonstrate consistency of our earnings and the power of our cash flows. We believe we more closely aligned to peers in the business services space, less so in more traditional insurance comps.

We talked about companies that are lower risk, more fee-based in their business model. We talked about home warranty companies, diversified commercial services players, insurance brokers. And we believe our track record compares favorably. We also believe our outlook as you look at 2022 and the projections that we put forward for 2023 and 2024, we think we've got long-term opportunities to continue to outperform many of those peers. And hopefully, that results in valuation as we move forward, which is something we're certainly focused on.

As I think about the business that we operate and really just cover this at a high level. First of all, I talked about the B2B2C orientation of our business model. We partner with 15 of the top 50 most valuable brands in the world. We've got long tenure. Most clients were in the range of 15 to 20 years of tenure with our biggest clients. We've got really deep integrations with our partners. We're a key part of their ecosystem and their value chain and the services that they deliver to their end consumers. We've also got a proven track record of driving meaningful innovation and a mindset to drive even more innovation now over the next several years.

As I think from left to right, the Connected Living business, we talked about this earlier, it's the mobile protection business. It's retail service contracts, and it's everything that's required to serve a mobile operator from device trade-in, technical support, repair and logistics-related services, and it's a really complex business. It's been our fastest-growing business. We've achieved 15% EBITDA growth over the last 3 years. We operate with retailers, mobile operators, cable operators. We have eight of the top 10 telecom companies in the world as our partners. This is very much a global business.

We operate our Connected Living business in every of our 21 countries. And we've got an incredible amount of momentum. We've gained significant market share over time. We've expanded our capabilities. We believe, bar none, we have the most comprehensive set of capabilities in the industry and the most momentum in the marketplace. We also see opportunities to grow our retail business, and then to expand into some white space around the connected home. So lots of long-term opportunities for growth.

In terms of the Automotive business, I'm very excited about what we've built. In Auto, we're clearly the market leader domestically in Auto with the best footprint internationally as well. This was built up by a couple of really strategic acquisitions. We bought The Warranty Group in 2018 and then in 2020, we bought a company called AFAS. We deployed meaningful amounts of capital to truly become the premier leader in this space. We write vehicle service contracts and ancillary products, mainly through distribution with auto dealers.

We partner with four of the top five public dealer groups. We partner with more than 5,000 automotive dealers globally. We've got a very diverse distribution channel in terms of how we operate and what our go-to-market looks like. We've got a lot of clients, which gives us a tremendous amount of diversification. It's a very fragmented market, and we continue to show signs of growing market share and then gaining scale and driving more operational efficiency that allows us to invest in delivering differentiated customer experience and transforming our operations.

We operate a really robust renters business, which is in our Multifamily housing portfolio. We've got a strong track record of growth, high single-digit growth over the last several years. We operate with property

management companies, affinity insurance companies. We've got seven of the top 10 property management companies in the U.S. as clients. We have 2.6 million renters, which gives us roughly a 13% share of the market. Again, gaining share as we've invested in technology and customer experience.

We've got a unique set of smaller products within our Specialty line of business, niche products really focused on our efforts around driving more predictable cash flows, investing in the product lines that are more oriented to fee income that are more capital light, things like equipment insurance and flood administration. So smaller lines of business, very much niche, expect to generate significant ROEs and growth over time.

And then finally, we're the preeminent leader in the lender-placed homeowners business. This is more akin to a traditional homeowners policy that protects the dwelling. We partner with seven of the top 10 mortgage servicers in the U.S. We track more than 30 million loans. We are, by far and away, the dominant market leader in this space. And again, just deep integration and long tenure with the clients that we partner with.

This business is very much countercyclical. We see it today really at the bottom of the market. And if the economy continues to soften over time, we expect this business to have natural tailwinds behind it as we move forward, and it does give us a nice balancing factor in terms of our portfolio.

If I think about the transformation of the company, and this slide, I think, represents it well, not only have we significantly scaled the business from $700 million of EBITDA to $1.2 billion of EBITDA in 2021. That's an 11% CAGR over time. So, we're really proud of that. But we've dramatically reshaped the portfolio. The most notable fact is not only have we grown Connected Living and auto meaningfully, which are really attractive lines of business and a significant part of the valuation story, we've significantly reduced our reliance on our cat-exposed business. Now less than 25% of our total EBITDA is at risk for cats, and that's a material change over the last five years. And we expect to continue to see our fee income business grow and scale over time.

We've also proven to be relatively insulated from macroeconomic trends. We've done a great job managing through COVID. Our results have been stable, not just in terms of our ability to deliver service to clients and customers to pivot to work from home, but also to manage inventory to make sure we're delivering on our repair commitments to end consumers in the mobile business. We've navigated the shift in the auto market between new and used vehicles, and there's a lot of reasons why we're insulated as we look forward.

If you think about Global Lifestyle, two thirds of the business is actually reinsured or profit shared with clients. So in that business, one third of the time we're actually on the risk, which gives us a tremendous amount of insulation as parts and material costs change over time. We've got a really strong mobile installed base of 63 million mobile subscribers that doesn't move around dramatically, regardless of what's happening with device sales. There's also a tremendous amount of consumer demand around mobile. There's aggressive marketing campaigns by our clients in mobile, and clients are always looking to innovate, which gives us great opportunity to add value as we move forward.

In the Auto business, roughly 85% of the earnings that we'll generate in 2022 come from policies that were written prior to 2022. So it's got a long tail. We've got a significant embedded earnings stream, a material UPR. That business is quite predictable, and it's very well balanced between new and used cars, which allows us to be successful regardless of what's happening in the broader marketplace. We've also seen pent-up demand. We expect new car sales to improve as there's more availability of vehicles, and we expect there's some opportunity to get some additional growth as that happens.

In the Housing business, we do see effects of inflation. We do have risk in that business. We do see the cost of labor and materials increasing. Fortunately for us, we've got material increases in our average insured values. We've also got rate increases flowing through. And those are doing a pretty good job of offsetting the impacts of inflation as we look at the broader housing business.

And then finally, we see certainly effects from foreign exchange. As we look forward, we see impacts on the labor market, but those are largely offset by the investment income that we see flowing through because we are seeing material increases in interest rates, and that's generating a meaningful improvement in interest

income over the balance of 2022. So again, a lot of moving parts that work together and also lender-placed is countercyclical. It tends to grow in more challenging markets. So I feel very good about how the we're positioned, the portfolio that we operate and the diversification, I think, allows us to weather the challenging markets quite well.

As I think about the outlook that we put out into the market, and really we recommitted to this after our Q1 call, we're talking about 8% to 10% growth in EBITDA in 2022, accelerating to 10% as we move out into 2023 and 2024. We expect to deliver 16% to 20% growth in earnings per share in 2022. A lot of that is driven by, obviously, the strong results and our capital – disciplined capital return but also returning the balance of the Preneed proceeds that we've committed to the market. We also expect EPS growth to be 12% or higher as we get into 2023 and 2024. And generally, we expect 200 basis points of acceleration in terms of EPS growth on top of the EBITDA growth that we've talked about.

And then in terms of cash flow generation, $2.9 billion of cash, we expect that to allow us to have $2.2 billion of deployable capital. And again, that allows us to fund growth, both organically and inorganically and also continue to do capital return to shareholders and expect that to continue as we move forward.

In terms of the capital management philosophy, again, very much disciplined. We certainly are looking at a combination of M&A and organic investment, continuing to leverage share repurchases. We've talked about $200 million to $300 million of share repurchases on a typical annual cycle. We've talked about maintaining our common stock dividend. And certainly, M&A has been an important part of our story. At Investor Day, we talked about of that 10% growth in EBITDA in 2023 and 2024, 2% or 20% of the 10% is likely to come from continued investments in acquisitions.

If you think about our track record, since 2018, we've done 16 acquisitions. We've deployed $3 billion of capital. We've actually done three meaningful acquisitions, The Warranty Group, HYLA Mobile and AFAS. And then we did 13 smaller tuck-in acquisitions in mobile and in auto that really strengthen our underlying value proposition, expanded our capabilities, and we think we've executed really well on M&A. Part of it is we want multiple ways to win as we look at acquisitions. We look at the strategic value of the asset. Does it give us access to new clients? Is there a meaningful amount of synergy? Is the culture a good fit? Are we acquiring new talent and making sure that it creates clear pathways for growth.

So we're very selective about acquisitions. And I think that allows us to be good stewards of capital and continue to drive growth in the business and then relentlessly focus on delivering our business case, how we execute, how we integrate, how we drive synergies and how we extract value while we protect the talent, the client relationships and find new sources of growth.

And HYLA Mobile and Biju's here. Biju came to us from HYLA Mobile. He was the CEO. We made that acquisition in 2020. He's now the CEO of our Connected Living business, and that was a great example of a successful acquisition. We deployed a little more than $300 million of capital into HYLA. We became the clear market leader for global trading, expanded our capability set, dramatically increased our roster of clients, got an incredible operation, great technology and talent that we could leverage more broadly to help us grow in many parts of the Connected Living business. So that's a good example of the kind of acquisition that we would look to continue to find as we go forward. But again, very selective, and it's not something we're forcing as we move forward.

And then finally, just in terms of a couple of final comments that I would share. First, I'm extremely proud of the track record of growth that we have as an organization, and I think that gives us confidence as we talk about what we expect from our team in the future. We believe we've got a path to continue to outperform. We've got great momentum in the business. The resiliency of our business is obviously a huge strength, and we're excited about what lies in front of us.

We've got an exceptional culture with a bias for growth but very much focused on bringing a P&L mindset and operator mindset to everything that we do to drive value in the market. We've got exceptional client relationships. We partner with many of the who's who companies in the world. They are always looking to

transform, to innovate, to drive new solutions. We're very focused on customer experience, Net Promoter Scores, not just serving our clients, but ultimately delivering exceptional value for end consumers. That requires us to invest in our operations, in digital and technology, and we do that alongside of our partners as we continue to help them evolve.

We've got the best and broadest set of capabilities in the market, and really incredible talent that's loyal to the company, that's loyal to our partners that wants to drive growth and really serve our clients well. We're disciplined around capital management, and I think that will continue to be a strength of the company. And again, just really excited to be here to share a little bit of our story. I know we're going to move into a Q&A session. So maybe I'll pause there and finish six minutes early, which feels like a small victory.

QUESTION AND ANSWER SECTION

<Q - Jeffrey Schmitt - William Blair>: Keith, thank you. I appreciate that. The one question that – and I'll just kick off with a question, but feel free, anyone, to raise your hand. But...

<A - Keith Demmings - Assurant, Inc.>: Do I get to bring my team up or am I solo now?

<Q - Jeffrey Schmitt - William Blair>: You can – you guys can come up.

<A - Keith Demmings - Assurant, Inc.>: No, it's good. Let's go.

<Q - Jeffrey Schmitt - William Blair>: So one of the issues, I think, that's front and center in investors' minds, obviously, right now is such a – tough macro headwinds, inflation, supply chain issues. And it's not having a real big impact on your business. I know you talked about it in your presentation, but maybe if you could reiterate why you're kind of so insulated from that? And even a slowing economy, you have this sort of countercyclical offset in that homeowners business. So maybe discuss that again.

<A - Keith Demmings - Assurant, Inc.>: Yes. I think it's complex in terms of the different parts of the business. Number one, where we operate in four or five different parts of the economy. So they don't always work in unison with one another, to your point. If I think about the mobile business, the vast majority of the economics we generate are from the in-force mobile device protection subscribers. We have 63 million customers that we serve today, whether or not the consumer is buying a new device or not, they're still covered for protection. A customer that's covered today, they might go in and upgrade to a new device, they just move from being insured on device A to device B in most cases. So that part of our business doesn't change that much regardless of what's happening in terms of device sales. So that's one factor.

Number two, the carriers are trying to drive promotions to 5G. Regardless of the economy, they've invested billions of dollars in 5G infrastructure, and our clients want to be the winners in the 5G upgrade cycle. So they're promoting really attractive offers. So even in a challenging economy, they still need to migrate consumers to the new technology and the new devices to take advantage of all of the services that become available. And that's playing the long game around 5G.

So I do think in mobile, we're going to see interesting dynamics where our clients are pushing aggressively even in the face of more challenging economic environments. And then we're the leader in the trading side of the business. And I think that allows us to be very relevant as clients are trying to extract value and put really attractive offers in front of consumers. So that's the mobile.

Auto, we talked about, it's – the vast majority of the earnings are from business that's already been written. In terms of new sales, really balanced, I think 50-50 mix between new and used. If new car sales are more pressured, we'll tend to see more used car sales. We're equally distributed. In fact, today, we're a little bit more used car-based just because of the shortage of new car inventory. So that gives us a lot of insulation. We're also partnered with market leaders. So if there's a challenging economy, you'll see more consolidation. We're partnered with companies that are more likely to be the consolidators. That's helpful.

We also see if car sales slowdown, our clients tend to put more focus on selling our products because they have more time in that customer journey to present our products, and that tends to help attachment rates. So there's some interesting dynamics in auto as well. I think renters is really important. It's a relatively efficient products for consumers. Typically, they've got to have renters to some level in a lot of cases. So I think that business is generally pretty insulated.

And then to your point, lender-placed is countercyclical. So we expect lender place to grow naturally if the economy is under more pressure. We'll see placement rates on our policies increase over time. And I think, again, the diversification of our lines is really important. And the fact that we've got reinsurance and profit share arrangements in place that allow us to offset fluctuations in terms of parts and labor is another interesting part of our story.

<Q - Speaker>: [Question Inaudible].

<A - Keith Demmings - Assurant, Inc.>: If you asked me that question three years ago, I probably would have thought, yes. We actually have seen clients, particularly because COVID caused car dealers to shut down operations, physical operations for a few months in many cases, in many states. We saw a pretty dramatic pivot where dealers invested more in online delivery, omnichannel sales and service. So number one, I think our clients have embraced digital more and that allows them to be more competitive in the market and I think have more longevity in the business model.

But we've also seen clients do an exceptional job positioning the sale of the service contract in that online buy flow where we've seen really strong attachment rates even in an unassisted sale, when it's all done online. And we've seen – you've seen some of the publics talk about attach rates pivot to a more disproportionate amount of their sales coming through online and still maintaining a really strong attach rates. So I actually think I'm really pleased with how that's played out over the last 12 months.

<Q - Jeffrey Schmitt - William Blair>: And in mobile, too?

<A - Keith Demmings - Assurant, Inc.>: Yes, we're seeing – we're definitely seeing digital transactions occurring on the mobile side. I think, again, we're well positioned to help. We're seeing pretty steady attach rates broadly as we look at the transactions that we monitor with our clients. So it's been relatively steady, I would say, over time, and not something that gives us meaningful concern.

<Q - Speaker>: [Question Inaudible].

<A - Keith Demmings - Assurant, Inc.>: Yes. So it's cat-exposed homeowners on dwellings for the most part. It's predominantly in the U.S. It's – again, it's a market where we've got clear competitive advantages. We generate – in our Housing business overall, we generate 17% to 20% ROEs in that business. So overall, it's a really strong segment for the company. And as we think about the cat risk over time, we've taken our average retention per event down from well north of $200 million per event to $80 million per event now. So we've really reduced our exposure on a per storm basis. At the same time, we've significantly scaled the other parts of Assurant. So the big reason it's 25% today is the growth in the other parts of the company where we've really put a lot of energy, both through acquisitions but also through organic growth as well.

<Jeffrey Schmitt - William Blair>: I think we're coming up on time. So Keith, I want to thank you for joining us. And I hope some of you join us in the breakout in the Adler room. Thank you.