Assurant 2Q 2022 Earnings Transcript

PARTICIPANTS

Corporate Participants

Keith Demmings - President & Chief Executive Officer, Assurant, Inc.
Richard Dziadzio - Executive Vice President, Chief Financial Officer, Assurant, Inc.
Suzanne Shepherd - Senior Vice President, Investor Relations and Sustainability, Assurant, Inc.

Other Participants

Michael Phillips - Analyst, Morgan Stanley & Co.
Jeff Schmitt - Analyst, William Blair
Thomas McJoynt-Griffith - Analyst, Keefe, Bruyette & Woods
Mark Hughes - Analyst, Truist Securities
John Barnidge - Analyst, Piper Sandler
Brian Meredith - Analyst, UBS
Grace Carter, Analyst, BofA Securities

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Assurant's Second Quarter 2022 Conference Call and Webcast. At this time, all participants have been placed in a listen-only mode, and the floor will be opened for your questions following management's prepared remarks. [Operator Instructions]

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

Suzanne Shepherd, Senior Vice President, Investor Relations and Sustainability, Assurant, Inc.

Thank you, operator and good morning, everyone. We look forward to discussing our second quarter 2022 results with you today. Joining me for Assurant's conference call are Keith Demmings, our President and Chief Executive Officer, and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the second quarter 2022. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with remarks from Keith and Richard, before moving into a Q&A session.

Some of the statements made today are forward looking. Forward-looking statements are based upon our historical performance and current expectations, and 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 release, as well as in our SEC reports.

During today's call, we will refer to non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures, and a reconciliation of the two, please refer to yesterday's news release and financial supplement that can be found on our website.

We have revised all quarterly and annual results for full-year 2020 through first quarter 2022 periods to reflect a change in the Adjusted EBITDA calculation to exclude certain businesses that we now expect to exit fully, including our sharing economy and small commercial businesses in Global Housing, as well as certain legacy long-duration insurance policies within Global Lifestyle. Results also have been revised for the correction of an error related to reinsurance of claims and benefits payable within the Global Lifestyle segment that occurred in late 2018 through first quarter 2022; as well as other immaterial corrections.

The impact of these changes, individually or in the aggregate, is not material to results for any prior period. A full reconciliation of certain reported and revised key measures of performance and metrics is provided in our second quarter financial supplement posted on Assurant.com.

I will now turn the call over to Keith.

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

Thanks Suzanne, and good morning, everyone. As we outlined during our recent Investor Day in March, we aspire to be the leading global business services company supporting the advancement of the connected world. And so far in 2022, we have made solid progress in delivering on that vision for the benefit of our clients and their customers, our employees and importantly, our shareholders.

We delivered Adjusted EPS of $7 dollars and 22 cents, up 13 percent from the first half of last year, and Adjusted EBITDA was $592 million dollars – both excluding reportable catastrophe losses.

We're very pleased that Global Lifestyle had such a strong first half of the year with momentum expected to continue, led by both mobile and auto. Our capital light and fee income-based businesses represented 82 percent of our Adjusted EBITDA x CAT so far this year and continued to add to the value of our franchise. While results in Global Housing were below expectations - largely driven by broader inflationary pressures seen across our industry - we have a clear path and several actions underway to address near-term macro challenges.

Longer-term, we continue to believe that our combined Housing and Lifestyle portfolio of businesses is positioned to deliver attractive earnings growth and strong cash flow generation relative to the broader market, while also providing a compelling counter-cyclical hedge in what remains a volatile economic landscape. As we look at our Global Lifestyle segment…

Our business services-oriented offerings generated Adjusted EBITDA growth of 12 percent year-over-year, and 14 percent year-to-date. Our market-leading franchise helped us expand our partnership with several world-class brands in the Lifestyle market.

In the U.S., we recently signed a multiyear renewal with a large cable operator within our mobile business. This includes comprehensive device protection, trade-in services and premium technical support. With the renewal, we will be including new capabilities – demonstrating our ability to grow relationships with value-added services that ultimately lead to a better customer experience. We have now renewed two major U.S. cable operators in our mobile business within the last year – while also broadening our product offerings to support their growing mobile subscriber bases.

We are pleased with the continued growth momentum in Global Lifestyle, which we expect will continue into the second half of 2022. As a result, we believe the segment will deliver mid-to-high teens growth in Adjusted EBITDA, mainly from strong mobile results including device protection and trade-in, as well from the continued strength of our Auto business.

Turning to Global Housing, similar to others in the industry, we were impacted by significant inflationary pressure – which resulted in higher claim severities and reinsurance costs in the quarter, most notably in lender-placed. These higher costs are expected to be mitigated through rate adjustments over time. In addition to regular rate filings in key states, our lender-placed product includes an inflation guard feature designed to address changes in material and labor costs.

We recently implemented a double-digit rate increase on policy renewals. This rate increase will be applied to all renewals over the next twelve months. As a result, there is a timing lag that is magnifying the higher non-CAT loss experience in the quarter and ultimately pressuring results through 2022. We believe this will normalize as incremental premiums earn over time.

As we look at the Housing portfolio, we also are taking other actions to improve profitability through ongoing expense efficiencies and driving even greater focus on the Housing businesses where we see a path to market-leading positions that can deliver attractive financial returns. Most recently we decided to exit the sharing economy business. The strategic and financial objectives for this business did not develop as we originally anticipated, and we want to focus on opportunities that more closely align to our long-term vision and where we have market advantages with a clear right to win.

Stepping back and looking at Assurant overall, we believe we have an attractive portfolio of market-leading businesses which are poised for long-term success. Given the current macro environment, we believe we can deliver Adjusted EBITDA growth of 3 percent to 6 percent. This takes into account higher expected losses in Housing but also stronger results and momentum in Global Lifestyle.

Adjusted earnings per share, excluding reportable catastrophes, is now expected to grow 14 to 18 percent for the full year, reflecting this view of Adjusted EBITDA. EPS growth will of course also be supported by share repurchases – including the return of $900 million dollars in Preneed sale proceeds, which was completed in the second quarter.

As we have shown historically through various market cycles, we believe we are well positioned to deliver our strategic objectives over the long-term. We expect this period of macroeconomic challenges to be no different. Over time, we believe the strength and resiliency of our business model will endure, enabling us to execute on the 2023 and 2024 objectives we outlined at Investor Day. Looking forward, we expect Adjusted EBITDA acceleration starting next year.

While the earnings path may not be linear, we remain confident that in the long term, our combined Lifestyle and Housing business portfolio will continue to deliver attractive growth, strong cash flow generation and superior shareholder returns relative to the broader market.

I will now turn the call over to Richard to review the second quarter results and our revised 2022 outlook in greater detail. Richard?

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

Thank you, Keith, and good morning, everyone. Adjusted EBITDA, excluding catastrophes, totaled $277 million dollars, down 8 percent from the second quarter of 2021. As Keith mentioned, performance reflected the strong growth across Global Lifestyle and weaker results in Global Housing.

For the quarter, we reported Adjusted earnings per share, excluding reportable catastrophes, of $3 dollars and 25 cents, flat from the prior-year period. The 2021 baseline for Lifestyle and Housing Adjusted EBITDA has been updated to remove non-core operations and reflect the accounting corrections Suzanne noted to our prior period results.

Now let's move to segment results starting with Global Lifestyle. The segment reported Adjusted EBITDA of $207 million dollars in the second quarter, a year-over-year increase of 12 percent, driven by growth across both Connected Living and Global Automotive. Connected Living earnings increased by $12 million dollars, or 11 percent year-over-year. The increase was primarily driven by continued mobile expansion in North America device protection programs from cable operator and carrier clients, including subscriber growth and more favorable loss experience. This was partially offset by unfavorable foreign exchange.

In Global Automotive, earnings increased $10 million dollars or 15 percent, primarily from higher investment income, including higher real estate gains and yields. Favorable loss experience in select ancillary products also contributed to results.

As we look at revenue, Lifestyle revenue was up by $48 million dollars, or 3 percent, driven by continued growth in Global Automotive. Global Automotive revenue increased 7 percent, reflecting strong prior-period sales of vehicle service contracts. Despite the overall U.S. auto market showing signs of slowing, our net written premiums remained strong even against a record second quarter of 2021, as additional dealerships and strong attachment rates are offsetting the market headwinds. Within Connected Living, revenue was down slightly due to lower revenue in mobile, mainly from premium declines from runoff programs and unfavorable foreign exchange. This was partially offset by growth in subscribers in North America and higher mobile fee income driven by global mobile devices serviced.

In the second quarter, the number of global mobile devices serviced increased by 1.1 million, or approximately 18 percent, to 7.2 million. This was due to higher trade-in volumes supported by new phone introductions and carrier promotions from the growing adoption of 5G devices. In terms of mobile subscribers, growth in North America was partially offset by declines in runoff mobile programs previously mentioned, which also impacted mobile devices protected, sequentially.

For full year 2022, we now expect Lifestyle Adjusted EBITDA growth to be mid-to-high teens compared to the 2021 baseline of $702 million dollars. Mobile is expected to be the key driver of Adjusted EBITDA growth, through global expansion in existing and new clients across device protection and trade-in and upgrade programs. This will be partially offset by unfavorable impacts from foreign exchange and strategic investments to support new business opportunities and client implementations.

Auto Adjusted EBITDA is expected to grow for the full year, but earnings in the second half are expected to be lower than the first half, mainly due to the absence of $14 million dollars of real estate gains. Growth for the year will be partially offset by higher investment income and more favorable loss experience in select ancillary products.

Moving to Global Housing, Adjusted EBITDA was $75 million dollars, which included $20 million dollars of reportable catastrophes for the second quarter. Excluding catastrophe losses, earnings decreased $40 million dollars, driven primarily by $25 million dollars in higher non-CAT loss experience, largely in lender-placed, and to a lesser extent, multifamily housing. This included $12 million dollars in year-over-year reserve strengthening and higher fire losses in the quarter. The balance of the earnings reduction was driven mainly from $17 million dollars in higher catastrophe reinsurance costs. The cost of our reinsurance program reflected both the higher exposures and increased pricing within the reinsurance market.

With the completion of our 2022 catastrophe reinsurance program in June, we believe we fared relatively well in the market given our strong relationships with our more than 40 reinsurance partners. We maintained an $80 million per event retention, including second and third events. We also continue to benefit from the placement of multi-year coverage – covering 45 percent of our program; and a cascading feature that provides multi-event protection.

In Multifamily Housing, growth in our PMC channel was offset by increased non-CAT losses and expenses from ongoing investments to expand our capabilities and further strengthen our customer experience.

Global Housing revenue was flat year-over-year, as higher catastrophe reinsurance costs were offset by higher average insured values in lender-placed.

For the full-year, we now expect Global Housing Adjusted EBITDA, excluding cats, to decline by low-to-mid teens from the 2021 baseline of $512 million dollars. In addition to the higher claims costs, REO volumes have continued to be muted and placement rate trends we are seeing are softer than originally expected. At the same time, we continue to realize expense efficiencies from new system enhancements and strengthened digital capabilities. While the duration and magnitude of inflationary trends remains fluid, rate filings and inflation guards are expected to start to flow through premiums as we exit the year.

At Corporate, Adjusted EBITDA loss was $25 million dollars, up $8 million dollars compared to the unusually low second quarter of 2021. This was mainly driven by higher employee-related and technology expenses. For full year 2022, we expect the Corporate Adjusted EBITDA loss to be approximately $105 million dollars.

Turning to Holding Company Liquidity, we ended the second quarter with $595 million dollars, $370 million dollars above our current minimum target level. In the second quarter, dividends from our operating segments totaled $189 million dollars. In addition to our quarterly Corporate and interest expenses, we also had outflows from 3 main items: $232 million dollars of share repurchases; $75 million dollars from the repayment of our 2023 notes; and $39 million dollars in common stock dividends.

For the full year, our outlook assumes $365 million dollars of shares repurchased from the remaining Preneed sale proceeds plus an additional $200 to $300 million dollars. Through July, we have bought back $504 million dollars' worth of stock. Given changes in investment portfolio values, reserve strengthening for non-core operations and accounting adjustments, we expect segment dividends to be moderately below our target of roughly three-quarters of segment Adjusted EBITDA, including catastrophes.

While lower, we still expect capital generation to be strong given our business model and product mix. As always, segment dividends are subject to: the growth of the businesses; ratings agency and regulatory capital requirements; and investment portfolio performance.

In conclusion, we believe Assurant is well-positioned for long-term growth and strong capital generation – underscored by the attractive portfolio of Global Lifestyle and Global Housing businesses.

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

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] And our first question comes from the line of Michael Phillips from Morgan Stanley. Your line is open.

<A – Keith Demmings - Assurant, Inc.>: Good morning, Mike.

<Q – Michael Phillips – Morgan Stanley>: Thanks. Good morning, guys. Thanks.

<A – Richard Dziadzio - Assurant, Inc.>: Good morning.

<Q – Michael Phillips – Morgan Stanley>: So, I guess, when you're talking on the inflationary pressures clearly you've seen on lender-placed, but can we switch that over to the Lifestyle side and anything that you're seeing there on either auto or mobile? And maybe you can talk about how much risk you retain on that side, it's clearly not on 100%. But anything that you're seeing there that might cause pressure from inflationary pressures there, and if so, kind of your ability to combat that.

<A – Keith Demmings - Assurant, Inc.>: Terrific. Yeah. So, I think the Lifestyle business has obviously performed very well this year. We've raised the outlook for the full year, so we're confident in the

momentum. I would say, in terms of the resiliency, we've been dealing with a couple of things, certainly inflationary pressures, but also supply chain constraints as you think about the last couple of years of the pandemic, particularly around parts, both on the Connected Living and the Auto side. So, I think the nature of our deal structures is quite favorable. Two-thirds of the time we're not holding the risk relative to the services we perform and the programs that we manage. So that's been very helpful.

I'd say we've got a stronger orientation to fee income, even in deals where we retain risk, we're targeting fees. We've got typically allowable loss ratios, ability to reprice. You will see timing issues occur in terms of, sometimes losses are a little higher, we may recover that over time with client deal structures, but it hasn't been an issue that's emerged over the course of last several quarters. Feel really good about it, certainly never fully insulated, but a very different operating model.

And then if you think about inflation on the Housing side, we've got rate filings, inflation guard and a number of factors that are being put in place to combat that. So, Lifestyle has been quite resilient from that perspective.

<Q - Michael Phillips - Morgan Stanley>: Okay. Thank you. You mentioned Keith in your opening comments about on the lender-placed side, the inflation guard, and then you also mentioned double-digit on renewals. Was that the same – the double-digit, was that the inflation guard or is it on top of the inflation rate?

<A - Keith Demmings - Assurant, Inc.>: So to think about inflation guard, we put that a double-digit rate increase in July. So that is going to flow through the book as it renews. We've also got regular course rate filings. We've been accelerating rate filings with states obviously as severities have been higher and losses have been higher. We've actually gotten 30 state rate filings approved this year, not all of which have been fully implemented, but they're all approved and will be implemented by the end of the next year or by the end of this year, sorry, and then we've got an additional set of discussions ongoing with states. So that additional rate layers on top of the double-digit increase that we talked about relative to inflation guard.

<Q - Michael Phillips - Morgan Stanley>: Okay. Is there any difference in your – can you maybe just talk about the difference that you have in those other rate filings by state that you're alluding to, different than a traditional, say, homeowners insurance company, where the clients are individuals like me and you, your clients in lender-placed are a little different. So does that give any differences in the ability, the speed at which or the ability to take higher rate and the speed you can take them than a maybe a traditional insurance company?

<A - Keith Demmings - Assurant, Inc.>: Yeah. I think probably a couple of things. First of all, these are short tail policies. They're annual policies. So as we do get rated, it flows through over 12-month period, number one. I think the fact that we've got inflation guard built into the product, we don't have to get approval, that's already approved and we just apply an inflationary factor every year, that drives AIVs up and corresponding increases to rate. So I would call that normal course, obviously inflation is elevated. The industry data supports a higher inflation factor, driving more AIV.

In terms of the rate, I think as we work with states, we're really looking at the historical experience to justify the increases that we're getting. And I'd say that that happens like very consistently with what other insurers would be doing, but we've been more aggressive as others have, just in terms of the heightened severities that we're seeing in the marketplace. So good opportunity to get rate, we're looking to make fair returns on the business. I would say, it doesn't have a huge impact on volumes. So we've got exceptional relationships with our clients. Obviously, this is a lender-placed policy and we expect to see consistent policy count as we move forward, even in this higher inflationary environment with more rate flowing through.

<Q - Michael Phillips - Morgan Stanley>: Okay. Thank you. Congrats. And best of luck for the future. Thank you so much.

<A - Keith Demmings - Assurant, Inc.>: Thank you.

Operator: Your next question comes from the line of Jeff Schmitt from William Blair. Your line is open.

<Q - Jeff Schmitt - William Blair>: Hi. Good morning.

<A - Keith Demmings - Assurant, Inc.>: Hi Jeff.

<Q - Jeff Schmitt - William Blair>: Hi. What is your view on where the placement rate in the lender-placed business could go next year if we move into a recession? Whether we're in one now or not, let's say, sort of a deeper recession, if interest rates continue to move up, could that move above 2% pretty quickly, or where do you think that could go?

<A - Keith Demmings - Assurant, Inc.>: Yeah, I think it depends on a range of factors. I would say that, as you see, the placement rates are relatively stable and have been so for several quarters, and that's just the strength of the housing market, the fact that there's so much positive equity. And I also think about placement rate really tracking closely to delinquency, and you've got a prevalence of servicers working on loan modifications, a lot of loss mitigation efforts. That's really limiting delinquency. It's limiting foreclosure activity. Obviously, if that starts to shift and that starts to change. And delinquency rates rise at any level significantly, that would have a corresponding impact on our placement rate.

Obviously, if there are more foreclosures, that would drive up our REO volumes, which are really probably a third of pre-pandemic levels. So there's certainly upside over time in placement rate. The real question is, when does that emerge in the economy, just because of the strength of the housing market. You've also got rising interest rate pressure, certainly a hardening voluntary insurance market, higher inflationary pressure. So I think we need to see how the economy responds and how consumers respond to get a better feel. We're not counting on a big increase in placement rates as we think about our longer term expectations. And obviously, if that does happen, that's where we talk about it being a countercyclical hedge from a Housing perspective.

<Q - Jeff Schmitt - William Blair>: Right. Okay. That makes sense. And then the expense ratio on Global Housing continues to run above 46%. I think in the past you've guided to sort of 44% to 46%. Is there some kind of inflation driving that higher, or when do you think it could move below that 46% level?

<A - Keith Demmings - Assurant, Inc.>: Yeah. And maybe Richard, do you want to talk about expenses?

<A - Richard Dziadzio - Assurant, Inc.>: Yeah. It's a great question. It is up a little bit over the last quarter to 46%. So I think you're right, it's a little bit higher than we'd like to see it. We've talked about in previous calls, we are investing digitalization in projects like that, create more efficiencies, as Keith said in his opening remarks. So we would see that, I would say, over time as these projects and these efforts come through. Also, the first question on placement rates, as the volumes of the business grow, obviously the things that we have in place and our operations are very leverageable. So that would also bring down the expense ratio over time.

<Q - Jeff Schmitt - William Blair>: Okay. Thank you for the answers.

<A - Keith Demmings - Assurant, Inc.>: I appreciate it.

Operator: Your next question comes from the line of Tommy McJoynt from KBW. Your line is open.

<A - Keith Demmings - Assurant, Inc.>: Good morning, Tommy

<Q - Thomas McJoynt-Griffith - KBW>: Hey, good morning, guys. Thanks for taking my questions. Yeah. So what are the expectations for the non-core operations loss contribution going forward? Is that meant to be more of a breakeven? I know it's excluded from the guidance. And what's the general time horizon for that wind down?

<A - Keith Demmings - Assurant, Inc.>: Sure. Maybe I can start and then Richard can add on. So we made the decision this quarter, as we talked about, to exit all of our long-tail liability business and driven by the decision around sharing economy. So as we talked about, just wasn't strategically aligned with the direction that we're headed as a company and it was highly specialized niche business with inherent risk and volatility. We didn't see a path to leadership. We didn't think we could get to generate the financial returns, but it wasn't strategically aligned with the direction of the company.

So as part of that, all of the clients have already been notified. All of the contracts will be non-renewed. I would say, by first quarter of 2023, the net earned premium will be immaterial, and by this time next year it'll be gone completely, really just at that point, managing the runoff. As you saw, we put up a reserve. So as we exited, did a very comprehensive top to bottom review of the performance of the business, did a lot of scenario analysis to try to think about how this could emerge over time, put up a full reserve to adequately cover the runoff which we think is appropriate and look to put this behind us.

<Q - Thomas McJoynt-Griffith - KBW>: Okay. And I guess, as you kind of explored what to do with those businesses, there was no way to sort of monetize what you built there. I guess just, you just have to

believe in kind of sellers and ways to monetize things that just wouldn't be any kind of takers for those businesses?

<A – Keith Demmings - Assurant, Inc.>: Yeah. I think potentially we could have looked at that as a path. We didn't see it viable, and really it could have become a distraction to focusing on driving growth through the rest of the organization. We will certainly consider alternatives now that we've put it in runoff to see if there's a way to structure something around sharing the risk with a third-party. That's certainly possible, and we'll look to consider that. But the value for monetization, I would say, was lower than the distraction factor of trying to work through that process, quite candidly.

<Q – Thomas McJoynt-Griffith - KBW>: Okay. That makes sense. Thank you.

<A – Keith Demmings - Assurant, Inc.>: Thank you.

Operator: Your next question comes from the line of Mark Hughes from Truist Securities. Your line is open.

<A – Keith Demmings - Assurant, Inc.>: Hey, Mark.

<Q – Mark Hughes - Truist>: Thanks. Good morning. The Multifamily business kind of flat in terms of the top line this quarter. What's happening there?

<A – Keith Demmings - Assurant, Inc.>: Yeah. So a couple of things. First of all, I would say, we feel like we're really well positioned in the renters business. We've got 2.6 million customers, so it's giving us a great opportunity in terms of market leadership scale. We've been investing in the customer experience, deepening our expertise. So we do expect long-term growth. It's a very attractive part of the market. I would say, in terms of the results being flat, we do have strength and growth within the property management company channel. So that continues to grow exceptionally well. We're gaining share, we're driving attach rates, and we're having a lot of success with our Cover360 product, really just more integrated into the buy flow. We've talked about better digital tools, collecting the insurance as part of the rent and just leveraging our full capability. So that's going extremely well.

We have an affinity portion of our business which the growth has slowed where we partner with insurance companies. I think as insurance companies have been focusing on getting rate and dealing with inflationary pressures, a little less marketing generally with some of our partners. So I think that normalizes over time as the economy finds more stability in the future. But we are seeing growth, and we do think long-term growth will emerge as we continue to focus on this part of our business.

<Q – Mark Hughes - Truist>: Richard, the investment portfolio, what do you anticipate in terms of the progression in the yield, what's the new money yield, what kind of turnover is there in the portfolio, a little bit on that would be helpful.

<A – Richard Dziadzio - Assurant, Inc.>: Yeah. Sure, Mark. Thank you and good morning. Yeah. First of all, I would say that rising interest rates overall are good for the business, and we've been seeing that in this quarter as well. We've had some real estate gains, as we mentioned in our remarks, but we also have

fixed income and yields on fixed income rising. We have a five- year duration. So think about 20% of the portfolio rolling over every year. So we won't have any quantum step in terms of long-term rates and long-term yields, but it will gradually increase over time, which is a good thing.

And I think you probably saw the yield for this quarter, over 3.5% which is quite good. What's interesting too about it is, if we look at our book of business, if we go back year from now, the assets that were coming to maturity, or the fixed income coming to maturity we're rolling over at lower levels than they were maturing yet. Now they're rolling over for the most part at a higher level. So that bodes well for the future. And short-term rates, we have some of our money in cash obviously, and we're getting an immediate impact on that. Obviously, smaller dollars getting a smaller level of cash that we have relative to the fixed income portfolio.

<Q – Mark Hughes - Truist>: Then Keith, I think you said you expect Adjusted EBITDA to accelerate next year. Did I hear that properly, and any other metrics you want to throw out for next year, maybe EPS growth?

<A – Keith Demmings - Assurant, Inc.>: Yeah. I think as we look at the year at 3% to 6% in terms of our EBITDA growth, we certainly expect that to be increasing as we move into 2023. And I'd say, largely, we do expect the lender-placed business and Housing overall to continue to improve as we get more rate and then we do have great momentum in Lifestyle. So we haven't set the specific target for 2023 and 2024. What we have said is, on average, we want to deliver north of 10% EBIDTA growth. We're still committed to our long-term objectives from Investor Day, which I think is really important, and we're going to do everything we can to deliver those results and be accountable to delivering our financial commitments.

<Q – Mark Hughes - Truist>: And then just one final one, the timing of the rate increases when you get the inflation guard for the lender-placed, does that only kick in or is there a renewal cycle around that, or why wouldn't that kick in immediately?

<A – Keith Demmings - Assurant, Inc.>: Yeah. So the policies are annual and they renew it each year. So if you think about, let's take July, for example, we put in place double-digit rate increases for the cohort of annual policies that renewed in July. So think about that rate going in 1/12th at a time over 12 months, and then think about it earning 1/12th at a time after it's in place. So the whole cycle takes 24 months, but it builds momentum month by month by month. And then we've also got, as I said, state-related rate increases that go in at different periods in the year. That's also contributing. And I mentioned 30 approved rates really affecting about 75% of our premium overall, and then a number of additional filings that are ongoing.

So we do feel like we've got a great opportunity with rate, it's a terrific mechanism and designed to deal with inflationary pressures. And we expect it to work, and we expect to get the Housing business where it needs to be from a total return perspective. The one thing that's interesting, if you think about Housing, and it's a tough quarter, we're not pleased with the results in the quarter. The first half Housing combined ratio was 86%. The first half annualized ROE is 20.6%. That will normalize as we get through the rest of the year. But we still think it'll be quite strong overall, given we're underperforming our own expectations. So I do want to highlight that as the backdrop. It is a strong business. It generates

tremendous cash flow. We've got great market leading advantages. And the financial performance is still strong. It's just not where we want it to be to deliver on our total

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

<A - Keith Demmings - Assurant, Inc.>: You bet.

Operator: Your next question comes from the line of John Barnidge from Piper Sandler. Your line is open.

<A - Keith Demmings - Assurant, Inc.>: Good morning, John.

<Q - John Barnidge - Piper Sandler>: Thank you very much. Good morning. Thank you very much for taking my question. You talked about singing a multiyear renewal with the cable operator. Last quarter you also talked about an expanded relationship. Can you talk about maybe what the renewal calendar looks like, and how you think about potential hit rates for expanded relationships as you come up on renewal?

<A - Keith Demmings - Assurant, Inc.>: Yeah. We've had a pretty good track record of maintaining our clients, and this is true across the board. We actually renewed two of our larger lender-placed clients on the Housing side this quarter. I didn't mention in the prepared remarks, but our team did a fantastic job on those client renewals, and I'd say that we've got a track record of renewing clients. Average tenure of clients is extremely long. So we're proud of that, and it's all based on delivering and executing for the clients, but ultimately for end consumers. In terms of the cable space, I think we've become a market leader with cable operators who have entered the mobile space.

They're growing rapidly. They're evolving their products and services meaningfully every year, and we're really proud of the work that our teams have done there. And I think that's built a lot of momentum. So we're strong with carriers, we're strong with new market entrants, and we've been a company that's been quite nimble in how we've approached the market. Hopefully that also sets us up to grow new relationships with new clients as we move forward, and we think we're extremely well positioned in Connected Living, and we've invested significantly over many, many years to get to this position. And we have great, fantastic momentum.

<Q - John Barnidge - Piper Sandler>: And then as it relates to expanded relationships similar to what you announced today and then in the first quarter, how do you think about the potential to leverage what you've done so far?

<A - Keith Demmings - Assurant, Inc.>: Yeah. I think, when I look at the growth opportunity in Connected Living, I still think that we have more growth opportunity there than in any business that we operate. And it's growing the fastest and it's the largest contributor to financial results. So that's a pretty strong place to be when your biggest, most successful business still has more whitespace, both in terms of the core of what we do, but also in terms of expanding our scope of services and then winning new clients. We've talked about trade-in and the fact that we do trade-in services with multiple brands now around the world, that creates opportunity for us to build deeper partnerships where we can add additional value over time.

As we think about the evolution, we've talked a lot about leveraging our network for in- store repair. Those are additional capabilities. We operate 500 CPR stores. That is something that we want to continue to leverage to create value for our partners. As I think about the work that we've done with T-Mobile, that's another great example in terms of service and repair. It wasn't designed to be a significant financial contributor overall. It was designed around how do we give consumers choice and better options to get their repairs done at their convenience. As they think about that part of the business, volumes have been a little lower than expected, but customer feedback and net promoter scores have been exceptional, and I would say, higher than we would have otherwise anticipated. We actively work to optimize that program, to modify the program, and expect over time changes to be financially beneficial for both parties. So a lot of interesting momentum in this part of the business.

<Q - John Barnidge - Piper Sandler>: Great. And then if I could ask one more question. On the expense initiatives that you talked about, which should help to offset inflation, is there a way to size or dimension how we should be thinking about the scale economies?

<A - Keith Demmings - Assurant, Inc.>: Yes. So probably a couple of thoughts and then Richard can certainly add in. We have seen progress in a lot of the great efforts by our team, particularly in Housing on digital first, so really transforming our operations and driving more efficiency and better experience. That's building quarter-over-quarter-over-quarter. So we do see momentum in the second half and further acceleration as we get into 2023, even at the current level of placement rates and the current scale. We're also looking to continue to simplify the business, optimize support structures, how do we focus our energy where we can move the needle the most. So that work is ongoing as well. And then to Richard's earlier point, if we do get an increase in volume through placement rate over time, we have natural economies of scale that will benefit the P&L over time.

<Q - John Barnidge - Piper Sandler>: Thank you.

Operator: Your next question comes from the line of Brian Meredith from UBS. Your line is open.

<Q - Brian Meredith - UBS>: Yeah. Thanks. A couple, here. Firstly, could you remind us what the potential impact here is from a consumer-led recession on mobile subs as well as just growth, as well as like average revenue per subscriber? Will you see that decline if you've got a kind of consumer-led recession?

<A - Keith Demmings - Assurant, Inc.>: Yeah. I think from a mobile perspective, I would say that, first of all, there still seems to be very strong demand for high-end smartphones in key markets, even as we see pressure in the economy. The high-end smartphone market is up year-over-year, and it's up in our core markets. So that's a really good thing. We see clients continuing to push for growth today to take advantage of their investments in 5G. And the relevance of the mobile device today, it's increasingly important for consumer. So that's helpful backdrop. I would say that the majority of our total economics in mobile are driven by our device protection subscribers. We've got 63.5 million global subs. Whether a customer buys a new device or retains their old device, it doesn't move that number a significant amount.

Obviously, if our clients are growing or shrinking in terms of net adds, that can have an impact over time, but fairly moderated, and based on the nature of the subscription service. Where I would see more

pressure would be potentially less trade-in activity if there were less mobile phone sales, which we certainly haven't seen. Mobile phone sales are strong, trade-ins are very strong. But that would be the leading indicator if trade-in starts to slow down. That's not a big driver of total economics. The counterpoint would be, used devices would become more valuable, more attractive, and there may be other ways for us to monetize it. So I think mobile is relatively protected from any kind of short-term shocks from a recessionary environment.

<Q - Brian Meredith - UBS>: But I'm just curious also, because I know you've all talked about selling additional services for some, and that's been a big thing. Does that slow down, or is somebody not take that optional AppleCare or whatever it is product?

<A - Keith Demmings - Assurant, Inc.>: No, I don't think so. I think we've seen really steady attach, really steady churn. I think consumers are inclined to protect high-end devices generally. And certainly if they're more strapped for cash, having protection in places is probably a good thing. But we haven't seen through economic cycles really material changes in terms of the attach or the churn over time. So we don't expect that would be a big driver.

<Q - Brian Meredith - UBS>: Got you. And then, I guess, my next question, just curious, we've talked about lender-placed. But on the Multifamily business, what's the impact of inflation there? I would imagine you get some pressure there as well potentially.

<A - Keith Demmings - Assurant, Inc.>: Yeah, definitely there is some incremental increases in the non-cat loss ratio. Certainly, a little bit of that is inflation. But I would say, broadly, it's more getting to in line with pre-pandemic. So, we saw more favorability in loss ratios as people were home more during the pandemic. I think we've seen that normalize. And obviously we get rate adjustments on that product line, too, as needed and as justified. But don't see a huge inflationary impact. It's more just lining up with historicals.

<Q - Brian Meredith - UBS>: So, it's more from a frequency perspective that things are picking up rather than severity.

<A - Keith Demmings - Assurant, Inc.>: Correct.

<Q - Brian Meredith - UBS>: And then just quickly, last question, Richard, just curious, the call it underlying loss ratio for Global Housing, it was 47%, but when you adjust out some of the current year development and prior year development, kind of what's the baseline kind of run rate loss ratio in that business' non-cat benefit ratio?

<A - Richard Dziadzio - Assurant, Inc.>: Yeah. When we back out the reserving that we did, the strengthening of the reserves that we did, we're getting closer to the low 40s, I would say, call it 43. On the other hand, what I would say is, Keith articulated earlier, we do have inflation coming through. There will be a lag in terms of when the rates and inflation guards come through. So I wouldn't see that rate coming down faster than that, faster than 43 or lower than 43 any time kind of in the next quarter, I think over time, we're going to see that improve, and probably go closer to 40 as we go through the end

of the year into next year, so forth. It's hard to predict because obviously it's hard to predict what inflation is going to do for the rest of the year, but essentially, as we're looking forward at our forecasting, that's what we're looking at.

<Q - Brian Meredith - UBS>: Makes sense. Thank you.

<A - Richard Dziadzio - Assurant, Inc.>: Thank you.

Operator: And your final question comes from the line of Grace Carter from Bank of America. Your line is open.

<A - Keith Demmings - Assurant, Inc.>: Hi, Grace.

<Q - Grace Carter - BofA>: Hi, everyone. So I just had kind of a quick clarification question to start from one of the prior questions. So I guess, thinking about the original Adjusted EBITDA growth targets for 2023 and 2024, I think average of 10%, I mean, just thinking about like the lower base, I guess expected for 2022, I mean, should we just assume that the 2024 Adjusted EBITDA levels will come out a little bit lower than maybe the original growth expectations implied, or I guess, what is the likelihood that EBITDA growth over the next couple of years could accelerate sufficiently to get it kind of back in that original range?

<A - Keith Demmings - Assurant, Inc.>: Yeah. It's a great question. And I would say that, my commitment and the goal that we have in terms of financial performance is to deliver the original Investor Day outlook for 2024. So what that implies is, we've got to accelerate growth beyond the original 10% in 2023 and 2024 to make up for the shortfall in 2022, which is exactly your point. So that's certainly how we're thinking about it, Grace. Obviously, there's a lot of moving parts and there's a lot of unknowns as we think about the economy and inflation. The good news is, I think, the myth as we look at 2022 is entirely driven by Housing loss ratio from inflation, in particular, from severity.

And because of the features within the product and the ability to get rate, that naturally resolves itself over time without a degradation in volume. So provided that that rolls through as we expect and hope that it will, provided inflation calms down, so our current thinking is, inflation stays elevated through the end of the year, begins moderating and moderates consistently through 2023 and then sort of normalizes into 2024. If that happens, we do feel good about our 2024 long-term commitment. And part of it is the strength of Global Lifestyle, and in particular investment income in auto has been strong, the business has been generating significant growth, and then Connected Living and mobile in particular has been on quite a roll over the last handful of years.

<Q - Grace Carter - BofA>: Thank you. And then, I guess, I just wanted to confirm that the kind of target combined ratio range that you've mentioned before, I think 84% to 89% in the Housing books still holds even with the exit of certain businesses. And I guess, just kind of how should we think about the ability to stay within that range over the next few quarters, just given the pressure from inflation versus still kind of waiting for the rate increases to earn through?

<A – Keith Demmings - Assurant, Inc.>: Yeah. I would say that we're going to finish the year, at least if we think about our forecast today, and what's implied in that forecast when you unpack Housing, and maybe a little above our range on a combined ratio basis, probably at the low end in terms of ROE. So pretty strong financial performance still overall based on those metrics, but let's say, little bit worse than the range. We definitely think that 84% to 89% range over time is the right target for this business. And the exit of sharing economy, I'd say, it wasn't a huge business, not a big driver, and it doesn't significantly change the way we think about combined targets.

<Q – Grace Carter - BofA>: Thank you.

<A – Keith Demmings – Assurant>: You're welcome.

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

Well, thank you very much, everybody. I appreciate all the questions and the interest in the company. We had a solid first half of the year, led by the strength of the Global Lifestyle segment. We believe our business model remains well positioned as we've talked about, even in a challenging macro environment. In the meantime, please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions. Thanks everybody. Have a great day.

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