Assurant 4Q 2022 Earnings Transcript

PARTICIPANTS

Corporate Participants

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

Other Participants

John Barnidge – Analyst, Piper Sandler
Mark Hughes – Analyst, Truist Securities
Thomas McJoynt-Griffith – Analyst, Keefe, Bruyette & Woods
Brian Meredith – Analyst, UBS Securities LLC
Grace Carter, Analyst, BofA Securities

MANAGEMENT DISCUSSION SECTION

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

It is now my pleasure to turn the floor over to Suzanne Shepherd, 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 fourth quarter and full-year 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 fourth quarter and full-year 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 and financial supplement, 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.

Effective January 1, 2023, we realigned the composition of our segments to better manage our risk and fee-based, capital-light businesses. Global Housing is now comprised of two primary lines of business – Homeowners and Renters and Other. Certain product lines, including our Leased and Financed business previously reported in Housing, have been moved to Global Lifestyle to better align with our go-to-market strategy. While this change has no impact on our consolidated results, it will modestly impact the earnings trends within the segments. Our 2023 outlook is based on this realigned view. Please refer to the financial supplement for a reconciliation of certain key data for these changes.

I will now turn the call over to Keith.

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

Thanks Suzanne, and good morning, everyone. Reflecting on my first year as CEO, I couldn't be prouder of the extraordinary dedication and commitment demonstrated by our employees in delivering for our clients and customers around the world. During the year, we made progress in executing our vision to be the leading global business services provider supporting the advancement of the connected world. We continued to grow and strengthen our partnerships with key clients and delivered new, innovative solutions - all while navigating more volatile market conditions. Our portfolio of Lifestyle and Housing businesses proved resilient, but not immune to macroeconomic headwinds.

In 2022, we grew adjusted earnings per share by 11 percent and delivered over $1.1 billion dollars of adjusted EBITDA, both excluding reportable catastrophes. Adjusting for $27 million dollars of unfavorable foreign exchange, adjusted EBITDA growth was 3 percent. 2022 represented our sixth consecutive year of profitable growth. This is a reflection of our compelling strategy and resilient culture. We have held true to our company's purpose of helping people thrive with a steadfast commitment to being a socially-responsible company for all of our stakeholders.

I'm proud that we've been recognized as a Great Place to Work in 13 countries – most recently in the U.S. for the second consecutive year. Our focus remains on engaging and developing our diverse talent pool through enhanced leadership and skills development programs. We also continue to reduce our environmental impact – as a core pillar of our ESG strategy.

Building on our progress to-date, we announced in December our goal to reduce greenhouse gas emissions by 40 percent by 2030. This target aligns with the Paris Agreement and ensures we drive meaningful reductions. We've also taken a number of actions within our businesses to strengthen Assurant for the future.

In Global Housing, we initiated a business transformation, including exiting certain non-core businesses such as our sharing economy as well as international CAT-exposed business, where we did not see a path to leadership positions. More broadly across Assurant, we realigned our organizational structure, as Suzanne referenced, to drive more focus and better deploy talent. We also took decisive action by accelerating several expense initiatives to realize additional efficiencies and position us for continued long-term growth.

As we announced in December, we expect to realize $55 million dollars of annualized gross savings by end of 2024, through the simplification of our organizational structure and our real estate consolidation program given our increasingly hybrid workforce. These actions will help mitigate the impact of higher labor costs and headwinds from the macroeconomic environment, as well as fund additional investments, including increased automation.

In addition to ensuring a more streamlined organizational and cost structure, we've gained momentum throughout the year in both Global Lifestyle and Global Housing – renewing and winning new clients in each of our major lines of business.

In Global Lifestyle, adjusted EBITDA increased 7 percent in 2022 with growth from both Connected Living and Global Automotive. On a constant currency basis, adjusted EBITDA expanded by 11 percent – aligned with our original expectations for the year. In Connected Living, we grew adjusted EBITDA by 15 percent on a constant currency basis, driven by mobile protection program growth in North America. Our ability to continuously innovate our products and services has supported a stronger and more differentiated customer experience, resulting in increased net promotor scores.

In addition to key partner renewals, including T-Mobile and Xfinity, we secured new business opportunities and new client partnerships – continuing to diversify our broad client base. In our mobile protection business, we now protect nearly 62 million global devices – driven by the 25 new protection programs we've added since 2015. We serviced over 28 million devices in 2022 – mainly from our mobile trade-in business as we add scale and further demonstrate our position as a market leader with this important value-added service to our clients. We added several new trade-in clients and now have over 40 trade-in programs globally. We continued to invest in talent and strengthen supply chain operations to maintain our competitive advantage.

In Global Automotive, we grew global protected Autos in 2022 by 2 percent to 54.1 million vehicles – helping to generate adjusted EBITDA growth of 5 percent. Recently, we expanded and enhanced our EV-One Protection offering in the U.S. – coverage is now available for Battery-Electric Vehicles and Plug-in Hybrid Electric Vehicles, including comprehensive battery coverage.

In our newly combined leased and financed business, we partnered with CNH Industrial in the U.S. and Canada to provide service contracts and physical damage insurance. CNH is the third largest agriculture and construction equipment company in the world. This partnership was made possible by the talent and expertise of our teams, including through our acquisition of EPG.

In Global Housing, we took swift action to mitigate the impact of high inflation within our lender-placed business. We began to see improved performance as we exited the year, reflecting the rate increases implemented over the course of the year. We expect higher rates to roll through our book into 2023 and beyond, while we manage ongoing elevated claims costs.

In 2022, we renewed 8 lender-placed clients– including several of our most significant partnerships - with multi-year agreements. These renewals represent 36 percent of our over 31 million loans tracked. In multifamily housing, we now have over 2.6 million renters policies. While we've seen slower growth from our affinity partnerships, our volume with property management companies continues to expand as we signed several new partnerships, including 2 top PMCs with over 100 thousand combined units. We also successfully completed multiyear renewals with 6 key client relationships.

As we continue to convert clients to our Cover360 platform, we expect to see ongoing policy growth in that channel. Throughout the year, we maintained a strong balance sheet as we navigated increased macroeconomic uncertainty. Our businesses contributed a total of $550 million dollars in dividends to the holding company – or roughly 52 percent of segment earnings, including catastrophe losses. Together with the remaining net proceeds from the Global Preneed sale, we returned a total of $718 million dollars in share repurchases and common stock dividends.

Looking ahead, we believe we have a compelling vision and strategy that will drive outperformance and shareholder value, long-term. As a business services leader, we will continue to pursue profitable growth in more fee-based, capital-light businesses which continue to account for the majority of our earnings. In addition, we'll continue to optimize results and cash flow generation in our risk-based business.

In 2023, we believe we can drive continued profitable growth – though at a more moderate pace given strong 2022 results in Lifestyle and our near-term view of the broader economy. Specifically, we expect adjusted EBITDA, excluding CATs, to increase low single-digits – with results improving as the year progresses, reflecting trends in the business and the broader market, as well as the restructuring actions taken in 2022.

Earnings growth is expected to be driven by improved performance in Global Housing, as well as more modest growth in Global Lifestyle. Adjusted earnings per share growth is expected to trail adjusted EBITDA growth, primarily reflecting: higher annual depreciation expense related to several strategic technology investments critical in executing our strategy; a higher consolidated effective tax rate compared to a favorable 2022; and timing of capital deployment.

We've had a long-standing track record of strong cash flow generation and disciplined capital deployment, and we continue to believe that a balanced capital deployment strategy drives long-term value. Our capital management priorities for this year will be focused on supporting the organic growth of our business and maintaining our investment grade ratings. We expect share repurchases will remain a core component of our capital deployment strategy given the attractiveness of our stock. But in light of the continued uncertain macro environment, we believe it is prudent to preserve flexibility near-term.

Therefore, based on current market conditions and expected business performance, we anticipate that any share repurchases would occur in the second half of the year and could be below 2022 underlying buyback activity.

As the broader environment begins to stabilize and visibility improves, we will re-evaluate levels and timing of capital deployment as part of our overall capital deployment strategy. Our M&A strategy will continue to focus on compelling deals in Global Lifestyle – however the hurdle for M&A will be high given the attractiveness of our stock.

As we enter 2023, we remain well-positioned for long-term growth through our differentiated Lifestyle and Housing portfolio. We are focused on creating new sources of growth, scaling new client wins and deepening current relationships to continually drive added value for our key clients and customers.

I'll now turn the call over to Richard to review the fourth quarter results and our 2023 outlook in greater detail. Richard?

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

Thank you, Keith, and good morning, everyone. As Keith has outlined our full-year 2022 performance, I will focus on fourth quarter trends, particularly as we outline our expectations for 2023. Given some of the significant changes in foreign exchange rates during the year, I will be citing some growth rates in both absolute and constant currency terms.

For the fourth quarter of 2022, adjusted EBITDA, excluding catastrophes, totaled $296 million dollars, up $39 million dollars or 15 percent, year-over-year and 19 percent on a constant currency basis. Our performance reflected improved results from both Global Housing and Global Lifestyle. Adjusted earnings per share, excluding reportable catastrophes, totaled $3 dollars and 56 cents, for the quarter, up 24 percent year-over-year.

Now let's move to segment results, starting with **Global Lifestyle.** The segment reported adjusted EBITDA of $166 million dollars in the fourth quarter, a 6 percent increase year-over-year, but double that, or 12 percent on a constant currency basis. The increase was driven by higher Connected Living earnings which grew 21 percent, or 31 percent on a constant currency basis. Connected Living's strong growth was primarily from three factors, first, reduced mobile service and repair expenses compared to the prior year period; second, continued modest mobile subscriber growth in North American device protection programs from carrier and cable operator clients; and third, higher investment income.

As expected, strong U.S. results were partially offset by continued weak performance in Europe and declines in Japan as programs mature. In device trade-in, we serviced 7.5 million devices in the fourth quarter – our highest quarterly volume this year. While volumes were strong, trade-in results declined as margins were pressured by device mix resulting from carrier promotions. Claims costs in Connected Living, overall, remained steady, although we did see some pockets of higher costs from labor and materials within our extended service contract business.

In Global Automotive, earnings decreased $7 million dollars or 10 percent, primarily from weaker global performance and higher claims costs. In the U.S., a portion of higher claims costs are expected to be recovered over time from client contract structures. The earnings decrease was partially offset by domestic growth across distribution channels.

Turning to net earned premiums, fees and other income, Lifestyle was up by $20 million dollars, or 1 percent and 3 percent on a constant currency basis. This growth was primarily driven by Global Automotive, reflecting strong prior-period sales of vehicle service contracts. When adjusting for unfavorable foreign exchange, Connected Living's, net earned premiums, fees and other income increased slightly from growth in mobile subscribers in North America, partially offset by premium declines in mobile from runoff programs. Based on the new reporting structure for full year 2023, Lifestyle adjusted EBITDA is expected to grow modestly from our revised 2022 baseline of $809 million dollars, driven by both Connected Living and Global Automotive.

Over the course of the year, we expect Connected Living to benefit from modest subscriber growth in existing North American mobile programs as well as increases in U.S. Auto. The gradual ramp-up of our new mobile and Connected Home programs, and expense savings from the previously announced restructuring plan should benefit results as we get into the second half of the year. We do anticipate some continued headwinds to partially offset these growth drivers. These will be more pronounced in the first-half of the year.

Specifically, in 2022, we benefited from a number of favorable items which are not expected to recur. These included $24 million dollars in investment income from real estate joint venture investments and $11 million dollars from a client contract benefit. We also anticipate continued headwinds in our international business, particularly in the first half of the year, given lower volumes in Europe and modest subscriber declines as programs mature in Japan. In addition, unfavorable foreign exchange which will impact both the top and bottom lines.

And finally, we anticipate continued higher claims costs, particularly in extended service contracts as well as less favorable loss experience for select ancillary auto products.

In terms of net earned premiums, fees and other income for 2023, Lifestyle is expected to grow modestly as growth in Global Automotive is offset by declines in Connected Living and ongoing foreign exchange headwinds. Connected Living will be impacted by the implementation of two new contract structures which we estimate will lower top line in 2023 by $230 million dollars. It is important to note though, that these two changes will have no impact to our bottom line. Excluding these changes, we would anticipate growth in Connected Living net earned premiums, fees and other income.

Moving to Global Housing, adjusted EBITDA was $135 million dollars, which included $22 million dollars of reportable catastrophes from winter storms and Hurricane Nicole during the quarter. Excluding catastrophe losses, adjusted EBITDA was $157 million dollars, up $31 million dollars or 25 percent. The increase was driven primarily by lender-placed insurance, partially offset by $15 million dollars in higher non-CAT loss experience across all major products, including multifamily housing. Lender-placed earnings significantly

increased, accounting for most of the increase in Housing's earnings, from higher average insured values and premium rates, as well as policy growth.

In addition, expense savings and higher investment income contributed to the increase. These items were only partially offset by higher CAT reinsurance costs.

Based on the new reporting structure, for the full-year 2023, we expect Global Housing adjusted EBITDA, excluding cats, to grow from a revised 2022 baseline of $417 million dollars. Improved earnings performance is expected from two main drivers: First, top-line growth from rate recovery in lender-placed; and second, ongoing expense actions to be realized over the course of the year. We expect ongoing elevated non-catastrophe losses, including higher seasonal weather-related claims in the first half and increased cat reinsurance costs to continue in 2023.

Gradual improvement in lender-placed non-catastrophe losses is assumed later in the year. We also expect lower multifamily housing profitability from lower contributions from our affinity partners and higher non-CAT losses as they return to more normalized levels. In terms of our CAT Reinsurance program, In January, we secured two-thirds of our 2023 program.

Similar to much of the industry, we have seen significant price increases, but the cost was relatively in-line with our expectations. We anticipate elevated pricing will continue in June when we place the final third of the full program and have reflected this in our 2023 outlook.

Given the significant increase in reinsurance prices, and in order to optimize risk and return, we expect our per event retention level to increase to $125 million dollars. This incorporates the growth in lender-placed exposure, primarily inflation, partially offset by some declines in our international risk exposure.

Reflecting on these expected changes, we now believe the appropriate CAT-load for 2023 is $140 million dollars. And finally, I would also note that our outlook for Housing assumes NO meaningful deterioration of the broader U.S. housing market that would cause an increase in placement rates or a worsening of loss experience.

Moving to Corporate, the fourth quarter adjusted EBITDA loss was $27 million dollars, up $2 million dollars and was driven by lower investment income. For the full year 2023, we expect the Corporate adjusted EBITDA loss to be approximately $105 million dollars.

Turning to Holding Company Liquidity… we ended the year with $446 million dollars. In the fourth quarter, dividends from our operating segments totaled $89 million dollars. In addition to our quarterly Corporate and interest expenses, we also had outflows from 3 main items: $13 million dollars of share repurchases; $38 million dollars in common stock dividends; and $81 million dollars, related to the two strategic acquisitions previously announced that will strengthen our position in the commercial equipment space.

During 2022, Lifestyle and Housing contributed $550 million dollars in dividends to the holding company. This was below our expectations, given changes in investment portfolio values, reserve strengthening and accounting changes for non-core operations.

In 2023, we expect our businesses to continue to generate meaningful cashflow. Cash conversion should approximate 65 percent of segment adjusted EBITDA, including reportable catastrophes. This accounts for the previously announced restructuring charges. This assumes a continuation of the current economic environment and is subject to the growth of the business, investment portfolio performance and regulatory and rating agency requirements.

In summary, we continued our track record of profitable earnings growth and strong cashflow generation in 2022 despite some challenging conditions. And although we do expect to face continued macroeconomic uncertainty in 2023, we firmly believe we're well-positioned to serve our current and future clients and customers and to continue to grow Assurant.

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 John Barnidge from Piper Sandler. Your line is open.

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

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

<Q - John Barnidge - Piper Sandler>: Good morning. Thank you for the opportunity. There's definitely seems to be a lot of conservatism in the outlook as it relates to the first half of the year. How different does your outlook differ for the first half versus the second half, and why does the second half give you confidence? Thank you.

<A - Keith Demmings - Assurant, Inc.>: Great. Maybe just a couple of comments on 2022 and then I'll talk about how we think about 2023. So, certainly, happy with how we finished the year. You know, obviously, tremendous amount of change in the marketplace, very dynamic. And the fact that we were able to grow not just EPS, but also grow EBITDA for the full year. Really proud of the work done by the teams who do that. And we do feel really well-positioned as we think about our market position, how we're engaged with our clients. So, expect that to continue as we roll forward.

As we think about 2023, I guess there is a couple of things to remember. We certainly had some favorability, particularly in Lifestyle in 2022 that doesn't repeat. Richard mentioned about $35 million between real estate gains as well as the one-time client benefit. So, we've got to grow our way through that into 2023. We also expect continued foreign exchange pressure in our 2023 outlook in Lifestyle. And then on top of that, we do expect to grow, even though we've got some pressure certainly in the international markets, which we've talked about over the last couple of quarters.

And then in terms of the Housing business, obviously a really strong fourth quarter. We are excited by the progress that our team has made, not just in terms of getting rate, adjusting average insured values, but

also the work done on expenses, simplifying the organization, expect continued momentum as we head into 2023. Obviously, there is a natural reset between Q4 and Q1 in the Housing business. We typically see higher losses in the first quarter due to winter storms and seasonality. We also had really favorable losses in multifamily housing in the first half of 2022, that was a carryover from 2021 as well. So, we've got to overcome that as we think about the progression through the year. So, again, expect each quarter to improve as we get through 2023 and then accelerate growth into 2024.

<Q - John Barnidge - Piper Sandler>: Thank you for that. And then my follow-up question, it looks like there was growth in global mobile devices protected, serviced and global protected vehicles. Can you maybe talk about that, one, maybe the upgrade cycle, market positioning, and then that trade-in issue that was occurring in the third quarter that seems to have resolved itself? Thank you.

<A - Keith Demmings - Assurant, Inc.>: Great. Yes. So I think if I start with auto, steady progress as we've seen over many quarters in terms of protected vehicles. And that trend certainly has continued and we continue to be well-positioned there. On the mobile side, you are correct, we saw about pretty significant growth in the US market. So, if I look at devices protected, up 300,000 sequentially, 500,000 of that is actually from growth domestically in the US market and that's offsetting some natural runoff that we have. So, pretty strong growth in the US, great results in the US for Connected Living overall for the year, and that's driven just by market share gains from the clients that we partner with on the insurance side.

So, if you think about our device protection partners in the US, they're gaining roughly 70% of the net adds for postpaid customers. So, that is helping us significantly in the US market. And then, we've got a little bit of softness internationally in terms of subscribers. I'd say a little bit of growth in Europe, offset by some declines in Latin America and then a little bit of softness in Japan, which we've talked about the last couple of quarters.

And then finally on the trade-in point, we did see the issue resolve itself that we talked about in the third quarter. That did get resolved in the fourth quarter. We saw good volume growth flowing through. We saw some different margins in the business based on the mix of devices in certain client contracts. Part of our fees are based on selling prices of devices. So sometimes you can have higher volume but of potentially lower quality devices and that can affect the ultimate margins in the business and move around from quarter-to-quarter.

<Q - John Barnidge - Piper Sandler>: Thank you very much for the answers.

<A - Keith Demmings - Assurant, Inc.>: Great. Thanks, John.

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

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

<Q - Mark Hughes - Truist Securities, Inc.>: Hey. Good morning. Kind of along those lines, 5G upgrade programs, I think you mentioned you're getting 70% of the net adds among your customers. But the

interesting number, where do they stand in terms of the marketing, the push to get those 5G upgrades? Does that help or is that activity decelerating? How do you see it?

<A - Keith Demmings - Assurant, Inc.>: Yeah. I think we saw a little bit of lower marketing activity in the fourth quarter. There were certainly some supply constraints in the market. So that affected some of the trade-in promotional offers that we would normally see, that can bounce around and be quite seasonal and also depending on the competitive nature of the market. But there's no doubt the push by carriers to move customers to 5G, to unlimited plans, to higher end devices continues. We'll see how that evolves in 2023.

We, obviously, had a tremendous amount of trade-in activity in 2022, a relatively high watermark, expect to see continued strength around that as we go forward. But it ebbs and flows, I would say, depending on the dynamics and the competitive landscape.

<Q - Mark Hughes - Truist Securities, Inc.>: In the coastal property market, I think there's some reference to maybe a lender-placed being helped in states like Florida just because the standard policies are getting so expensive. Are you seeing a dynamic like that? Is that an opportunity for you? Do you think that'll help push up placement rates in Florida and other coastal markets?

<A - Keith Demmings - Assurant, Inc.>: Yeah, if you look at the fourth quarter and we think about lender-placed, we had about 12,000 incremental policies come into the book. So we are seeing growth in in-force policies. I'd say half of that growth is we brought on a new client, which is why you'll see loans tracked up fairly significantly. And then the other half is entirely due to what I would say is the hard market, Florida is certainly a big chunk of that, as well as California and other areas.

So I do think that is helping support policy growth. We saw a pretty strong policy growth for the full year in lender- placed and none of that is really from deterioration in the economy more broadly, where we might expect to see placement rates increase over time if there's a lot of pressure in the economy, it's all just the difficult insurance market. So, it's definitely helping us. We're well-priced with our products in those markets and we feel we're well- positioned to grow from it.

<Q - Mark Hughes - Truist Securities, Inc.>: Thank you

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

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.

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

<Q - Tommy McJoynt - KBW>: Hey. Good morning, guys. Hey, good morning. Thanks for taking my questions. Yes, so first one, can you just go into a bit more details on some of the drivers for pausing the buyback? I guess I think of this business is really holistically as less exposed to the some of the economic

cyclicality. So it's a bit surprising to see that as the driver for pausing the capital distribution. So if you could just go into a little bit more details on that, that would be great.

<A – Keith Demmings - Assurant, Inc.>: Sure. And maybe I'll start and certainly Richard can chime in. But, first and foremost, I would say, our capital management philosophy as an organization has not changed. At third quarter, we signaled a disciplined approach that we wanted to exercise prudence. There's just a lot of market uncertainty today. It's been a pretty dynamic macro backdrop. So we're trying to exercise caution and make the best decisions we can with our capital.

We've talked about this in the prepared remarks and consistently over time. We're definitely supporting the organic growth of the company. We still see lots of opportunity to grow organically. We want to protect our ratings, which are important to us. And then we've signaled we do think share buybacks will be an important part of our capital deployment strategy going forward. We've talked about being balanced long-term between capital deployment through share return and also M&A.

But based on where we sit today, we think our shares are very attractive. And so I think about it is being prudent for the moment, getting better visibility, understanding how results are progressing, and then making those right decisions with all of that additional information as we head into the back half of the year. But Richard, what else might you add?

<A – Richard Dziadzio - Assurant, Inc.>: Yeah. Thanks, Keith. Hi, Tommy. Yeah, I think exactly what Keith said in terms of being prudent and really wanting to see how the macroeconomic environment plays out. I'd also add that last year in terms of returns of capital to shareholders, it was a high point for us with the return of about $720 million when we talk about share repurchases and dividends together. So we have shown and demonstrated over time that we won't sit on excess capital for a long time. But we do want to be prudent in the markets here. And if everything plays out, we would expect at some point to be back in maybe late in the second half. But we'll see how things go, we want to be prudent.

<Q – Tommy McJoynt – KBW>: Thanks. And then just my other question. Going back a little bit to the Connected Living side, you talked about being – some of your partners, T-Mobile, Sprint, Charter Spectrum. Can you talk a little bit about the opportunity around Verizon and AT&T? And just kind of remind us what services you are providing for them and what – any kind of incremental opportunity might be?

<A – Keith Demmings - Assurant, Inc.>: Sure. So we do business with both Verizon and AT&T and support their trade-in business domestically in the US. So great partnerships actually came through the HYLA acquisition, and there's certainly long-term opportunity. We talk about our business being built on deep client relationships with the world's leading brands. Those are certainly two examples of really, really important clients and brands that we can partner with. So no doubt, there's opportunity over time to help them solve problems, innovate and create value for their customers. And we certainly work hard every day to serve them today and then look for opportunities to grow with them in the future.

<Q – Tommy McJoynt – KBW>: Yes. Thank you.

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

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

<Q - Brian Meredith, UBS Securities>: Hey, good morning, everybody.

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

<Q - Brian Meredith, UBS Securities>: A couple of them here for you. First, I'm just curious, Richard, maybe NII outlook here going forward in the Global Housing business, is there still potential upside given where new money rates are?

<A - Richard Dziadzio - Assurant, Inc.>: Yeah. Thanks for the question, Brian. Yeah, I think, in terms of new money rates, fixed income, we do see overall yields continuing to move up in the future, as the portfolio rolls over and the lower yields that we've had in the past convert themselves into the new higher yield. So we will see that as we go forward over the next couple of years. So a nice tailwind for us. We've obviously seen short-term rates come up too. That's a nice tailwind for us.

I would say that relative, if I think about 2023 versus 2022, as Keith mentioned earlier and in our prepared remarks, we did have some good real estate gains during the course of the year. So I kind of look at it for 2023 that the increase in investment income will be a bit modest, just given those two factors increase in yields being offset by the real estate gains.

<Q - Brian Meredith, UBS Securities>: That makes sense. Thanks. And then I guess my second question is, you talked a little bit about international markets and some pressure we're going to see in the first half of the year. I'm just curious what your thoughts are and built in your expectations the guidance for kind of the domestic consumer here in the US. What do things look like potentially if we do go into a recession second half of the year?

<A - Keith Demmings - Assurant, Inc.>: Yeah. So US business has performed incredibly well, if we think about where we're at in 2022. And we expect to continue to see growth going forward in 2023, we obviously have to offset the one-time client benefit we talked about in Q3, but we do feel like domestically we're well-positioned. If you think about the business and I'll talk about mobile and then maybe auto quickly. On the mobile side, bulk of our economics are driven by the in-force subscribers that we protect.

And as you saw, that actually increased in the fourth quarter. Consumers continue to want to protect their devices and that's an in-force monthly subscription. So we don't see a lot of movement quarter-to-quarter and month-to- month. So we do feel like we're quite well-protected there. To the extent there's less trade-in activity, if consumers are less incented to buy new devices because the economy is a little more pressured, we might see a little bit of softness in terms of that side of the business. It's not the biggest driver of total profitability, but it's still obviously an important factor.

And then if you think about the auto business more broadly, we do expect sales of – retail sales of cars to be relatively steady in 2023 versus 2022, a little more growth on new, offset by softness on the used side. But, probably 80% of the economics in 2023 are from policies that have already been written that'll earn through the book. So from that perspective, we're relatively well-positioned and we've done well through typical downturns in the economy, in our product lines, because it just puts more focus on the sale of these ancillary products with our partners.

<Q – Brian Meredith, UBS Securities>: Makes sense. Thank you.

<A – Keith Demmings - Assurant, Inc.>: Great. Thanks.

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

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

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

<Q – Grace Carter – BofA Securities>: Hi. I've seen some forecasts out there for potential lower smartphone shipments to the US next year. And I was just wondering how the domestic Connected Living business might be affected if that were to happen and just the extent to which that might be reflected in your outlook for next year?

<A – Keith Demmings - Assurant, Inc.>: Yeah, certainly. And I've seen the same reports. And like I said, that would definitely have an impact on trade-in volumes if there's less devices being purchased by consumers. I still expect to see a healthy number certainly in 2023 overall, but maybe a little bit muted from 2022 levels. A lot of the growth that we're getting is because our clients are actually adding subscribers. So we're seeing that through the fourth quarter as well.

So from a device protection point of view, we think we're well-positioned there. And we have seen meaningful growth in the last quarter as a result of that. So I do feel like we'll see strength in domestic Connected Living and obviously that will drive to offset some of the other factors that we talked about in 2022. So we had some help in 2022 from the items we discussed. We've got to overcome foreign exchange and domestically, we expect our business to perform well to allow us to generate that growth in 2023.

<Q – Grace Carter – BofA Securities>: Thank you. And on the Housing side, kind of back to the question about the Florida market, how does the risk profile of the policies that you've been adding to just to the hard market dynamics compare versus the remainder of the book? And I was wondering if the recent reforms in Florida have any noticeable impact on the growth outlook for the Housing book this year?

<A – Keith Demmings - Assurant, Inc.>: Yeah, I think, so, certainly, the Housing – the reforms in Florida should be helpful to the industry over time without question. And obviously, looking to try to stabilize the insurance environment and really for the benefit of the end consumer, try to control pricing over time. So I think over time, that will benefit loss ratios and reduce some of the litigation. Obviously, that's not

something that we're building into our forecast at this point. There's a lot of work yet to be done to see how that will roll through.

I think growth in Florida for us is a positive thing. We're well-priced and well-positioned, and lender-placed is a scale business. We're tracking the loans already. So if we pick up some additional policies, we're not adding a tremendous amount of incremental expense. We've done an incredibly good job in Housing in 2022, actually driving down operational expenses year-over-year, even though we've seen policy growth, which demonstrates our focus on digital investments, but also the scaled advantages of the business.

So I think growth in Florida is a good thing for our business and we're well-positioned to take advantage of it over time.

<Q - Grace Carter - BofA Securities>: Thank you.

<A - Richard Dziadzio - Assurant, Inc.>: And we have been getting rate, Grace, as well. So as Keith said, it's - we have been getting a little bit more, but it's - from our point of view, it's good business. And the reforms, as you pointed out, should help over time.

<Q - Grace Carter - BofA Securities>: Thank you.

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

Operator: [Operator Instructions] And we have a follow-up question from the line of Mark Hughes from Truist Securities. Your line is open.

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

<Q - Mark Hughes - Truist Securities>: Thank you. Yeah, the $15 million you talked about in the higher non-cat losses on the property side, you really haven't mentioned inflation, but I wonder if there's any thoughts you've got - how much of that maybe weather if you have already seen that or anticipated versus just materials, labor costs, things like that and whether you are kind of over the hump on that or has there been any material inflection? Just how do you see it now?

<A - Richard Dziadzio - Assurant, Inc.>: Yeah. I mean, we're...

<A - Keith Demmings - Assurant, Inc.>: Richard, I take that...Yeah. Maybe I'll just start at a high level, Richard, and then you could add some color. But I definitely think we're - from an inflationary perspective, we're still seeing elevated claims cost. There's no question. I think, where we are seeing the favorability overall is really the rate rolling through from both rate increases and average insured values. And that is obviously offsetting some of that inflationary pressure. But we definitely see inflation still, that will persist and construction inflation is different yet again from other measures of inflation. But what would you add, Richard?

<A – Richard Dziadzio - Assurant, Inc.>: Yeah, similar to what Keith said, I guess I would say that – I would say most of it is in severity. I think severity these days, it's we think inflation, actually frequencies have been coming down just in terms of weather, whatever, we haven't been seeing an increase in smaller weather related items. So more in severity, and as Keith said, we have been getting some price increases with that. And we do the rate filings on an interim basis.

So we think we're in a good position. We also think as we go forward this year, we're being prudent and I guess appropriately prudent with regard to our expectations of inflation. Obviously, that's a big headline out in the markets. We do see inflation staying a little bit resistantly high for the near term, but really coming down slowly as the year goes on. So we've kind of factored that into our analysis and should be in a good place there, not trying to go be too aggressive about bringing inflation down.

<A – Keith Demmings - Assurant, Inc.>: Yeah. And the one – just one other point to make and I referenced it earlier, we did see favorability set aside lender-placed for a second. We did see favorability of loss ratios in some of our other lines, ventures and some specialty products, particularly in the first half of 2022. We've seen that normalize over the balance of 2022 to what are more natural levels. I think we are really at kind of pandemic level lows with respect to some of the losses that we're seeing. So that also will normalize. That puts a little pressure on the first half of the year for Housing and then obviously lender-placed where we're getting a lot of rate tries to help overcome that over the course of the year.

<Q – Mark Hughes – Truist Securities>: Appreciate it. Thank you.

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

Operator: And there are no further questions at this time. I'll turn it over to Keith Demmings for some final closing comments.

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

Wonderful. Well, thanks, everybody, for participating in today's call. And obviously, we'll look forward to speaking to you all again at the end of the first quarter and our call in May. In the meantime, reach out to Suzanne Shepherd or Sean Moshier if you have any other follow-up questions. But again, thanks for the time. 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.