S&P Capital IQ

CONTENTS

Assurant, Inc. NYSE:AIZ

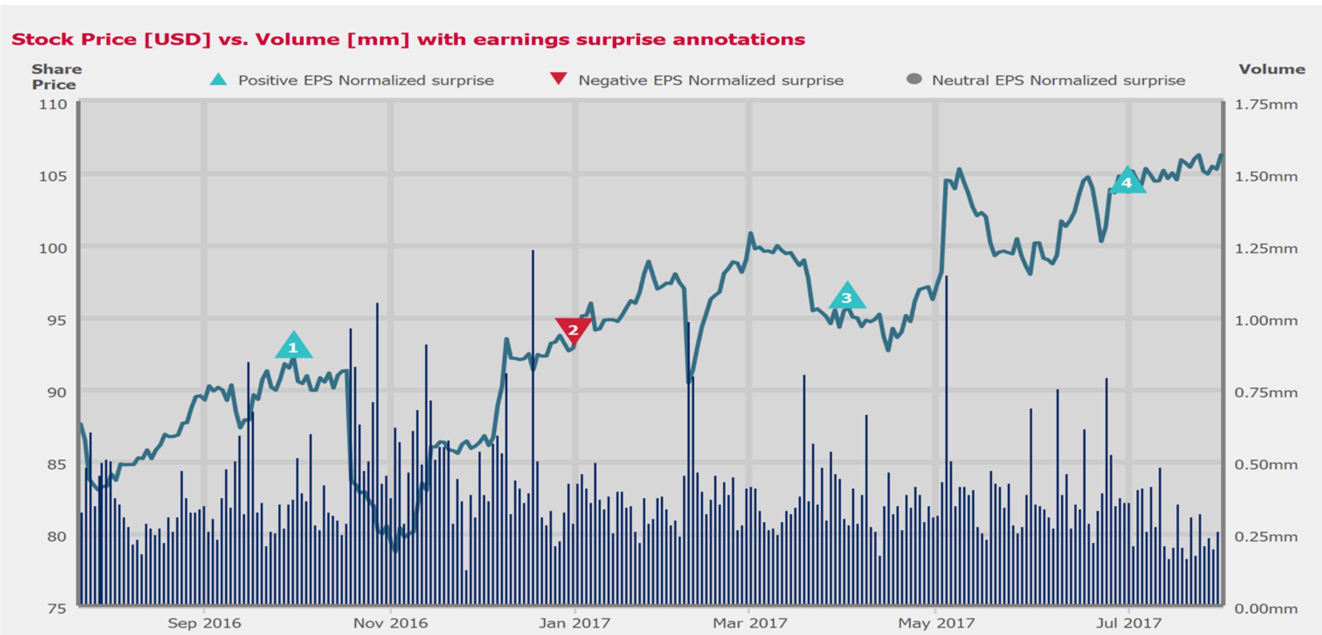
FQ3 2017 Earnings Call Transcripts

Friday, November 03, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.79)	(1.40)	NM	1.71	3.81	6.98
Revenue (mm)	1588.05	1586.40	(0.10 %)	1638.48	6365.16	6474.24

Currency: USD
Consensus as of Nov-03-2017 9:30 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.98	1.00	2.04 %
FQ4 2016	0.53	0.46	(13.21 %)
FQ1 2017	1.53	1.87	22.22 %
FQ2 2017	1.60	1.63	1.88 %

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Suzanne Shepherd
Vice President of Investor Relations

ANALYSTS

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Presentation

Operator

Welcome to Assurant's Third Quarter 2017 Earnings Conference Call and Webcast.

[Operator Instructions]

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

Suzanne Shepherd
Vice President of Investor Relations

Thank you, Christina. And good morning, everyone. We look forward to discussing our third quarter 2017 results with you today.

Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our third quarter 2017 results. The release and corresponding financial supplements are available on assurant.com.

We will start today's call with brief remarks from Alan and Richard before moving into a Q&A session.

Some of the statements made today may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ from those projected can be found in yesterday's news release as well as in our SEC reports.

On today's call, we also 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 the news release and financial supplement available on assurant.com.

I will now turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. And good morning, everyone.

Third quarter marked one of the most active hurricane seasons on record. This serves as an important reminder of the protection Assurant provides to millions of our customers in their time of need. We recorded nearly $300 million in reportable catastrophes from Hurricanes Harvey, Irma and Maria; as well as the Mexico City earthquake. Devastation to the U.S. and in particular the Caribbean was quite extensive, and our teams mobilized quickly. I'd like to thank our employees for their hard work and unwavering commitment to serve our customers during a tough time. This is especially true for many of our employees who were also personally affected by the various catastrophes in Texas, Florida, Puerto Rico and Mexico.

While our third quarter performance was impacted by these events, underlying results excluding catastrophes were in line with our expectations. We also made further progress toward achieving our 2017 financial commitments. For the full year, we now expect operating earnings excluding reportable catastrophe losses to be up modestly from the $380 million recorded in 2016. Profitable growth in our fee-based, capital-light offerings; a lower corporate loss; and some onetime benefits will more than offset the decline in lender-placed and legacy businesses. In 2018 and beyond, we'll be focused on leveraging our expertise and leadership positions in the housing and lifestyle markets to drive profitable growth.

2 weeks ago, we announced a definitive agreement to acquire The Warranty Group, a premier provider of extended-service contracts, for $2.5 billion from TPG Capital. This transaction represents another

important milestone in our transformation journey. The Warranty Group's focus aligns well with ours and will help enhance our position as a leading lifestyle provider with significant operating synergies and a more predictable and diversified earnings stream. In addition, the acquisition accelerates our ability to capitalize on trends within our expanding lifestyle business and deepens our footprint and product offerings in key international markets.

During the past few years, we've not only strengthened our business portfolio but have also continued to deepen our management bench. Earlier this week, we welcomed Carey Roberts to Assurant as our new Chief Legal Officer and Corporate Secretary. Carey is a 20-year insurance industry veteran; and will succeed Bart Schwartz, who will be retiring after 10 years with the company. I want to thank Bart for his dedication and service and wish him all the best.

Let me now review some business highlights from the third quarter, beginning with Global Lifestyle.

We are pleased by continued sales momentum in our lifestyle businesses as we further leverage our deep capabilities globally. During the quarter, we launched a new mobile device protection program with KDDI, the second largest mobile carrier in Japan with more than 49 million subscribers. This relationship strengthens our presence in this critical postpaid mobile market. New relationships like this, along with the planned acquisition of The Warranty Group, will help advance our position as a leading provider in the global lifestyle market with an attractive product and client portfolio, diversified growth profile and deeper global footprint.

Now let's look at Global Housing. In our multi-family housing business, revenue growth was strong, reflecting continued expansion within our affinity partners and property management companies in the U.S. We also recently signed an agreement with a leading e-commerce client to provide our insurance offering for small parcel shipments in the U.S. and Europe. This builds on our acquisition of Shipsurance in early 2016, and we are excited to expand our book of business with this important client. Growth in multi-family housing partially offset declines in lender-placed and in mortgage solutions, where we continue to see soft market conditions in field services and the valuations business. We have implemented various expense-management efforts across Global Housing to help temper declines.

Now let's review our performance to-date against the key financial measures we use to track our progress: net operating income, operating earnings per diluted share and operating return on equity. All exclude reportable catastrophe losses given the inherent volatility of such events.

Through the first 9 months of this year, our net operating income was up modestly in comparison to the same period last year, as the increased contribution from Connected Living and a lower loss at Corporate more than offset the continued normalization of lender-placed. Operating earnings per share increased 15% to $5.64, driven by share buyback activity. Annualized operating ROE excluding AOCI was 10.7%, level with the full year 2016. As of the end of September, our holding company capital totaled $570 million, with $320 million available for deployment.

Over the last 7 quarters, we've returned over $1.3 billion of capital to shareholders, representing 90% of our stated commitment. We expect to return the remaining $160 million through buybacks and dividends in the fourth quarter. As we look ahead to 2018, we'll be focused on delivering profitable growth and the successful integration of The Warranty Group.

From a capital management perspective, we expect to increase our quarterly dividend, as we have every year since our IPO, subject as always to board approval. In addition, we expect share repurchases will continue, albeit at a more moderate pace than in recent years as we set aside the funds needed to complete our acquisition of Iké, an assistance company in Latin America where we currently have a 40% ownership stake.

Overall, we believe our attractive business portfolio, innovative offerings and strong client partnerships will deliver greater and more diversified earnings. This should result in strong cash flow generation and allow for greater flexibility in capital deployment over time.

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

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Thank you, Alan. And good morning.

Let's start with a look at Global Housing. The segment reported a net operating loss of $110 million driven by $187 million of reportable catastrophe losses and reinstatement premiums from Hurricanes Harvey, Irma and Maria; as well as the Mexico City earthquake. This compares to $33 million of catastrophe losses in the third quarter of last year. The ongoing lender-placed normalization also drove the decline and was partially offset by $5 million of income from a real estate joint venture partnership.

Looking at our key metrics. The combined ratio for our Global Housing risk-based businesses increased to 155%, reflecting catastrophes in the quarter. Excluding the losses and reinstatement premiums, the combined ratio was 81%, roughly in line with the prior year period. Declining lender-placed premiums were offset by lower expenses to support the business. Pretax margin for our fee-based, capital-light businesses decreased to 9%. This represents a 70 basis point decline from the prior year period. This was mainly from $7 million of catastrophe losses and higher noncatastrophe losses within our multi-family housing business. Mortgage solutions results improved modestly due to prior expense actions but remained soft overall given the continued weak market demand for originations and field services. While we continue to manage our expense base, we expect the margin pressure to persist as we exit 2017.

Turning to revenue. Third quarter net earned premiums and fees in Global Housing decreased 8%. This was primarily due to a 31 basis point year-over-year decline in the placement rate; and additional reinsurance premiums, largely for reinstatements. Growth in multi-family housing and premiums for new lender-placed clients partially offset the decline. The placement rate in the quarter was impacted by macro trends in client mix, including a higher concentration of loans with lower-than-average placement rates. With these loans now fully onboarded, we expect the placement rate decline to moderate in the fourth quarter and into 2018.

Moving to our fee-based, capital-light businesses. Multi-family housing revenue increased 14% during the third quarter. This reflects growth in renters' policies sold through our affinity and PMC channels. In mortgage solutions, fee income was down 24% year-over-year and down 3% from second quarter 2017, primarily related to weaker market demand and lower client volume for origination and field services.

Consistent with our outlook for full year 2017, we anticipate continued declines in Global Housing net earned premiums and earnings, excluding catastrophe losses. This is due to the ongoing normalization of lender-placed and continued weak performance in mortgage solutions. While the Atlantic hurricane season officially ends later this month, we expect the losses from the California wildfires to be a reportable catastrophe event in the fourth quarter. We continue to monitor claims development and expect losses could be $6 million to $8 million pretax.

Now let's move to Global Lifestyle. This segment recorded $43 million of net operating income, an increase of $14 million from the prior period. This was driven by a onetime $10 million tax benefit, growth in our mobile business and additional joint venture real estate partnership income. This was partially offset by $5 million in losses, primarily in our vehicle protection business, from flooding caused by Hurricane Harvey. Revenue for the segment overall decreased entirely due to a $139 million reduction in net earned premiums associated with the previously mentioned change in the client program structure. The change implemented late last year extended our relationship with the client and had no impact on economics. Excluding this change, revenues for Global Lifestyle were up $53 million or 7%, driven by growth in mobile globally, vehicle protection and our Canadian credit business. This was partially offset by the declines from legacy retail clients.

Fee income within Global Lifestyle specifically was up 11%, driven by growth in new mobile programs and subscribers. In the quarter, however, we saw lower-than-expected volumes of trade-in activity following the staggered introduction of new smartphone devices. Given the anticipated availability of these new devices, we expect trade-in volumes in the fourth quarter to be consistent with the third quarter, with a more meaningful increase in early 2018. The vehicle protection business generated 7% growth in revenue year-over-year, as strong sales growth from prior year periods begins to earn. Our strong returns and expanded profitability in this business over the last several years has been supported by a comprehensive product and service offering as well as broad distribution. Our alignment with key TPAs and OEMs in North America and other selected countries in Latin America have also contributed to our success.

Looking at the key performance metrics for this segment. The combined ratio for the risk-based businesses, which includes vehicle protection and credit insurance, rose by 130 basis points to 99%. This was primarily driven by vehicle protection losses from Harvey. Absent this, combined ratio was 96.6%, well within our targeted range of 96% to 98%. The pretax margin for our fee-based Connected Living business rose to 3.8%, up 1.2 percentage points from last year. Approximately 70 basis points was related to the change in the program structure referenced earlier. The balance was due to growth in mobile programs and subscribers, partially offset by lower service contract results and additional expenses to support new business.

Turning to our Global Lifestyle outlook for the full year 2017. While mobile trade-in volumes in the fourth quarter may be lower than originally anticipated, we continue to expect 2017 segment earnings to meaningfully increase year-over-year. We also believe that we will be well positioned to drive sustained growth in 2018.

Now let's review results in Global pre-need. Earnings decreased $2 million to $12 million, primarily reflecting real estate joint venture partnership income in the prior period. Otherwise, results were flat. While assets continued to grow, yields remained pressured in a low-interest rate environment. Total revenue for preneed increased by 3%, driven largely by growth with our U.S. and Canadian business, including our final need products. New face sales this quarter decreased by 8% year-over-year, reflecting lower volumes. This was in key markets like Texas and Florida, the areas hit hardest by the hurricane activity. While disappointing, we do not expect lower sales will impact our ability to deliver on our commitments for the year.

Moving to Corporate. Net operating loss decreased by $4 million to $13 million. Lower expenses and a reduction in taxes drove the decline. We expect the lower taxes in third quarter to reverse in the fourth quarter. We also expect Corporate's fourth quarter results to include an increase in expenses driven by additional third-party consulting spend and technology and other expenses as we continue to align our operating model. As such, we now estimate our Corporate net operating loss for this year to be within the $55 million to $60 million range compared to $71 million in 2016.

Moving on to Corporate. We ended the quarter with approximately $320 million in deployable capital. Because of the significant level of catastrophes, we only received $4 million in dividends from Global Housing, Lifestyle and pre-need in the third quarter. We upstreamed $38 million from health and employee benefits or $124 million year-to-date. This is well ahead of our initial fee -- full year estimate of $100 million. We continue to expect dividends from operating segments to roughly approximate segment earnings for the full year.

During the third quarter, we returned $63 million to shareholders, with $34 million returned via share buybacks and the remaining $29 million through common stock dividends. Buybacks through September were lower due to cat activity and the pending announcement of The Warranty Group acquisition.

To summarize. We continued to make good progress in the third quarter, and we delivered solid results. We are developing a comprehensive integration plan for our acquisition of The Warranty Group to ensure we operate as one company day 1. We also are beginning to prepare our S-4 filing including pro forma financials, which we expect to be filed by year-end. At the same time, we remain focused on delivering on our commitments to our shareholders for the full year and on driving profitable growth in 2018 and beyond.
With that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Mark Hughes from SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

The Corporate outlook, the loss of $55 million to $60 million, am I right? Through 9 months, that number is $34 million, implying Q4 is roughly say $20 million to $25 million in loss? Is that correct?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Yes. Mark, it's Richard. You're exactly right. As I mentioned in my remarks, as we look through Q4, we actually see that some of the tax benefit that we've gotten through the course of the year will reverse itself. And also, we are foreseeing some higher expenses, further investments as we get through the fourth quarter. So that is our best estimate as of today.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And in the context of kind of your broader guidance, you -- I think your outlook is that you'll be modestly ahead of last year on an operating earnings basis. The last year, I think, was $380 million, excluding cats. You're $313 million year-to-date, so that -- the delta between those two and modestly ahead would suggest you're a bit off the pace in fourth quarter compared to what you've done year-to-date. The Corporate certainly is a little higher in the fourth quarter. When we think about the other businesses, or when we think about the lifestyle and housing, I think you suggested that the mobile programs -- the volumes are a bit less than you had looked for, but 4Q maybe will be similar to 3Q. Is there some reason why those operating businesses will be taking a step down in the fourth quarter? Or is this mostly a Corporate phenomenon?

Alan B. Colberg
President, CEO & Director

So Mark, a couple things just to look at as you reflect on our full year. I think the positive is we're now comfortable saying we're going to be up modestly versus last year's $380 million. That is something we haven't had comfort saying until now, but there were a couple things that have happened year-to-date that are not going to continue in Q4. So we had a tax benefit of $10 million in the third quarter. We had some real estate joint venture income. And then the newer development has just been with the staggered release of the new smartphones in the market. We had expected some pickup in Q4. We now think that's going to be more Q1 and that Q4 will look more like Q3 in terms of the trade-in activity in mobile, but I don't think -- if you look at our health of our underlying businesses, we still feel good. And we feel well positioned for profitable growth in 2018 and beyond.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And I think, if you took out that tax benefit and the joint venture income, you'd still have operating earnings of roughly $95 million in the quarter. And the guidance of $380 million minus $313 million year-to-date is -- we don't know exactly what modestly up is, but that implies a somewhat lower number. I guess your message is that -- we know exactly what you're saying on Corporate, but the underlying business, it sounds like you're -- you don't see any change Q3 to Q4 that you would highlight.

Richard S. Dziadzio
Executive VP, CFO & Treasurer

It's Richard. I guess, yes, I think you're framing it well. I think that, as Alan said, we do have the joint venture real estate income that came through, the onetime tax benefit. So as we back out that, we also know that we have the continued normalization with the lender-placed business, so as we project that forward, we see that come against us a little bit in Q4 but moderating, as we said, as we go into Q4 and then to next year; and then mobile volumes obviously being more consistent with Q3 and then picking up more in early 2018. And again, your first question on Corporate: That's a little bit of an offset too.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And then on mobile, could you give a little more detail on what you're seeing? Is this a specific plan with vendors? I know Apple has a -- there has been a lot of news out there on that front. What else are you seeing that gives you confidence next year is going to be stronger in mobile?

Alan B. Colberg
President, CEO & Director

Well, I think there are a couple things. And important to reflect on this year we've had several new major clients that we've announced and added to our portfolio. I mentioned KDDI on this call. Every time we do that, in the short term, that actually impacts earnings negatively. There is spending to ramp up those programs, but if you look at those programs as we get into 2018, many of the ones we announced earlier this year and this quarter will start to meaningfully contribute, so that, I think, is a good underlying health in our business. And then just in terms of the shipments, I think it's well publicized that there are some delays and some timing issues related to some of the new smartphones. It doesn't change our ultimate benefit from those new smartphones eventually coming into our trade-in and buyback programs, but it just delays the timing into more early next year, as opposed to more of a '17 event.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And then if you might indulge me thinking about next year. Your guidance has been generally this idea that operating income would be up modestly and then share buybacks would allow you to generate double-digit EPS growth. I know you've suggested the pace of buybacks probably not as aggressive this year. How should we think about 2018 in the context of some of these longer-term goals that you've set if we do see a little pickup in mobile in 2018? I think the mortgage solutions, the -- you'll have kind of gotten past the refi, the tough comps that you've been facing in the last couple of quarters. How should we think about 2018?

Alan B. Colberg
President, CEO & Director

Yes, so Mark, as we normally do, we'll give you a good perspective on 2018 with our fourth quarter Earnings Call in February. I think all I'm comfortable saying at this point is we feel well positioned to grow profitably next year.

Operator

[Operator Instructions]

Alan B. Colberg
President, CEO & Director

All right, hearing no further questions this morning, first of all, I want to thank everyone for participating in today's call.

We've continued to execute our transformation and remain confident that we are well positioned for long-term outperformance. We look forward to updating you on our progress in February. In the meantime, please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions.

Thanks, everyone.

Operator

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