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Earnings Call

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Call Participants

EXECUTIVES

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Presentation

Operator

Welcome to Assurant's First Quarter 2023 Conference Call and Webcast. [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 now begin.

Suzanne Shepherd
Senior Vice President of Investor Relations & Sustainability

Thank you, operator, and good morning, everyone. We look forward to discussing our first quarter 2023 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 first quarter of 2023. The release and corresponding financial supplement are available on assurant.com. We will 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 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 2, please refer to yesterday's news release and financial supplement.

I will now turn the call over to Keith.

Keith Warner Demmings
President, CEO & Director

Thanks, Suzanne, and good morning, everyone. We're pleased by our first quarter results, which reflected better-than-expected performance within our Global Housing business and our ongoing focus on driving operating excellence across Assurant. The actions we announced in 2022 to simplify our business and real estate portfolio, realign our organizational structure, and accelerate the deployment of digital-first experiences are beginning to yield measurable results.

While early, gross savings generated from these initiatives are helping to mitigate the impact of broader macroeconomic headwinds and fund additional critical investments in innovation and our talent. This was reflected in Global Lifestyle's results for the quarter, which improved sequentially in line with our expectations. Our first quarter results also continued to demonstrate the leadership advantages of our well-diversified business portfolio and our global client base. We believe we are well-positioned to deliver on our financial objectives for 2023, and we will continue to prudently manage our capital to drive shareholder value.

Looking ahead, we'll maintain a steadfast focus on execution. First, by strengthening and expanding our global partnerships; second, by driving innovation and delivering on our digital-first vision to improve the customer experience; and third, by realizing savings from ongoing expense management efforts. Recently, we were recognized as one of America's most innovative companies by Fortune, demonstrating the importance we place on finding new ways to serve our clients and fostering a culture of innovation and inclusion.

Through consumer research and investments in emerging technologies, we develop new products and services to meaningfully enhance the consumer experience, and drive competitive advantages across our key markets, including mobile, auto and housing. We continue to strengthen our large embedded base of businesses.

In Global Lifestyle, we work with 15 of the top 50 most valuable global brands and provide protection and services for nearly 62 million mobile subscribers with a recurring monthly subscription service, and we protect nearly 54 million automobiles across a wide range of distribution partners. Our scale supports both businesses to continue their track record of long-term growth. Our U.S. Connected Living business is expected to remain a solid growth driver, anchored by mobile device protection with marquee mobile carriers and cable operators. In addition, our trade-in business continues to be a strong contributor to overall mobile results.

Our international results have begun to stabilize in line with our expectations, even as many of the factors impacting growth last year continue to persist, including foreign exchange headwinds and lower business volumes. In Europe, we benefited from expense actions previously taken, leading to improved earnings when compared to the second half of 2022. Additionally, we renewed 8 key clients since the beginning of 2022, solidifying a strong foundation to support continued growth. In Japan, we're implementing actions to stabilize the impact from ongoing mobile subscriber declines and believe we are well-positioned in this critical market even as programs mature.

In addition to our multiyear partnership with KDDI, we're growing our footprint through expanded relationships with other large Japanese carriers. We're leveraging our core mobile solutions and technology offerings to help optimize operations and launch new services.

Moving to Global Auto, we're making steady progress integrating and leveraging recent acquisitions to support commercial success with new partnerships like CNH Industrial, which leverages the combined expertise of our legacy Assurant Lease and Finance business and the broad capabilities of our EPG acquisition. Outside of the U.S., we focused on expanding our share with OEMs. And in Latin America and Europe, we signed 2 new business partnerships in the quarter. Overall, in Lifestyle, while we remain cautious in the short term, given ongoing global macroeconomic uncertainty, we continue to expect modest growth for the full year.

Within Global Housing, we continue to simplify our focus on product lines where we have clear competitive advantages and scale. We operate a countercyclical market-leading lender-placed business that has generated significant cash flow and attractive returns over the long term, while we invest to drive growth in our capital-light renters insurance business. Despite higher-than-expected cat activity this quarter, Global Housing had a strong start to the year as adjusted EBITDA, excluding cats, increased 7%.

In Homeowners, which is primarily driven by lender-placed, top line grew 16%, both from higher policy growth and higher average insured values and rates, partially offset by increased non-cat losses and cat reinsurance costs. Policy growth came from both new and existing clients. In lender-placed, our ability to drive higher premiums, both through our inflation guard product feature and rate actions, have helped to offset continued inflation impacts on claims, which remain elevated across global housing.

Entering the second quarter, the impact of inflation on building materials and labor costs is beginning to show signs of improvement. As we consider the magnitude and pace of earnings recovery for Global Housing over the year, it will be important to see how ongoing loss experience improves over the next few quarters.

Let's turn to our enterprise outlook and capital. Reflecting on the quarter and current market conditions, we continue to expect to grow adjusted EBITDA, excluding reportable cats, by low single digits this year. Adjusted EPS growth is still expected to trail adjusted EBITDA growth, both excluding reportable cats, primarily reflecting higher annual depreciation expenses related to several strategic technology investments critical to executing our strategy, a higher consolidated effective tax rate compared to favorable rates in 2022, and the timing of capital deployment.

From a capital perspective, we upstreamed $112 million of segment dividends in the first quarter and ended the quarter with $383 million of holding company liquidity. We've been carefully monitoring the broader business and macroeconomic environment as we consider capital deployment. We now expect to resume share repurchases later in the second quarter, but at modest levels, given the ongoing market volatility. We expect the majority of share repurchases to be weighted toward the end of the year and maybe below 2022 underlying buyback activity.

As we look ahead, we're focused on the continued execution of our vision to be the leading global business services provider supporting the advancement of the Connected World. We believe our strong global client partnerships and our ability to innovate for more than 300 million customers will be critical to achieving our vision.

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

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Keith, and good morning, everyone. For the first quarter of 2023, our adjusted EBITDA, excluding reportable catastrophes, totaled $293 million, down $22 million or 7% year-over-year and 5% on a constant currency basis. While the results were lower than the prior year, they came in above our expectations, driven by stronger Global Housing performance. Adjusted earnings per share, excluding reportable catastrophes, totaled $3 million and $0.49 (sic) [$3.49] for the quarter, down 12% year-over-year, primarily from lower segment earnings, a higher effective tax rate compared to favorability in the prior period, and a higher depreciation expense.

Now let's move to segment results, starting with Global Lifestyle. This segment reported adjusted EBITDA of $199 million in the first quarter, a 12% decline year-over-year or a 10% decline on a constant currency basis. The decrease came from lower results in both Connected Living and Global Automotive, partially offset by higher investment income. Connected Living's earnings were down 15% or 11% on a constant currency basis from decreases in extended service contracts and weaker international results.

Extended service contract results were lower due to an increase in claims costs and, in particular, relative to the prior year quarter, which included favorable claims experience. We expect a modest level of higher cost to persist during the remainder of the year, the level of which will depend on the broader inflation trends in the market. However, we have recently implemented rate increases with several clients, which should begin to flow through during the course of the year, mitigating the increase.

In mobile, earnings were down as expected from softer international results, mainly in Asia Pacific, and unfavorable foreign exchange, both of which are expected to continue. U.S. mobile earnings were flat year-over-year as modest mobile subscriber growth in North America device protection programs from carrier and cable operator clients was offset by lower mobile trade-in results. Trade-in margins were impacted by device mix from carrier promotions and slightly lower volumes, mainly due to the discontinuation of in-store service and repair. Sequentially, however, we are seeing improved mobile performance, including in the U.S. and Europe, as results benefit from expense management and more favorable loss experience compared to trends that emerged in the second half of 2022, while declines in Japan have started to stabilize.

Turning to Global Automotive. Earnings decreased $8 million or 9%, and $5 million, excluding real estate joint venture gains from the first quarter. Similar to others in the industry, the auto business was impacted by a rise in severity from higher parts and labor costs that contributed to elevated claims. We expect to recover a portion of the higher claims cost over time through client contract structures, though we expect elevated claims experience to persist throughout this year. The auto earnings decrease was partially offset by growth in the U.S. across distribution channels. And although higher claims costs across auto and extended service contracts are being driven by inflation, these businesses are also benefiting from higher investment income due to higher yields.

Turning to net earned premiums, fees and other income. Lifestyle was up by $52 million or 3%. This growth was primarily driven by Global Automotive, reflecting strong prior period sales of vehicle service contracts. Connected Living's net earned premiums, fees and other income decreased 5%. This reflects an approximately $65 million impact from the previously disclosed new contract structures as well as premium declines related to mobile runoff programs. Excluding these contract changes in foreign currency, Connected Living's revenues grew by 4%. The quarter benefited from growth in mobile subscribers in North America and higher contributions from extended service contracts.

For full year 2023, we expect modest growth for Global Lifestyle, supported by the ongoing expansion of new and existing partnerships, particularly in Connected Living, and accelerating expense savings throughout the year. We also expect increasing contributions from investment income and the positive impact from the actions mentioned to address rising claims costs. In terms of net earned premiums, fees and other income for 2023, Lifestyle is still expected to grow modestly as growth in Global Automotive is partially offset by ongoing foreign exchange headwinds.

Moving to Global Housing. Adjusted EBITDA was $68 million, which included a $43 million increase in reportable catastrophes from severe weather and tornado events. Excluding reportable catastrophes, adjusted EBITDA was $118 million, up $7 million or 7%. The stronger-than-expected results were driven by Homeowners' top line performance, mainly from lender-placed policy growth as well as higher average insured values and premium rates. Policy growth was mainly from expanded loan portfolios of new and existing clients, although we do expect the client portfolio to run off our books as the year progresses.

While non-cat loss experienced across all major products increased by $32 million, our performance in the quarter demonstrates our ability to more than offset the inflation impacts. Catastrophe reinsurance costs also increased in line with our expectations.

In renters and Other, earnings decreased from expected higher non-cat losses, which should continue throughout the year. For full year 2023, we continue to expect Global Housing adjusted EBITDA, excluding reportable cats, to grow due to improved performance in Homeowners, driven by top line expansion from higher rates and policy growth in lender-placed and by ongoing expense actions to be realized over the course of the year. We are monitoring potential changes in the reinsurance market as we place the remaining 1/3 of our reinsurance program in the coming months. Currently, we anticipate the cost to increase year-over-year, in line with our previous expectations.

Lastly, we are not anticipating a significant improvement in lender-placed non-catastrophe losses until later in the year and continue to monitor the impact of inflation closely. Please also keep in mind that the second quarter tends to be a seasonally elevated period for non-cat losses.

Moving to corporate. The first quarter adjusted EBITDA loss was $24 million, up $2 million, driven by lower investment income. For the full year 2023, we continue to expect corporate adjusted EBITDA loss to be approximately $105 million. Given the market volatility over the last quarter, I also want to take a moment to discuss our investment portfolio.

Investments cash and cash equivalents had a value of $9.3 billion at the end of Q1. The portfolio is high quality and diversified, reflecting our conservative investment philosophy. Fixed maturity investments in cash and cash equivalents represented 86% of our total portfolio. An estimated 94% of our fixed income securities are investment-grade rated. And overall, our U.S. regional bank exposure is modest.

We also have commercial real estate investments across a number of investment vehicles with the overall portfolio performing well. Our assets are diversified across geographic regions and property type with low average security size and have attractive loan-to-value and debt coverage servicing ratios. For example, our commercial mortgage loan portfolio represents approximately 3% of our investment portfolio with approximately 130 loans with an average loan amount of about $2.3 million. The loan portfolio is highly diversified across the U.S., including a variety of property classes and with office buildings representing 11% or approximately $34 million of the loan portfolio, and our real estate equity portfolio represents only 2% of our investment portfolio. It is also a diverse portfolio with only 4 office assets with a $26 million book value.

We also have CMBS and REIT positions with 98% of those investments being investment-grade rated. While certainly not risk-free, we believe our investment portfolio is relatively low risk as it relates to current macroeconomic headwinds.

Turning to holding company liquidity. We ended the quarter with $383 million. In the first quarter, dividends from our operating segments totaled $112 million. During the quarter, we issued $175 million in 2026 senior notes and redeemed a portion of the $225 million of senior notes due in 2023. We intend to redeem the balance of the notes on or prior to maturity in September.

In addition to the $136 million of cash used for corporate and interest expenses, first quarter cash flows included $37 million of common stock dividends. For the year, we expect our businesses to continue to generate meaningful cash flow, approximating 65% of segment adjusted EBITDA, including reportable catastrophes. Cash flow expectations assume a continuation of the current macroeconomic environment and are subject to the growth of the businesses, investment portfolio performance, and rating agency and regulatory requirements.

As Keith mentioned, given our performance in the first quarter and our current expectations for cash generation, we plan to resume modest buybacks as we exit the second quarter. We will continue to monitor the macroeconomic environment and adjust accordingly.

In summary, our performance in the first quarter provides us with the confidence in our full year outlook. And while macroeconomic uncertainty will likely continue throughout the year, we believe the strength and momentum of our businesses and strong cash flow generation are powerful differentiators for Assurant. And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question is coming from Tommy McJoynt from KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

So the first one, with regards to your comments on the claims cost in the Lifestyle business, so in the past, you've distinguished between the lifestyle partners where you hold the ultimate risk and the partners where the risk ultimately goes back to the partners. Could you go into a bit more detail on the timing of how some of those unfavorable claims could weigh on earnings in the current period, but ultimately get recovered in the future periods. And what is the magnitude of those swings? Just from our standpoint, should we kind of see these numbers kind of ebb and flow in the numbers.

Keith Warner Demmings
President, CEO & Director

Yes. So maybe I can try to take that, and then certainly, Richard, feel free to add in. I'd probably point to a couple of things. I'll set aside housing, which I'm sure we'll talk about later, and the progress there from an inflation perspective. Nothing really to report on the mobile side. So a lot of stability in terms of the mobile business around severity. So that's come in line fairly nicely in the last couple of quarters.

We've signaled some pressure on the ESCs. So the retail service contract side of the business. We've actually been taking rate increases with our partners adjusting program coverages, but also putting rate in place. So we saw a little bit of pressure in the first quarter, which has continued, I'd say, over the last 3 or 4 quarters or so. We expect that to moderate over the rest of the year. So we've taken action that will start to benefit through in terms of the earned premium this year. And hopefully, that will slow down that impact over the rest of '23.

Where we are seeing a little more pressure is on the auto side. We talked about this a little bit last quarter, but certainly elevated severities in the repair shops, both in terms of parts costs and labor costs. We're definitely seeing that come through in our performance. As you rightly suggested, we do share risk with a lot of our partners. So the vast majority of our deals are either reinsured or profit shared. So we're keeping a residual amount of that severity risk. We do recover that in a lot of cases through repricing with our clients, whether contractually required, which is often the case, or just with the partners, we'll work to try to achieve target loss ratios over time.

So we've already started taking pricing actions. We started taking certain actions more than 6 months ago around the auto business and that should benefit us as we flow through, probably more helpful in '24 than '23, we'll definitely still see some pressure this year in the auto results. We do expect to see progress in auto over the balance of the year. In '23, we are seeing good growth in revenue. We're also seeing help in terms of the investment income portfolio, and those are helping to offset some of the pressure on severities.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And then just my second question, what specifically are you seeing that's different from previously that gives you comfort to resume the buyback seemingly just maybe a month or 2 ahead of prior plan? And how much of that is attributed to just looking at where the stock is trading relative to your assessment of intrinsic value?

Keith Warner Demmings
President, CEO & Director

Yes, I think as we sit here today, we've got a lot of confidence in our cash flow generation as a company, the strength of the business model. And I would say the positive momentum that we've seen in the housing business, the fact that we are seeing improving housing cost inflation indicators. We obviously had a really strong fourth quarter that repeated in the first quarter. We're seeing some improvement in terms of inflation, and that gave us more confidence as we think about the full year outlook and our ability to deliver against that. And to your point, we're starting a little bit earlier, but we do want to capitalize on the fact that we think our stock is attractively valued, and we feel like there's a good opportunity for us to get back into the market and be more consistent with our buyback activity as we move forward.

Operator

Your next question comes from the line of Mark Hughes from Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The renters insurance business you're in, number of renters has held up pretty well, but your revenue has dipped a little bit. Is that a mix shift? Could you give a little detail on that?

Keith Warner Demmings
President, CEO & Director

Yes, sure. I would say a couple of things to unpack with renters. Broadly, our policy counts, to your point, are pretty steady over the last year. We're seeing average premium per policy pretty steady, and really growth in the PMC channel, we're seeing double-digit revenue growth in our PMC channel, offset by some softness on the affinity side.

When you do look at the revenue for the first quarter, a couple of things I would point out. First of all, we did have an adjustment that flowed through the premium line. If I back that out, our revenue would be roughly flat in the quarter. So I think if you take something away from renters, pretty stable, consistent performance. Underlying revenue pretty constant compared to Q4 compared to first quarter last year. We think there's an opportunity to drive long-term growth within this business.

The second thing, we did see some favorability in the quarter from NFIP, where we're getting paid to administer claims on behalf of the U.S. government. That does not flow through the revenue line. It flows through as a ceding fee that we receive and effectively a contra commission.

So the real headline from my perspective around renters is, well-positioned, steady results. The loss ratios are certainly normalizing in line with what we saw in the second half and still believe we have good long-term opportunity to grow that business.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Then on the Connected Living, what's your assessment of the amount of marketing or advertising that's going on around 5G programs kind of feeding into your mobile device count, maybe feeding into your fee income driven by the upgrade and logistical operations. Are you still seeing the same tempo? How do you see that play out over the coming years?

Keith Warner Demmings
President, CEO & Director

Yes. So we certainly had a pretty high watermark in 2022 with respect to trading activity, to your point, a lot of advertising around 5G. We saw pretty consistent volumes in the first quarter. So if you strip out the impact of service and repair within that device to service line, trade-in volumes are pretty constant in Q1 versus Q1 last year. We did see a little bit of margin pressure around the mix, the mix of services we provided, the clients that have flowed through. But pretty steady from that perspective, I'd say it's still an important part of the ecosystem. Clients use it as an important tool to attract customers and the marketing tends to ebb and flow and very much driven by the competitive state, particularly within the domestic mobile business.

The second thing I would highlight is just the strength of our device protection business, in particular in the U.S. If you look at our top clients, and we operate with obviously one of the major mobile operators, 2 major cable operators, picked up 84% of all net adds for postpaid customers in Q1. So our clients are growing. We're obviously participating in that growth, and that will afford us opportunity to do more services and add more value over time.

Operator

Your next question is coming from John Barnidge, Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

If we could stick with the auto business. I know there's an ability to recoup part of the deficit, but it can take a number of quarters to do so, if I'm understanding that correctly. How large is the deficit? And how much of that will -- recoupment will leak into '24?

Keith Warner Demmings
President, CEO & Director

Yes. The deficit isn't that large. We're obviously taking action and have been taking action now for a couple of quarters to make sure that we're on the right side of that as we move forward. As I said, I think we'll see a little bit of pressure over the next 3 or 4 quarters, offset by the strong growth in the investment income. I definitely expect to see some of that recovery coming through in '24. And to your point, if I think about where we've seen some pressure, in a good amount of the cases, we're actually going to recover that deficit on an inception-to-date basis.

Where in other cases, we'll achieve target loss ratios on new business. We may not get historical losses back. But there is an ability to actually recover historical losses, to your point, and recapture deficit. So feel really good about how we're positioned in auto.

We work closely with our clients on pricing. We don't require regulatory approvals to make pricing changes. So it's really just working in partnership with our clients to do that. We've been dealing with this for 20-plus years as an organization, and we're very good at trying to find creative solutions with our clients to normalize results over time.

Richard Steven Dziadzio
Executive VP & CFO

And I would just add too, John. I mean, the other side of that, as Keith mentioned earlier in the remarks, is that we are getting investment income. So what we're seeing on the claims cost rising in auto and extended service contracts is just part of the inflationary environment, prices going up, but also interest rates have come up, which is part of what you're seeing in the investment income increase during the quarter.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Appreciate that color. And then on pricing increases, I'd imagine another round for inflation guard will be coming in July. Am I correct in thinking it won't be nearly the same degree as a year ago, but should benefit the overall premium profile?

Keith Warner Demmings
President, CEO & Director

Yes, that's right. And if we look at the core logic industry factor for inflation around housing, materials and labor. And if you look at where it was April 1 last year, it was 16%. If you look at that this year, it's just a little over 3%. So a much more modest adjustment to average insured values, which obviously, it'll have less of an impact on rate, but I think it's more positive in terms of the health of the broader market. Seeing inflation rates normalize is very important for the performance of the business and obviously trying to keep premiums manageable from a consumer perspective. So I actually feel really good about what we're seeing from core logic. It matches up closely with a lot of the data that we look at within our business. So feel good about how we're positioned there.

Richard Steven Dziadzio
Executive VP & CFO

And just the other thing to add to that, John, and I'm sure you're probably aware of it, but the 16% last year that takes a number of months to roll through as the policies renew themselves and new policies come in and so forth. So that does take some time. Just as when the 3% comes in, the first policies come in July, when they renew, that increase will come into play. So it's a little bit averaging as we get through the course of the year.

Keith Warner Demmings
President, CEO & Director

Yes, it's a great point. We haven't fully written in the 16% AIVs. That will fully write in through June, and then it will take 12 months from there to fully earn through the book. So you're still going to feel significant rate and premium growth acceleration over the course of this year, regardless of what factor goes in, in July.

Operator

Next question is coming from Grace Carter, Bank of America.

Grace Helen Carter
BofA Securities, Research Division

So I was wondering, just given that you said that the first quarter came in above expectations, but guidance remains flat. I know you all called out some seasonality in housing losses in the second quarter and obviously, inflationary pressure on claims cost across the book. But are there any sort of timing items or one-off favorable items in the first quarter that we need to consider when trying to square the first quarter performance versus the full year guidance?

Keith Warner Demmings
President, CEO & Director

You want to start on that, Richard?

Richard Steven Dziadzio
Executive VP & CFO

Yes. No, I think your question was well-phrased. I think we do see, as the year goes on, we can see some seasonality in claims and typically, Q1 is a little bit lower. We'll see what happens. Obviously, there's inflation that's coming down. So that can help the claims cost too. We have some good investment income that depends what happens with interest rates as the year goes on. We did not have any real estate sales or gains in the numbers. So there's no one-offs in that area as well. We have some good PIF counts in housing, policies in force. And we did mention that we see a client rolling off as the year goes on that might temper the overall increase in policies in force. So I would say more business than usual, nothing big in the first quarter to call out, Grace.

Grace Helen Carter
BofA Securities, Research Division

And I think you had previously mentioned the hard market in certain states, including Florida, as driving some of the growth in the housing book. Is there any impact that you'll expect from the recent reforms in Florida on growth levels going forward or more on margins?

Keith Warner Demmings
President, CEO & Director

Maybe I'll start on that, Richard, and certainly, you can add in. I'd say it's really early in terms of the Florida reforms. I think long term, it's going to be really important for that market to improve the competitiveness and improve pricing for consumers without question. And we are starting to see lower AOBs coming through. So that will take time to work through, and we'll see how that emerges. But I do feel good about how that's positioned for the future.

In terms of the hard market, I would say we certainly saw PIF count grow in Florida last year. So we had about 14,000 new policies over the course of the year because I would say largely the hard market, some of it from new clients, but a good amount from the hard market. We actually saw that begin to reverse a little bit, Grace, in the first quarter. So our PIF count in Florida actually went down a little bit. And I think that's a sign of potentially more competitiveness into the marketplace. So we won't be monitoring that, but we're not expecting Florida to be a big driver of PIF from the hard market as we look forward in the rest of the year.

Operator

[Operator Instructions] Next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So a couple of questions here for you. The first one, you kind of described Japan starting to get a little bit better, Europe start to get a little bit better. When do you think we could start to see some year-over-year growth in global covered mobile devices in Connected Living?

Keith Warner Demmings
President, CEO & Director

Yes, it's a great question. So let me just address Europe quickly, and then I'll talk about Japan. So I'm really pleased with the progress that our team has made in Europe, and we had a pretty significant turnaround in the first quarter. A tough second half of last year without question, but significantly improved results in the first quarter and a lot of that was due to the expense actions that our team took in the back half of 2022. So I think we're well-positioned there and expect strong stable results in Europe over the course of the year.

And I'd say Japan, that's been the market where we've seen some subscriber declines. Everywhere else it's been relatively stable. The U.S. historically has been growing for us. So I expect that will continue. And I'd say in Japan, a couple of things that are really important. Number one, it's a really important market for the mobile business. I think we're incredibly well-positioned and we've made a lot of progress in that market. And that's progress around investing in local talent, capabilities, technology. We actually now have relationships with all 4 carriers in the Japanese market. So that creates interesting opportunities to innovate and drive growth. The subs are definitely down quarter-over-quarter.

And I would point to 2 things and give you a little bit more color on that. One, we see slightly lower attach rates more recently. And that's mainly because customers have migrated to more affordable devices. Because of foreign exchange, devices became more expensive last fall, and we've seen a little bit lower attach on less expensive devices and older models, but nothing of concern.

And then the second thing, which is actually the bigger driver, when we launched in Japan in 2018 with our initial device protection product, it had a 4-year term. So a monthly pay product for 4 years as opposed to an evergreen structure. And that was appropriate at the time in the Japanese market. After a couple of years, we actually moved to an Evergreen product. What you're seeing in Japan is some of that transition rolling through where some of those 4-year contracts are hitting their end date and the cancellation rate plus those contracts ending is a higher number than the new adds that we're putting on the book.

I would say, before the end of this year, that will be fully gone and then we'll be positioned in Japan for growth going forward. And to my earlier point, we expect to continue to grow U.S. mobile as we have for many years.

Richard Steven Dziadzio
Executive VP & CFO

And I would just add to -- yes, I'd just say, Brian, in addition to the sub count, we've always talked about adding services to clients. So you have the sub count and then you have what's the services inside that. So as we go on, we continue to innovate the products and innovate the services going into the client to provide us more revenue per client, I would say, as well.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. That's helpful. And then my second question, I'm just curious, going to capital management. I appreciate probably starting to buy back a little more stock at the end of the second quarter. But given the cash flow you're expecting and given the excess capital already at the holding company, why modest, right? I mean I understand there's a little macro uncertainty, but you've got a pretty conservative investment portfolio, as you pointed out, cash flows look like they're pretty strong. Why wouldn't you take advantage of the really inexpensive valuation of your stock more aggressively at this point?

Keith Warner Demmings
President, CEO & Director

Yes. And I think it's as simple as we're just trying to be prudent. We're very disciplined as a company with the way we think about capital management and we're trying to get more information just in terms of how the macro picture is going to play out. Interest rates, whether there's going to be a recession, if so, when does that start to kick in? So I just think we're trying to be prudent with our thinking on that and certainly expect, as we get more information, to be able to deploy more capital.

But Richard, feel free to add anything else.

Brian Robert Meredith
UBS Investment Bank, Research Division

Does your outlook -- also can you add, does your outlook contemplate a recession?

Richard Steven Dziadzio
Executive VP & CFO

When we look at the outlook, we do take into account, for example, more I would say, a decrease in inflation as the year goes on. We don't take into account when we're projecting that there's any sort of hard landing of things. So we do take into account, for example, when Keith was talking about in the conversation we had on claims service, the service charges, the claims costs going up. We do take into account that, that could continue to go up during the year when we reinforce our outlook for the quarter.

In terms of capital, really what Keith was saying is right on, is that we're just trying to be prudent. When you look at the macroeconomic environment today and you look at the shaky -- what's going on in some of the inflation aspects and the Fed increasing rates and the banking industry and things going on just generally, I think we're trying to be prudent and just be cautious about the steps we take. I agree with you, we're in a strong financial position. We've got a strong balance sheet. We've got a conservative investment portfolio. There's nothing today that we're sitting on looking at our investment portfolio that we're worried about, although we are keeping an eye on everything, so to speak. So it's really from just being prudent to see how things play out over the next couple of months. But we do see us increasing the share buybacks toward the end of the year if things play out okay on the number of things we just talked about.

Keith Warner Demmings
President, CEO & Director

Yes. And maybe just a little bit more color on the recession question and how we think about that. We're certainly updating our views for the full year to take into account all of the trends that we're seeing within each of our lines of business. So there's no doubt that we're paying close attention and modifying as appropriate there. I'm not having a crystal ball, but certainly, we can see some of those trends emerging.

I would say a couple of things, though. Number one, we haven't assumed any change in placement rate related to a recession. So we haven't banked on the idea that if the economy gets tougher, we will see placement rates evolve over time. So that we've kept relatively static, and we'll see how that emerges. And then I'd just remind you on the Lifestyle business. A lot of our mobile economics are driven by the in-force subscribers that we have, which is 62 million monthly pay recurring. We don't expect that to move around a lot certainly in 2023, regardless of recessionary impacts or consumer demand, because that's an in-force block of recurring revenue. And then on the auto side, we're sitting on over $10.5 billion of unearned premium reserves that are going to roll through.

The bulk of the earnings this year are on business that's already been written. So from that perspective, in '23, we feel really good about projecting forward. And to Richard's point, really watching closely inflationary trends, good and bad, right? Inflationary maybe upside if housing continues to perform well and then obviously, some pressure on auto and ESC and keeping a close eye on those 2 things.

Operator

And that concludes our Q&A. I'd like to hand back over to Keith and Richard for closing remarks.

Keith Warner Demmings
President, CEO & Director

Well, great. Just quickly, thanks, everyone. Appreciate your time, as always. We're pleased with the quarter and the strong start we've had to the year and obviously very focused on delivering on all of our commitments for '23. We'll look forward to reconnecting again for our second quarter call in August. And in the meantime, please reach out to Sean and Suzanne if you have any other questions. And 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.