S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

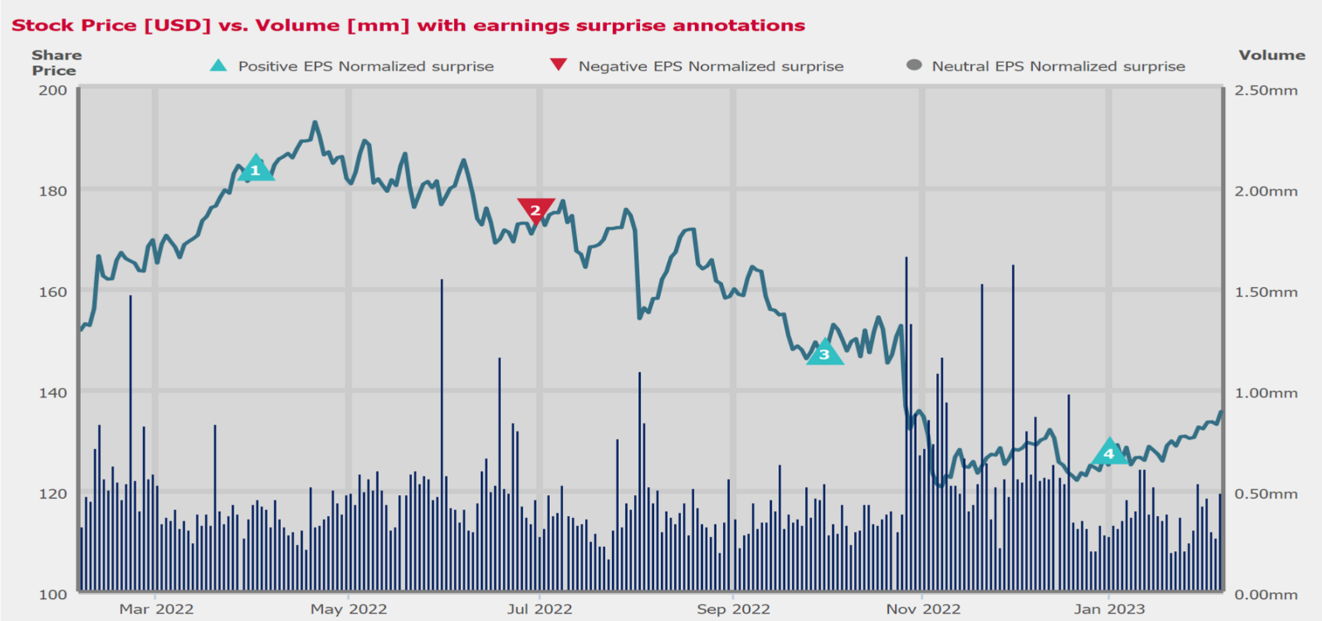
FQ4 2022 Earnings Call Transcripts

Wednesday, February 8, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.70	3.23	▲19.63	2.89	10.56	11.13	▲5.40	11.72
Revenue (mm)	2636.47	2652.80	▲0.62	2682.98	10200.27	10193.00	▼(0.07 %)	10824.03

Currency: USD
Consensus as of Feb-08-2023 1:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	2.80	3.75	▲1 33.93 %
FQ2 2022	3.22	2.95	▼2 (8.39 %)
FQ3 2022	1.00	1.01	▲3 1.00 %
FQ4 2022	2.70	3.23	▲4 19.63 %

Table of Contents

Call Participants

EXECUTIVES

Keith Warner Demmings
President, CEO & Director

Richard Steven Dziadzio
Executive VP & CFO

Suzanne Shepherd
Senior Vice President of Investor Relations & Sustainability

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Grace Helen Carter
BofA Securities, Research Division

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

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

Presentation

Operator

Welcome to Assurant's Fourth Quarter and Full Year 2022 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 begin.

Suzanne Shepherd
Senior Vice President of Investor Relations & Sustainability

Thank you, operator. 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 2, 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 2 primary lines of business, Homeowners and Renters and Others. 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 Warner Demmings
President, CEO & Director

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 continue 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% and delivered over $1.1 billion of adjusted EBITDA, both excluding reportable catastrophes. Adjusting for $27 million of unfavorable foreign exchange, adjusted EBITDA growth was 3%, and 2022 represented our sixth consecutive year of profitable growth. This is a reflection of our compelling strategy and resilient culture. We've 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, and 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 skill 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% 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 noncore 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 of annualized gross savings by the 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% in 2022, with growth from both Connected Living and Global Automotive. On a constant currency basis, adjusted EBITDA expanded by 11%, aligned with our original expectations for the year. In Connected Living, we grew adjusted EBITDA by 15% 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 Promoter 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 trading clients and now have over 40 trade-in programs globally. We continue 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% to 54.1 million vehicles, helping to generate adjusted EBITDA growth of 5%. Recently, we expanded and enhanced our EV One protection offering in the U.S., and 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 the 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 multiyear agreements. These renewals represent 36% 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 100,000 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 in dividends to the holding company, or roughly 52% of segment earnings, including catastrophe losses. Together with the remaining net proceeds from the Global Preneed sale, we returned a total of $718 million 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 modest pace given strong '22 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 a higher annual depreciation expense related to several strategic technology investments critical to 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 over the 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 reevaluate 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 rate 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 client 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 Steven Dziadzio
Executive VP & CFO

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 outlined 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 2022, adjusted EBITDA, excluding catastrophes, totaled $296 million or $39 million or 15% year-over-year and 19% 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 $3.56 for the quarter, up 24% year-over-year.

Now let's move to segment results, starting with Global Lifestyle. The segment reported adjusted EBITDA of $166 million in the fourth quarter, a 6% increase year-over-year, but double that, or 12% on a constant currency basis. The increase was driven by higher Connected Living earnings, which grew 21% or 31% on a constant currency basis. Connected Living strong growth was primarily from 3 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 trading, we serviced 7.5 million devices in the fourth quarter, our highest quarterly volume this year. While volumes were strong, trading results declined as margins were pressured by device mix resulting from carrier promotions. Claims cost in Connected Living overall remain 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 or 10%, primarily from weaker global performance and higher claims costs. In the U.S., a higher 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 premium, fees and other income. Lifestyle was up $20 million, or 1% and 3% 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, 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 that are not expected to recur. These included $24 million in investment income from real estate joint venture investments and $11 million 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 2 new contract structures, which we estimate will lower top line in 2023 by $230 million. It is important to note, though, that these 2 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 now to Global Housing. Adjusted EBITDA was $135 million, which included $22 million of reportable catastrophes from winter storms and Hurricane Nicole during the quarter. Excluding catastrophe losses, adjusted EBITDA was $157 million, up $31 million or 25%. The increase was driven primarily by lender-placed insurance, partially offset by $15 million 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 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. Improved earnings performance is expected from 2 main drivers. First, top line growth from rate recovery and lender-placed; and second, ongoing expense actions to be realized over the course of the year. We expect ongoing elevated noncatastrophe 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 noncatastrophe 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 2/3 of our 2023 program. Similar to much of the industry, we've seen significant price increases, but the cost is 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 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. This incorporates the growth in lender-placed exposure, primarily from 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. And finally, I'd also note that our outlook for housing assumes no meaningful deterioration in 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, up $2 million, and was driven by lower investment income. For the full year 2023, we expect the Corporate adjusted EBITDA loss to be approximately $105 million.

Turning to holding company liquidity. We ended the year with $446 million. In the fourth quarter, dividends from our operating segments totaled $89 million. In addition to our quarterly corporate and interest expenses, we also had outflows from 3 main items: $13 million of share repurchases, $38 million in common stock dividends and $81 million related to the 2 strategic acquisitions previously announced that will strengthen our position in the commercial equipment space.

During 2022, lifestyle and housing contributed $550 million in dividends to the holding company. This was below our expectations given changes in investment portfolio values, reserve strengthening and accounting changes for noncore operations.

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

In summary, we continued our track record of profitable earnings growth and strong cash flow 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

Operator

[Operator Instructions] Our first question comes from the line of John Barnidge from Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

There 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?

Keith Warner Demmings
President, CEO & Director

Great. Maybe just a couple of comments on '22, and then I'll talk about how we think about '23. So certainly happy with how we finished the year, obviously, a 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 team to 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's a couple of things to remember. We certainly had some favorability, particularly in lifestyle in '22 that doesn't repeat. Richard mentioned about $35 million between real estate gains as well as the onetime client benefits. So we've got to grow our way through that into '23. We also expect continued foreign exchange pressure in our '23 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're 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 '23. Obviously, there's 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 '22. That was a carryover from '21 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 '23 and then accelerate growth into '24.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

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?

Keith Warner Demmings
President, CEO & Director

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're correct. We saw about -- pretty significant growth in the U.S. market. So if I look at devices protected up 300,000 sequentially, 500,000 of that is actually from growth domestically in the U.S. market, and that's offsetting some natural runoff that we have. So pretty strong growth in the U.S., great results in the U.S. 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 U.S., they're gaining roughly 70% of the net adds for postpaid customers. So that is helping us significantly in the U.S. 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 in 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 a potentially lower quality devices, and that can affect the ultimate margins in the business and move around from quarter-to-quarter.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Kind of along those lines, the 5G upgrade programs, I think you mentioned you're getting 70% of the net adds among your customers, that's an 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?

Keith Warner Demmings
President, CEO & Director

Yes, 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 traded 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 '23. 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.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And in the coastal property markets, I think there's some reference to maybe a lender-placed being held 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 will help push out placement rates in Florida and other coastal markets?

Keith Warner Demmings
President, CEO & Director

Yes. 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.

Operator

Your next question comes from the line of Tommy McJoynt from KBW.

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

So first one, can you just go into a bit more detail on some of the drivers for pausing the buyback? I guess, I think of this business really holistically is 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 detail on that, that would be great.

Keith Warner Demmings
President, CEO & Director

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 as being prudent for the moment, getting better visibility, understanding how results are progressing and then making those rate decisions with all of that additional information as we head into the back half of the year.

But, Richard, what else might you add?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thanks, Keith. Yes, 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 a 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.

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

And then just my other question, going back a little bit to the Connected Living side, you talked about being some of your partners with T-Mobile, Sprint [indiscernible] Charter, Spectrum. Can you talk a little bit about the opportunity around Verizon, AT&T? And just kind of remind us what services you are providing for them and kind of what any kind of incremental opportunity might be?

Keith Warner Demmings
President, CEO & Director

Sure. So we do business with both Verizon and AT&T and support their trade-in business domestically in the U.S. 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 2 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.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here for you. First, I'm just curious, Richard, maybe, NII outlook here going forward in the Global Housing business? Or is there still potential upside given where new money rates are?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thanks for the question, Brian. Yes, 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 to. That's a nice tailwind for us. I would say that relative, if I think about '23 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 2 factors, increase in yields being offset by the real estate gains.

Brian Robert Meredith
UBS Investment Bank, Research Division

That makes sense. And then I guess my second question, Keith, you talked a little bit about the 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 and guidance for kind of the domestic consumer here in the U.S. What do things look like potentially if we do go into a recession second half of the year?

Keith Warner Demmings
President, CEO & Director

Yes. So our U.S. 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 '23. We obviously have to offset the onetime 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 '23 versus '22. A little more growth on new offset by softness on the used side, but probably 80% of the economics in '23 are from policies that have already been written that will 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.

Operator

Your next question comes from the line of Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I've seen some forecast out there for potential lower smartphone shipments to the U.S. 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?

Keith Warner Demmings
President, CEO & Director

Yes, 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 '23 overall, but maybe a little bit muted from '22 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 '23.

Grace Helen Carter
BofA Securities, Research Division

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 due 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?

Keith Warner Demmings
President, CEO & Director

Yes. 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 place 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 '22, 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 scale 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.

Richard Steven Dziadzio
Executive VP & CFO

And we have been getting [indiscernible] 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.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The $15 million you talked about in 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 may be 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?

Keith Warner Demmings
President, CEO & Director

Yes. 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 costs, 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?

Richard Steven Dziadzio
Executive VP & CFO

Yes, 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. 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 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.

Keith Warner Demmings
President, CEO & Director

Yes. And then 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, renters and some specialty products, particularly in the first half of '22. We've seen that normalize over the balance of '22 to what are more natural levels. I think we were really at kind of pandemic level lows with respect to some of the losses that we were 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.

Operator

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

Keith Warner Demmings
President, CEO & Director

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 teleconference. Please disconnect your lines at this time, and have a wonderful day.