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The Allstate Corporation NYSE:ALL

FQ2 2018 Earnings Call Transcripts

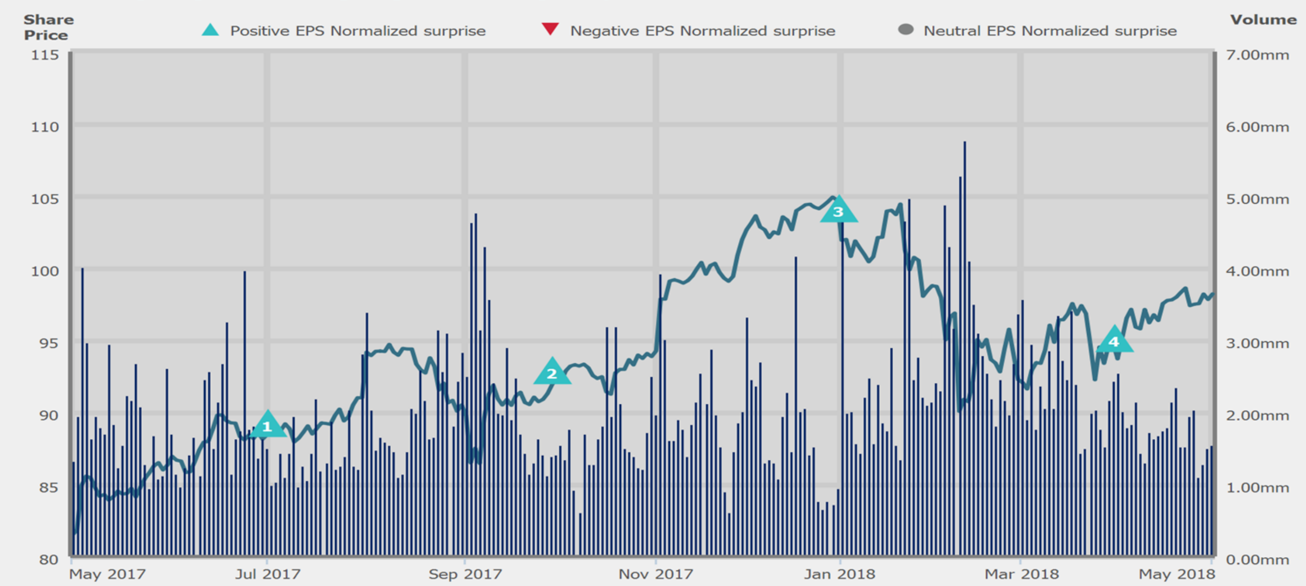
Thursday, August 02, 2018 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.50	1.90	▲26.67	2.12	9.21	8.84
Revenue (mm)	8316.14	8460.00	▲1.73	8488.57	33330.00	34554.00

Currency: USD
Consensus as of Aug-02-2018 11:42 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.90	1.38	▲1 53.33 %
FQ3 2017	0.83	1.60	▲2 92.77 %
FQ4 2017	1.53	2.09	▲3 36.60 %
FQ1 2018	2.64	2.96	▲4 12.12 %

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Call Participants

EXECUTIVES

Dogan Civgin
President of Service Businesses - Allstate Insurance Company

Glenn Thomas Shapiro
President of Allstate personal lines & Director

John Edward Dugenske
President

John Griek
Head of Investor Relations

Mario Rizzo
Executive VP & CFO

Steven Emil Shebik
Vice Chairman

Thomas Joseph Wilson
Chairman, President & CEO

Unknown Executive

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jay H. Gelb
Barclays Bank PLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Marcos Holanda

Michael David Zaremski
Crédit Suisse AG, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate Second Quarter 2018 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. John Griek, Head of Investor Relations. Sir, you may begin.

John Griek
Head of Investor Relations

Well, thank you, Daniel, and good morning, and welcome everyone to Allstate's Second Quarter 2018 Earnings Conference Call. After our prepared remarks, we will have a question-and-answer session.

Here today are Tom Wilson, CEO; Steve Shebick, Vice Chair; Mario Rizzo, CFO; Glenn Shapiro, President of Allstate Personal Lines; Don Civgin, President of Service Businesses; John Dugenske, Chief Investment and Corporate Strategy Officer; Mary Jane Fortin, President of our Life, Retirement and Benefit Businesses; and Eric Ferren, Controller and Chief Accounting Officer.

Yesterday, following the close of the market, we filed the 10-Q for the second quarter and posted the press release, investor supplement and today's presentation on our website at allstateinvestors.com.

As noted on the first slide of the presentation, our discussion today will contain forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2017 and other public documents for information on potential risks.

This discussion will contain some non-GAAP measures for which there are reconciliations in the news release and investor supplement.

Now, I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Well, good morning. Thank you for investing your time to keep up on our progress at Allstate.

Allstate continued to deliver excellent operating results and we're on pace to achieve our 2018 operating priorities. The strategy to deliver differentiated products to consumers is laid out on Slide 2 and is working.

So starting with our Property-Liability businesses on the left, we have 4 market-facing businesses, each with a different customer value proposition and go-to-market business model. The Allstate brand in the lower left competes in the local advice and branded segment, and growth accelerated in the second quarter. Esurance in the lower right focuses on self-serve customers who prefer a branded product, and it's premium increased 12.5% over the prior year. We leveraged our pricing, analytical and operating expertise across these businesses, which comprised 86% of revenues and 91% of adjusted net income and creates substantial value for our shareholders.

Our focus on value accretion also includes the 4 areas in the right panel. We're enhancing customer value proposition through increased connectivity. A good example of this is the use of telematics in the Allstate Agency and Esurance businesses. We use connectivity to give customers a price for auto insurance that reflects their individual driving behavior and give them the opportunity to buy it by the mile. So for those of you who are in New Jersey, you've likely seen racks on the ferries in the -- and advertising in the subway.

And we're also working to improve our customers' driving experience by maintaining this connection beyond what's needed to create an insurance risk score. QuickFoto Claim enables us to pay auto insurance

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claims in hours versus days and we believe we lead the industry in implementing this technology, which is highlighted in our advertising.

We also create value through growth in a number of large significant businesses like Allstate Benefits, Allstate Life and SquareTrade. The value of these businesses is substantial, but can be overshadowed by the sheer size [though] of the Property-Liability business. As Mario will discuss, our proactively managed capital creates shareholder value.

Turning to Slide 3. Allstate's growth increased and returns were excellent for the quarter. Revenues exceeded $10 billion with increases in average premium and policies in force.

As you can see from the green box on the far right of the table, Allstate Protection policies in force grew 0.9% in the second quarter of 2018, which is due to growth in the Allstate and Esurance brands. Service Businesses' group policies came forward nearly 36% due to SquareTrade.

If we move back to the left, you'll see that net income was $637 million or $1.80 per share in the second quarter of 2018 with adjusted net income of $675 million or $1.90 a share. In the middle at the bottom, net income return on equity was 17% and was 15.8% on adjusted net income.

The Property-Liability underlying combined ratio for the first half of 2018 was better than our annual outlook of 86 to 88, primarily driven by lower auto accident frequency. So given this positive result, the underlying combined ratio outlook improved to 85 to 87 for the full year of 2018.

If we turn to Slide 4, we also made good progress on our 5 2018 operating priorities. Those first 3 priorities: Better serve customers; achieve target economic returns on capital; and grow the customer base are intertwined to ensure profitable long-term growth.

We made progress on better serving customers and the Net Promoter Score improved across most of our businesses. Customer retention improved for both Allstate and the Esurance Property-Liability businesses, which is a key driver of growth.

Returns were good in total as we just discussed. The Property-Liability reported combined ratio of 94.9 generated $460 million in underwriting income for the quarter. Allstate Life and Allstate Benefits also generated attractive returns.

Growth increased

[Audio Gap]

Allstate and Esurance brands grew policies in force from higher

[Audio Gap]

and increased new business. Allstate continued its long track record of growth with policies in force

[Audio Gap]

5.4% over the prior year quarter. SquareTrade added 13.2 million policies over the last 12 months.

The fourth priority, to proactively manage investments, is imperative in low-interest rates but accelerating growth environment. $83 billion investment portfolio generated $824 million of net investment income in the second quarter. Total return was 0.5% as the contribution from investment income was partially offset by lower fixed income valuation.

We're also committed to building new long-term growth platforms. SquareTrade and Arity are 2 good examples of progress on this priority.

John will now go through our Property-Liability results in more detail.

John Edward Dugenske
President

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Thanks, Tom.

Slide 5 shows an overview of our Property-Liability results. Net written premium growth of 6.4% in the second quarter was driven by accelerated growth in the Allstate and Esurance brands. The recorded combined ratio of 94.9 was 1.7 points better than the second quarter of 2017 due to increased premiums earned, lower catastrophe losses, higher favorable non-catastrophe prior year reserve reestimates and lower auto insurance accident frequency. This was partially offset by an increase in the expense ratio due to higher agent and employee-related comp

[Audio Gap]

costs.

The underlying combined ratio, which excludes catastrophes and prior year reserve reestimates, was 85.5 for the second quarter of 2018 and 84.8 for the first 6 months of the year. As Tom mentioned, we are improving the guidance range by a point to 85 to 87 for the full year 2018. This revised range takes into account more moderate frequency assumptions than originally planned, the seasonal nature of loss performance in the second half of the year, investments in growth initiatives and the deployment of tax savings.

Now, let's spend a few minutes discussing each brand in some detail. Slide 6 covers operating results for Allstate Brand Auto Insurance. Starting with the bottom left chart, policies in force grew by 262,000 or 1.3% in the second quarter of 2018. The renewal ratio of 88.5 was an improvement of 1.1 points from the prior year quarter, benefiting from our focus on the customer experience and a stable rate environment. New issued applications grew year-over-year for the sixth consecutive quarter, increasing 18% compared to the second quarter of 2017.

On the right-hand box, the recorded combined ratio for the second quarter was 93.0, 2.6 points better than the prior year quarter, and generated $358 million in underwriting income. The primary drivers of profitability improvement were increased average earned premium, higher favorable prior year reserve reestimates, lower catastrophe losses and a broad-based decline in accident frequency.

The underlying combined ratio of 92.8 in the second quarter of 2018 included an underlying loss ratio of 66.8, an improvement of 0.7 points compared to the prior year quarter. This was more than offset by a higher expense ratio driven by higher agent and employee-related compensation costs.

Let's go to Slide 7. Let's cover Allstate Brand Homeowners insurance results. Starting on the bottom left, policies in force grew 0.8% compared to the prior year as both the renewal ratio and new issued applications increased.

The bottom right chart provides detail on profitability. Homeowners insurance recorded combined ratio was 98.3 in the second quarter. Performance for this line is better evaluated over a 12-month period given weather seasonality and variability. Allstate Brand Homeowners Insurance generated $932 million of underwriting income with a recorded combined ratio of 86.5 over the last 12 months.

Slide 8 provides financial highlights for Esurance and Encompass. Esurance had strong growth and improved underlying profitability in the quarter. Esurance net written premium grew 12.5% compared to the prior quarter, reflecting increased average premium in auto and homeowners insurance and a 4.1% increase in total policies in force. This quarter's policy growth benefited from a 3.2% increase in auto insurance policies in force and the expansion into homeowners insurance.

The recorded combined ratio of 101.9 in the second quarter was 4.2 points below the prior year quarter, as shown on the upper right, due to the improvement in both the loss and expense ratios. The underlying combined ratio of 95.9 was 4.6 points better than the prior year quarter as both auto and homeowners insurance results improved.

Encompass continued to execute its profit improvement plan and generated underwriting income in the quarter. There was a 6.6% decline in net written premium over the last 12 months and policies in force were 11.1% lower in 2018.

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Encompass' recorded combined ratio of 98.4 in the second quarter of 2018 was 6 points lower than the prior year quarter as the improvement in the underlying loss ratio more than offset expense ratio. The underlying combined ratio of 5.5 for the second quarter was 2.1 points better [than the] prior year period due to increased average premium

[Audio Gap]

auto insurance frequency.

And now, I'll turn it over to Mario.

Mario Rizzo
Executive VP & CFO

Thanks, John.

Let's go to Slide 9, which provides detail on our Service Businesses. In the second quarter, revenue grew to $320 million and policies in force reached

[Audio Gap]

9.1 million. Adjusted net income was $1

[Audio Gap]

in the quarter, a $9 million improvement over the prior year quarter due to improved loss experience at SquareTrade and Allstate Dealer Services.

SquareTrade revenues of $122 million were $52 million above the prior year, with half the increase driven by organic revenue growth and the remainder due to the adoption of the new accounting standard. SquareTrade made progress on the 3 objectives supporting its acquisition as domestic policies in force increased, loss experience improved and the international business expanded.

Turning to Slide 10. Let's review our Allstate Life Benefits and Annuities results. Allstate Life generated attractive returns on capital with adjusted net income of $78 million

[Audio Gap]

in the second quarter, shown in the bottom left chart. This was due to a lower effective tax rate, higher premium

[Audio Gap]

and increased net investment income.

[Audio Gap]

benefits adjusted net income, shown in the top middle chart on the page, was $34 million in the second quarter. The $9 million increase from the prior year quarter was primarily driven by increased premiums, improved benefit ratio on selected products and a lower effective tax rate.

Allstate Annuities, on the far right, had adjusted net income of $44 million in the quarter, which was $21 million lower than the prior year quarter, primarily due to lower performance-based investment results compared to a very strong prior year quarter, which remained low due to the relatively high regulatory capital

[Audio Gap].

Slide 11 highlights our

[Audio Gap]

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results. We proactively manage our investment portfolio based on our long-term strategic risk profile, relevant market conditions and corporate risk appetite. Net investment income was $824 million, 8.1% lower than the prior year quarter, due to exceptional performance-based results in 2017.

The chart at the bottom left of the slide shows net investment income split between the market and performance-based portfolios. Market-based investment income, shown in blue, increased and reflect higher portfolio yields. Performance-based investment income, shown in gray, was the primary driver of the decrease over 2017.

While performance-based income in the quarter was lower than the last 4 quarters, this reflected very strong returns last year due to favorable equity markets. The annualized yield on the performance-based portfolio was 9% this quarter in comparison to 16.8% last year.

Total return in the quarter is shown on the lower right. The positive return in the quarter was supported by a stable contribution from income, shown in blue, but was dampened by lower fixed income valuations due to increased market yields, which is shown in gray. Total return was breakeven for the first 6 months of 2018 as $1.6 billion of investment income was offset by a decline in the value of the portfolio, reflecting higher interest rates and wider credit spreads.

Slide 12 provides an overview of our capital strength. Adjusted net income return on equity, shown in the bottom left chart, was 15.8% for the 12 months ended June 30, 2018, an increase of 2.3 points compared to the prior year period. Book value per share increased to $59.16 or 9.9% since the second quarter of 2017 as higher earnings and a 4.1% reduction in shares outstanding offset the impact of dividends, share repurchases and a decline in fixed income unrealized gains and losses.

Our capital position is excellent and we returned $722 million to common shareholders in the second quarter. Since the end of 2012, we have reduced the number of shares outstanding by $132 million or 28%, as shown in the bottom right chart.
Now, we'll open up the line for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Sarah DeWitt with JP Morgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

I just wanted to get your thoughts on the competitive environment. We're hearing that some competitors are starting to cut price and so I just wanted to get your thoughts. Do you still think you can accelerate growth and maintain underlying margins in that environment over the next few years?

Thomas Joseph Wilson
Chairman, President & CEO

Sarah, this is Tom. I'll make a comment and Glenn might want to jump in here as well. First, I assume you're talking about just auto insurances, not the home insurance or any of the other things we do.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Yes. Yes, sorry about that.

Thomas Joseph Wilson
Chairman, President & CEO

Okay, no. So in the auto insurance business, you've seen over the -- and so if you go back to 2015, 2016, we were early on increasing prices. Other people -- we saw that coming perhaps slightly earlier than some people. Then, you saw a number of companies start to increase prices after that period of time. You see that moderating with many competitors now, but there are some, particularly one direct company who's still taking some pretty big price increases. State Farm did recently reduce their price in a number of states, but I think you have -- rather than look at it on a percentage basis, think about what the absolute price is because if you come down 2% or 3%, but you're 10% higher than.

[Audio Gap]

really matter that much. If you -- it's all on what your absolute price is. And we feel very comfortable with where our absolute price is today when we look at our close rates relative to number of quotes we get. And so we feel good about where we're positioned in the industry. And don't think there's any like big price war coming, if that's what's in your mind. And Glenn, maybe you want to add something to that?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. Just adding on, we do -- we feel good about where we are at competitively. We look at these rates on a state-by-state basis and we monitor the filings of all of our competitors. What we see is, yes, there's some slowdown and Tom talked about one carrier that took some reductions as part of a change in their pricing, but we still see rate coming through the system. And if you look at the CPI, the first quarter was really high. On a year-over-year basis, it was up 9% in auto insurance. Year-to-date, if we look at the most recent, it's still around 8%. A lot of that are the rates burning and that were taken in the last year. And we don't see as much filing activity right now, but there's still some. So it's still a, I would call, a positive rate environment and we're.

[Audio Gap]

well and the fact that we've taken those rates

[Audio Gap]

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good pricing position to the stable [customers].

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. Great. And then secondly, you talked a lot about the frequency declining. To what extent do you think that persists? And is that factored in, in your prices?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn will talk about what we see to-date that's been realized and I will come back to forecast.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. So frequency, as Tom always says, there's levels of unpredictability to it, but there are components that we can have both some facts on and some opinions on. So I'll talk internal and external. Internally, we like the quality of our book. If you look back over the past couple of years when we took some rates, those rates tended to shift the quality of our book because some of the less tenured business walked away from us as opposed to the more tenured business, and higher risk business walked away more quickly than lower risk business, so our quality improved. Then, you look at the business we're bringing on. And we like the growth that we're getting because about 70% of our growth is actually coming from improved retention, which is a nice way, a nice balanced way to grow. And the other 30% that's coming from new business, we monitor the quality of that business and we feel good about the quality coming in as we look at the risk profile, the percentage of our coverage, the percentage bundles, all of that gives us confidence that we have good quality coming into the book that's favorably impacted frequency. From an external standpoint, there's more of a mix of -- backed in hypothesis. You've got the miles driven trends we look at and a number of other external trends. I would say automobile improvements that are driving less frequency are starting to burn into the overall car park, the car community that -- there's more lane departure warning and blind spot warning, so some of those things have a favorable impact. But all that said, there is a level of unpredictability as we've seen over the last few years that things can change in sort of a macroeconomic environment that move frequency.

Operator

And our next question comes from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I was wondering if you could compare and contrast the Milewise versus Drivewise. I know -- and some things are obvious, the pricing is different, but I -- the level of connectivity and the level of customer interaction, I wonder if there's any differences there? And I'm also interested in your opinion of whether pay by the mile insurance is likely to attract a large share of the auto insurance market over time?

Thomas Joseph Wilson
Chairman, President & CEO

Both important questions, Gary. I'll start and Glenn can jump in. So first, we're using increased connectivity for 2 purposes with our customers: one is to give them a more specific price relative to their individual driving behavior; and 2, to improve their driving experiences. So the first piece is what many people in telematics are doing, we -- which is you can look at not just where somebody garages their car or how they used to drive based on their motor vehicle records and planned behavior, but you can look at actually where and when and how they drive specifically that day. So that gives you a lot of options, including Milewise. And Glenn can talk about Milewise. We're in 3 states now. And particularly why we went to New Jersey, that will give you some sense for how ubiquitous Milewise might end up being as a payment in pricing. The second thing we're doing is working hard on using that connection to improve the driving experience, to improve customer loyalty and drive retention. So not everybody has taken this approach, but we maintain the connection, whether it's through your phone or your phone connected to

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an OBD port device to give you information about what the warning light is on your car. John, a couple of months ago, came in, had a warning light on his car. By the time he got to his desk, he said here's what's wrong with it, here's how serious it is, here's about what it will cost and here's 3 people you can connect to, to help you fix your car. You can also do things like finally resolve which of you or your significant others are really the better driver. So there's a lot of things we're trying to do to increase and take what is oftentimes a low-engagement product into a high-engagement product. Glenn, you want to talk about Milewise and what you see there?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. So Milewise, the early read, I would say, very positive. I think there's a lot still to be determined. It's a good question about what percentage of the market it will take. I could tell you the experience in expanding into New Jersey a few months ago has been very favorably received. And I'll just share an anecdote or 2 that tell you how it works for folks. People, intuitively, you don't feel good about paying full freight if their car is just parked most of time because they use public transportation if they're in a metropolitan area. It doesn't make sense to them to pay those type of prices for full auto insurance when they don't use their car very much. So we've had specific situations and really, even the first week after we launched, I got some notes from an agent that said, "I had a customer who's about to walk out the door with their business because it just felt like the rate was too much for the amount they use their car and they want to get less coverage somewhere else." And I was able to save the business by saying, "Hey, this might make sense for you." So we're seeing really nice uptake. The early signs are very positive. It's still -- it is a niche within our market so the percentage remains to be seen, but I think it's an important niche and potentially a growing niche over time for people that don't use their car primarily and use other sources.

Operator

And our next question comes from Greg Peters with Raymond James.

Marcos Holanda

This is Marcos calling in for Greg. My first question has to do with processes to control costs in the context of InsureTech. It seems like the next wave of operational efficiency for carriers following online quoting will be on the claim side. Do you guys agree with that? And can you perhaps talk about how the adoption of QuickFoto Claim is developing and what are some of the challenges there?

Thomas Joseph Wilson
Chairman, President & CEO

Marcos, I'll give you a perspective on what we would call Integrated Digital Enterprise that we've been at for a number of years now and then Glenn can give you an update on QuickFoto Claim without getting into any specific numbers because we -- it's competitive, the information on what we're doing. But the combination of digital recognition technology, that's the ability of a computer to look at a picture and tell something from it, is developing quite rapidly. And when you combine that with the ubiquitous amount of cameras out there, [the] communication cost and the ability to build new and more sophisticated algorithms, which take that digital information and turn it in

[Audio Gap]

and use it for decision-making

[Audio Gap]

dramatically change the business. Claims is clearly one of those places where it can change the business. And so we have put that in that -- we're using that in QuickFoto Claims. It can be used in many other parts of the business. So InsureTech goes well beyond just experiences. So for example, we're just launching the ability to sell a homeowners policy by verifying 3 pieces of information rather than have our agency owners and life and sales professionals be in the data collection business and answer -- ask you a whole bunch of questions of which maybe you know, maybe you don't know, but we certainly can buy the

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information on -- digitally. So you're correct in saying that. And we have this apparatus called Integrated Digital Enterprise, which is to do that throughout our entire company. Glenn, do you want to give him an update on QuickFoto Claim?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. So very happy with what's going on in the adoption of QuickFoto Claims. And it's one of those changed management exercises that at first it feels very big, it's a big shift for people, but a year and a half or so into a bigger launch of it, it's just the way we do business right now. And customers really like it, our agents like it, the employees like working through it. And I'll break down the parts of work -- if you just think about segments of work. Historically, about half of the units of work were getting the human to the car or the car to the human. And that was in customer effort, that was our effort for employees. In some way, you had to get the person that's going to write an estimate in front of that vehicle physically. The other half of the work was actually writing the estimates. So what Tom talked about is right on with photographs potentially doing that work through artificial intelligence on that piece. The QuickFoto was essentially eliminating that first half of the work. We didn't have to get the car to the human or the human to the car. The photos flowed through and we're able to, as Tom said in the opening, in hours settle claims that would take days previously. So very positive adoption and very positive customer experience.

Marcos Holanda

I appreciate that color. My follow-up would be on SquareTrade. There was a nice uptick in PIF in the quarter, but revenues came flat versus Q1 following several sequential quarters of improvement. So, I guess, just some color there?

Dogan Civgin
President of Service Businesses - Allstate Insurance Company

Yes. Marcos, it's Don. First, SquareTrade is off to a really great start with Allstate. When we did the acquisition, we set 3 goals. The first was to increase our business with domestic retailers, both with additional retailers as well as the business we do with the existing ones. Second was to improve the profitability. And you can see the improvement this quarter, partially as a result of us taking the underwriting risk, but also the loss and the expenses have been trending very nicely as well. And then third was to build an additional platform for them for future growth. Europe has done quite well for them. And this quarter, we're seeing roughly double the volume. It's still fairly small, but double the volume we had last year. So specifically to your question, it -- you have to look a little bit beyond quarter-to-quarter because it can be a little bit lumpy. You've got some seasonality in there. It depends on when you pick up additional retailers and when they begin to ramp up their program. So I think the better trend to look at is year-over-year now, the numbers look a little exaggerated because of the revenue recognition, but roughly half of the increase is organic. Part of that is picking up additional retailers, but part of it is just doing a better job with the retailers we have and their customers. So very happy with the progress thus far.

Operator

Our next question comes from Jay Gelb with Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

My first question is on the strong growth in Allstate Brand. That continues to accelerate each quarter. Just trying to get a perspective on if you would expect that trend to continue in the back half.

Thomas Joseph Wilson
Chairman, President & CEO

Jay, it's Tom. As you know, we don't give guidance on either the top or the bottom line. When you look at the growth, are you -- the first time where it's -- it's been, year-over-year, up, but if you look at it over the last 3 quarters, it's been heading

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[Audio Gap].

We are expecting to continue to head in that direction. I -- a key point I would note is that a significant portion of that growth is driven by retention, and that's the gift that keeps on giving.

Jay H. Gelb
Barclays Bank PLC, Research Division

Right. Okay. Can you also discuss the strong growth in new applications in the Allstate Brand, what you view as the drivers there?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. This is Glenn. I'll take that, Jay. I really look across the whole system as what's going on to drive the growth. So we talked about -- going back over the past few years, there had been a plan that Matt had talked about, the plans how we're going to grow the distribution system and make it more effective. So we've increased our footprint. We're up, if you look year-over-year, about 1,600 points of presence between agencies and licensed sales professionals. We have them more engaged because they're winning in the market right now. So they're marketing locally and they're drawing those quotes in. They're hiring more staff.

We've improved in meeting our customer needs because we have a higher percentage of full coverage and a higher percentage of bundling going into. And as Tom said, retention was up, driving a lot of the growth. And the more quoting activity is really those agents hunting within their markets and being effective market

[Audio Gap]

communities.

Operator

Our next question comes from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

I have a follow-up on auto frequencies. And I appreciate you guys used the terms, the -- there's a level of unpredictability and there's hypothesis surrounding what drives them. And I was curious if Allstate has a view on whether the level of unpredictability or the volatility of frequency has changed on a go-forward basis versus what it's been historically. Basically, do you think there's consumer factors out there that should cause us to think there might -- it might be more or less volatile over time?

Thomas Joseph Wilson
Chairman, President & CEO

Mike, this is Tom. I'll -- maybe I'll take it and, Glenn, if there's anything you want to add at the end, just jump in. So first, I understand the benefit of being able to determine what the trend is on frequency. And I know you -- people have poked around at this with our competitors as well. You can actually make a sectored prediction or you can accept the individual company performance. That said, frequency falls into the known, unknown category as it relates to the future, whether that's at absolute level or the volatility in it. And so we think the decision on frequency really ought to be based on the business model, that is how good are the processes and people. So what, of course, we do know is there's been a long-term decline for a lot of good reasons, whether that's drunk driving laws and their cultural in accept -- unacceptability of drunk driving, anti-lock brakes, more cars per household. There's a variety of things, which -- now, on a short term, of course, there's a number of drivers, which may get more unknown there. So it's the number of miles driven, which, of course, is impacted by economic activity, gas prices. Weather at the particular time a day, so if you have ice at 4 p.m., it's different than if you have ice at 2 a.m. We do know from our Drivewise customers that the number of miles has declined, number of miles driven over the last couple of

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years, really, starting in the fourth quarter of 2016. But how that will be in the future, it's hard to tell. So -- and then you have seasonality, of course, so seasonality, frequency is typically higher, a lot higher in the second half of the year than the first half, which, if people want to talk about our guidance, we factor that in. And we do think frequency is typically up first -- the second half versus the first half of a given year. So it's -- but one point I can think about, it's almost like -- if I use a -- it's baseball season, so I'd use a baseball analogy. You have a pitcher and you have a hitter. As the coach, you kind of know in general what the pitcher's good at, whether they get a fastball or curveball or some like that, but you don't know how good they are going to be that day nor do you know what every individual pitcher is going to be. So to win, you just need the best hitter, someone who can pick up the pitch early as soon as it releases from the person's hand and react before it hits the plate.

In auto insurance, Allstate's a good hitter, right? In 2015, the frequency went up. We picked it up early and we made a choice. I would sell the same pitch in 2016. And we continue to see it. Others didn't see it. They hadn't caught up. Now, frequency's down in 2017 and 2018. So as a hitter, our reaction is not to slack up and lower our prices to just get a bit more margin. So what we do is we have a system that picks it up by state, by risk class and that's really, I think, the best way to try to get a sense for how do you invest based on frequency as you think about the process, the people, the technology and can they hit.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful, Tom. I'm going to switch gears quickly to homeowners. And I'm going to -- I'm probably splitting hairs here, but if I look at trailing 12-month underlying loss ratio in Auto -- sorry, in Allstate Brand Home, it's up a couple of points over the last couple of years. I'm just curious if that's -- if the current levels of profitability, are you happy with those levels? Or is there something that you're monitoring and might take up more action to improve the underlying?

Thomas Joseph Wilson
Chairman, President & CEO

Well, your -- living our life, which is, we -- which is like splitting hairs, so I'll let Glenn take that one.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Right. I'd like to start with sort of a longer-term view, because the second quarter marked the 24th consecutive quarter under 100 combined ratio in Home. And in a volatile line of business, like Homeowners, to have 6 years running of quarterly profit is remarkable. So we do take a long view on it. Just like in Auto, we're looking state by state at our rates. We look at our loss results. But if you look over the last 5 years, even at the underlying, we always say we want to be in the low 60s. And we're at the upper end in the last couple of quarters of low 60s, at 63 and change. But if you look at 2, 3, 4 years ago, we're similar to those time frames. And a lot of that is driven by weather. So you -- we talk a lot about catastrophes, but the non-cat weather, it drives up peril mix, which drive

[Audio Gap]

It's just so much more volatility in the Homeowners line than you see in Auto between the frequencies and severities, driven by weather patterns. So the long-term view, we feel very good about, we're monitoring from a rate standpoint and I would not say there are alarm bells based on the hair-splitting or anything that you brought up there.

Thomas Joseph Wilson
Chairman, President & CEO

So why don't you talk a little bit about what we did see at peril mix and stuff in the second quarter.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. So definitely, whereas in the first quarter we talked about a lot of water and fire.

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[Audio Gap]

continued with the water, definitely wind, driving some of the peril mix moving with -- even intra-quarter of decline on fire, like some fire in the quarter, but moving throughout the quarter downward.

Unknown Executive

So fire -- fire loss, of course, is a lot higher. Like if fire gets in your severity is a lot more -- higher than if somebody runs into your garage door. And so we had elevated fire losses in the second quarter, and the same with wind and hail.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

But like Tom said, we watch it, right? And we had some processes built in by state to make sure. We think we need to increase price because either frequency or severity are up, we do that.

Operator

And our next question comes from Christopher Campbell with KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Can you hear me now?

Thomas Joseph Wilson
Chairman, President & CEO

Yes.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, great. I guess, the first question is just on capital management. So Allstate's been a very strong repurchaser of shares and you bought a bunch back this quarter. Now is there a certain hurdle that above which that you're thinking of, where repurchases wouldn't be economical? And then how would your capital deployment strategy change if the shares got too expensive?

Thomas Joseph Wilson
Chairman, President & CEO

I'll let Mario talk about the overall capital plan. But I would say, a business that's growing with a 17% ROE with its current multiples, we think it's cheap.

Mario Rizzo
Executive VP & CFO

Yes, I would agree. Chris, this is Mario. So I guess, where I'd start is, when we look at our capital position, it continues to be excellent and we view it as a source of both strength and flexibility for us. And when I say that, I mean the absolute level of capital we have, our capital structure and our capacity to source capital efficiently if we need to. When you look at those things combined with, to Tom's point, the fact that the business is performing really well, we expect to continue to generate meaningful amounts of capital going forward. So we're long on capital and we feel really good about our capital position. In terms of the buyback program, we still have $376 million left on the existing authorization and we'll continue to buy back stock. And when we run out, we'll follow the same process we always have. We'll talk to our board, we'll look at different alternatives and we'll make a call from that sense.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

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That's very helpful. And then just to kind of run one more question on SquareTrade. What's driving the year-over-year loss ratio improvement?

Thomas Joseph Wilson
Chairman, President & CEO

It's actually a variety of things. I mean, first, as they build up their scale, they're getting more effective. And so a combination of things, like their claims handling, their ability to reduce escalations and so forth, are all leading to better experience for the customer and lower loss cost from them.

Operator

And our next question comes from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. The Homeowners growth and Auto growth seems to be going in line with each other. I assume that, that's mostly bundled sales. I'm interested in knowing how the Homeowners-only product is selling and what the market place looks like for growing in Homeowners-only.

Thomas Joseph Wilson
Chairman, President & CEO

Well, you're correct, Josh, in that you remember when Auto was going down, the Homeowners business got slightly smaller as well. But it lagged it, right, because it's an annual policy not everybody has, which meant we were losing Auto customers because we were raising prices, that impacted it. And you see the other side that Glenn can talk about, how we bundle, what we see the in Homeowners market.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. So we think it's great opportunity to bundle and so we'd aligned our incentives for agents around bundling and we think it's the right thing for customers. What we're seeing in this cycle right now is that, as Tom said, it tends to lag the home -- lags the Auto in terms of whether it's going up or coming down. It seems to be pulling in a little more and, as you said, moving in tandem. So we're growing at pretty close to equivalent rates in real-time. So that is a result of more bundling of the product. We think we are very competitive in Home right now. We have a lot of markets where we have a strong competitive position from pricing standpoint. Our product is part of the reason for that. We have a, with the House & Home, a favorable product, and our roof rating schedule allows us to do that. I think good catastrophe management and spread of risk over a long period of time has positioned us well for that. So we're in a really good spot to grow Home.

Joshua David Shanker
Deutsche Bank AG, Research Division

And I realize that having a Home product increases the persistency of selling an Auto too. But is a Home-only product terribly less persistent than an Auto-Home bundle? And ultimately, is it a -- is the long-term value of a Home-only customer high and worth pursuing?

Thomas Joseph Wilson
Chairman, President & CEO

Josh, let me take that. But before we do that, I'd like Steve to talk about Homeowners and Esurance, and then I'll come back to your question on the lifetime value of a customer, either by policy or in total.

Steven Emil Shebik
Vice Chairman

So as you know, in Esurance we also have a Homeowners product, we rolled out over the last 3 or 4 years. We have it in 31 states, I believe. And our PIF overall increase in Esurance is 4.1%, while it's about 27%

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quarter-over-quarter from prior year in Homeowners. So it's a really important sale for them because we spend money on marketing and advertising, and as we can get more premium, so both Auto and Home across the

[Audio Gap]

we had significantly [I'd say] acquisition cost

[Audio Gap]

in terms of the customer acquisition. We've been growing that for a handful of years now. We feel good at where we are. Obviously, we still have a really geographic spread in the country so we do have catastrophe quarters where we had some pretty big catastrophes. This is one of them. But we think we're doing well and doing well where we think it would be a good profitable addition to the Esurance business.

Thomas Joseph Wilson
Chairman, President & CEO

So -- and on the -- does it -- what does it do for.

[Audio Gap]

both on the product [indiscernible]. There's a couple of key themes there. We want to make sure we make money on every product we sell, so we don't lose money on one product and make it

[Audio Gap]

So we have standards around how we underwrite and price our products so we make money on every and each product. That said, you do know that -- we know actually and you obviously are aware of it as well, that the more things you buy -- people buy from you, the longer they stay as a group. Now some of that's just they buy more from us because they like it more. And they like it more so they stay more. So there's a little bit -- you've got to be careful on what you read into it. That said, the more opportunities you have to build connections with customers where they have ongoing relationships with you, all things being equal, it should -- they should stay longer and it's good for you. You lower your acquisition cost per customer, you improve their customer value proposition. You don't have to shop around for a whole bunch of people, which is why, particularly in the lower left we have such a broad-based set of products and services. So whether that's auto insurance, home insurance, quality insurance, personal umbrella policies, life insurance. So we're selling everything we can and we have metrics and measures around trying to do that, because we know what best meets their needs. And if we do that, there's more likely to stay. As Steve talked about, we're starting to expand that in the Esurance business as well, which particularly because of the high upfront acquisition costs, it helps you lower your acquisition costs dramatically and gives you a competitive advantage versus those people who only sell one thing. Sometimes, we end up only talking about auto insurance. And it's a big product force we need to compete aggressively in, but we also want to win on a broad basis for their customers.

Operator

And our next question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Tom, just take a step back and ask kind of, I think might be a little bit of a goofy question, but I want to throw it out there, hear your thoughts. As you look at the agency.

[Audio Gap]

field and the folks that run all your exclusive agencies, how was the -- I guess, how has the average age changed

[Audio Gap]

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has it shifted any? And then, has it -- any more difficult to find replacements or recruits to replace what might be an aging population out there over the past, say, 3 to 5 years?

Thomas Joseph Wilson
Chairman, President & CEO

Well, let me -- I'll answer your question, specifically, and then -- I think where you're headed a little bit, Mike, is what is the long -- what's the long-term view of the agency platform. And so particularly, you look at some of the independent agency industry metrics [it seems that] they're all getting older, they're staying in the business and -- but they might not be there forever and who's going to take them over. So will that go away? We don't have that problem in the Allstate agency channel. We're out recruiting people all the time, whether that be our agency owners or licensed sales professionals. And so we don't have, what I'd call, a demographic barrier to our future growth or even maintaining our current position. That said, I think the business is going to change dramatically. And that technology is going to enable us to have those people in the field who know our customers, do a much better effective job with -- for them by doing less data collection. So if you go back to Glenn's view on integrated is your enterprise and the work effort that went into claims and how much was spent driving around, if you said -- instead of driving around, you split from their data collection, then how much time is spent by agency systems and data collections? We're hard at work to trying to make that a much smaller piece of what they do. So it may be data verification. And even then, you don't have to do a tremendous amount of it, change our products and processes and our technologies, do that. Use our technology to make the experience even better, and then, enhanced by a person. So I do think there's going to be a lot of change driven in that channel. And we're pushing hard on doing it. So we're not just sort of saying, "Oh geez, can we still hire the same amount of people?" Our challenge will be to transition that system effectively and efficiently on behalf of our customers. And we're hard at work on that. As we've talked about -- and Matt talked about as Glenn has picked up the trust and advisory work, we have a whole another series of work related to technology and product that we have embarked on that we think will further accelerate that.

Michael Wayne Phillips
Morgan Stanley, Research Division

Great. Quick numbers question if I could. The [135] development, I feel it's probably.

[Audio Gap]

and I'm assuming that's recent accident years '17, maybe '16. I just -- if you can confirm that. And then I noticed you took out the severity numbers of your press release. I guess I missed that. Is that true, for BI liability?

Thomas Joseph Wilson
Chairman, President & CEO

Right. There's 2 parts there. I'll let Mario handle the -- our reserve changes to the net. He'll talk -- and you're correct. It was bodily injury, but it wouldn't be as the most recent years you're talking about. But Mario can give you an update there. And then John can talk about what we've done on severity, because as we talked about last time, we want to be fully transparent with everybody. But transparency also includes giving you information that means something. And so we changed the bodily severity stuff. So Mario, do you want to start with reserves and then John...

Mario Rizzo
Executive VP & CFO

Yes, sure. So I guess, the place I'd start on the -- kind of from a broad perspective on reserve is, as we've mentioned in the past, we have really solid processes in place to both establish reserves and continually reassess the level of reserves that we have really across the entire business. And when we look at our roughly $26.6 billion gross reserve balance, we feel really good that it's set at the appropriate level. Having said that, as circumstances change both in terms of our claim processes and the external environment, we look at that reserve balance every quarter. And like we've done over the last number of quarters to the extent there are releases, then we recognize those in the income statement. I think that's

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as much a function as our conservative approach to reserving, as anything else. But I certainly wouldn't use that as a predictor of reserve releases going forward. Look, it's just something we continue to look at. And if reserves are redundant, we release it.

Thomas Joseph Wilson
Chairman, President & CEO

And when you look back at -- it wouldn't have been in 2016 '17 of reported years on bodily injuries. It was before that. So you look back, if you were to adjust the calendar year of combined ratio numbers we gave you, which you'll be able to do when you get the information, you can see it was really prior years for them.

John Edward Dugenske
President

Hi Mike, it's John. Just specific to your question on the BI severity disclosures, we're very transparent overall in our financial reporting. We're clearly trying to aim to provide you with the best metrics to evaluate the financial performance of our business. Last quarter, we did signal that we were going to be removing the BI-paid severity statistic. Really, on a long-tail coverage like BI, using a calendar-year paid severity measure, it's much more an operational statistic than something that gives you a clear line of sight to the P&L. We do factor in overall severity trends in our guidance each year, so it's included in our underlying combined ratio guidance. And this quarter, you can find some color in the 10-Q in terms of what our overall severity trends look like.

Operator

And our next question comes from Bob Glasspiegel with Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I'll give you a chance to throw some cold water on my enthusiasm, Tom. Your service business broke into the black I think for the first quarter and your life earnings were up a decent bit, sequentially, and I think year-over-year, excluding partnerships. Is it onward and upward for both units? Or were there some one-time items helping out?

Thomas Joseph Wilson
Chairman, President & CEO

Well, Bob, as you know, first, cold water would be a bad idea, right? But guidance would be equally a bad idea when it comes down to individual components of the P&L. So I won't give you specific on it. I would just say on both of them, we feel really good about our life insurance business. It's earning good returns. It's well run. We're bringing our cost down. We just launched a new term product, which we think will really work well with our customer base. We tend to want something simpler, so this is a monthly term. Just pays you by the month, what do you want for your family for 3 years, 5 years, as opposed to some big number which scares people -- some of our customer base. And so we feel good about where that business is positioned, both operationally and strategically. And we feel the same about the Service Businesses. There are some -- there -- of different characters, though. It's important to broaden our portfolio down to get some that are doing really well and others that we'd like to do better and because we have high aspirations. So you'll see this quarter, the Allstate Dealer Services, which has got almost 4 million policies out there, it's profit turned up. It used to make a lot more than it made this quarter, but we'd like to see it make more. But it made more than it did last quarter. So it's losses, I think, actually last year. So it's a -- overall, though, we feel good about all those businesses. The one business you didn't mention, which is -- is our Annuity business, where the results are down this quarter because the performance-based investments, the returns were down. That said, even though performance-based investments were down, the yield on an annualized basis, it's still 9%. So we're feeling good about that. John can talk about it if you have an interest. But we feel good about where it is in total. Overall, that Annuity business continues to earn lower returns on capital because you have to put so much capital.

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We've talked about that in the past. We're trying to come up with ways to put up less capital so we can raise the return, as well as by investing differently.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

That's helpful. Just a serious question, opening question, closing the loop. One of your large competitors yesterday on the issue of declining frequency observed that the industry is -- because of the volatility of frequency, competitors cannot factor in down frequency and future pricing actions. I was just wondering, you lowered your guidance for the range because of lower frequency. Are you factoring in negative frequency? I suspect not, into your thought process for prospective pricing actions.

Thomas Joseph Wilson
Chairman, President & CEO

Well, everybody prices differently, Bob, so I don't -- it's hard to tell what people do. What I would tell you is that, we look at total loss costs, which includes other everything from underwriting expenses to loss costs, which, of course, are a combination of frequency and severity. If you were to look at a graph of percentage change year-over-year of frequency and severity, you would see that they have -- it's what we call a alligator chop because it's gotten wide. And so severities continue to go up at sort of an inflationary level in the 4-plus percent, depending which numbers you're looking at, whereas frequency has gone down. Pricing on that kind of basis and assuming the lower frequency there, usually, it means you're going to get caught in the jaws. Because at some point, the frequency could come back and the severity is not going away. So we tend to look at it on a long-term basis. Everybody does it their own way. Now if frequency is down and stays down, will we take less and fewer price increases in the future? Sure. And you see that this year. It doesn't really -- from a shareholder value creation standpoint, it still earns really high returns. Even at a lower guidance, as we tried to let people know in the first quarter, it earns really, really high returns at this level. So we're comfortable with the way we've positioned stuff. And I can't really speak to what the other competitor, right? Listen to their call as well and other people think as well.

Operator

Our last question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So Bob asked -- the question was [indiscernible] but Tom, just to kind of clarify things here. Your pricing decisions right now that you're kind of looking at the auto insurance booked. You're kind of pricing in line with what you think loss trend is going to look like here going forward. You're not purposely providing a low-loss trend because you're looking for some market share gains?

Thomas Joseph Wilson
Chairman, President & CEO

No. Our growth -- and I want to make sure that we underline this. Our -- more than 2/3 of our growth in policies enforced came from retention. So we didn't really get into new business discount and all that kind of stuff and loss ratio on that. But we're very comfortable with our growth and our profitability at this point because of how and why we're getting our growth, whether that's the retention, and which customers we're retaining, which states we're retaining them in or where our new businesses come from, whether that's a risk class state-based stuff. So we're comfortable that we're in a good position. We're not attempting to lower profitability to grow. That's not our -- that's not been our strategy.

So thank you all. Let me close this. I know we went a little past the hour. We had a strong first half. So we look forward to catching up with you next quarter. We're going to stay focused on our operating priorities to make sure we balance both the long and short-term initiatives so we can create more value for our shareholders and our customers and all our other stakeholders. So thank you very much.

Operator

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Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Everyone, have a wonderful day.

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