S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

FQ4 2016 Earnings Call Transcripts

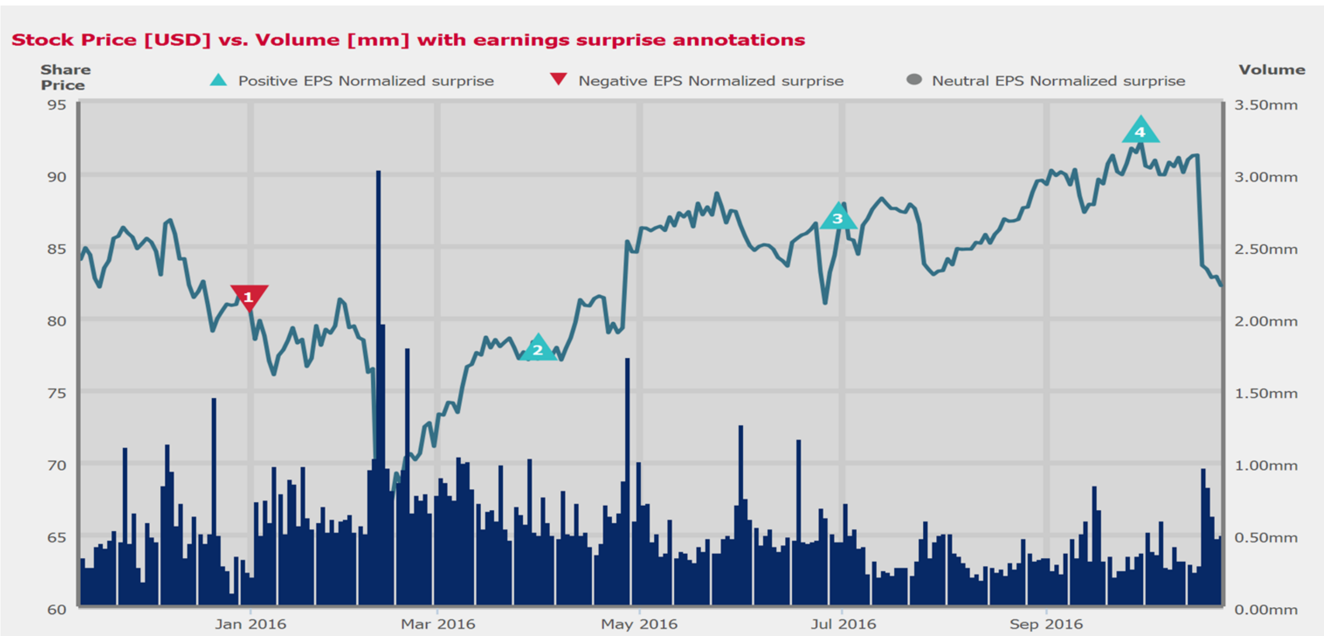
Wednesday, February 08, 2017 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.53	0.46	(13.21 %)	1.55	4.38	4.47
Revenue (mm)	1826.46	1752.29	(4.06 %)	1827.26	7389.39	7531.78

Currency: USD

Consensus as of Feb-08-2017 10:45 AM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2015	1.55	0.97	1 (37.42 %)
FQ1 2016	1.21	1.52	2 25.62 %
FQ2 2016	1.35	1.42	3 5.19 %
FQ3 2016	0.98	1.00	4 2.04 %

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Suzanne Shepherd
Vice President of Investor Relations

ANALYSTS

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

John Matthew Nadel
Crédit Suisse AG, Research Division

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

Seth M. Weiss
BofA Merrill Lynch, Research Division

Presentation

Operator

Welcome to Assurant's Fourth Quarter and Full Year 2016 Earnings Conference Call and Webcast. [Operator Instructions]

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

Suzanne Shepherd
Vice President of Investor Relations

Thank you, Carol, and good morning, everyone. We look forward to discussing our fourth quarter and full year 2016 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our fourth quarter 2016 results. The release and corresponding financial supplement are available at assurant.com.

As noted in the release, beginning in the fourth quarter of 2016, we revised our reportable segments to align with the company's new global operating model. As a result, our reportable segments now comprise Global Housing, Global Lifestyle, Global Preneed and Corporate. In addition, we also enhanced our disclosures by adding key segment profitability metrics and other relevant data points to our financial supplement. Most notably, we now include the combined ratio for risk-based business and the pretax margin for Connected Living, our fee-based, capital-light offering in Global Lifestyle. These metrics enable investors to better track our performance in these critical businesses.

As a reminder, net operating income includes contributions from Global Housing, Global Lifestyle, Global Preneed and Corporate as well as interest expense. Operating results exclude Health runoff operations, the divested Employee Benefits business, the amortization of deferred gains from dispositions and other items that do not represent the ongoing operations of the company.

Related prior period results in the financial supplement and the news release have been revised to conform to the new presentation. We believe these changes provide a more meaningful representation of our financials and better align with our new operating structure.

On today's call, we will refer to other 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 the news release and financial supplement available on assurant.com.

We'll begin our call this morning with prepared remarks before moving to Q&A. Some of the statements made today may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ from those projected can be found in yesterday's news release as well as in our SEC reports, including Form 10-K and 10-Qs.

It is now my pleasure to turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. Good morning, everyone. Our performance for fourth quarter 2016 was in line with our expectations. While net operating income was lower, driven by higher reportable catastrophes and lender-placed normalization, Global Lifestyle performance improved year-over-year.

As we reflect on 2016, we view the year as one of transition. Our efforts were focused on implementing the critical building blocks of our transformation and continuing to position the company for long-term profitable growth.

The progress made this year to complete our portfolio realignment and implement a new organizational framework will allow us to do 3 things: first, continue to expand in our targeted growth areas; second, develop innovative solutions for our clients and consumers; and third, realize efficiencies in 2017 and beyond. While we have more work to do this year, the foundational elements are in place and have made us a stronger Assurant.

In 2016, we established the global business unit structure and completed the realignment of our technology, risk, strategy and finance organizations. In addition, our enterprise transformation office has already begun to help ensure we capture the value for more integrated global enterprise.

A key milestone in our portfolio realignment includes the wind-down of Assurant Health, which is now substantially complete. We received the majority of the risk mitigation payments due from CMS, including a $14 million payment in January, and have only $17 million in net receivables still outstanding. At the end of December, less than 200 policies remained. And then in the fourth quarter, we received an additional $120 million in dividends from Health, totaling $458 million for the year.

These dividends, along with nearly $900 million from the sale of Employee Benefits, contributed to our strong capital position, as did another $350 million from our operating segments. This allowed us to both return capital to shareholders and to invest in the housing and lifestyle markets where we believe we can outperform long term.

Let's shift now to some business highlights for the quarter and the year. In Global Housing, we strengthened our leadership position in the manufactured housing market with the Green Tree Insurance Agency acquisition. With nearly $40 million in annualized revenues and $25 million in expected incremental premium, Green Tree expands our voluntary housing offering and deepens our alignment with this leading mortgage company.

In late December, we reached an agreement related to the lender-placed multistate market conduct examination and a separate agreement with the Minnesota State Insurance Department. In addition to settlement payments, the agreed modifications put into practice various procedures already largely implemented across Assurant's lender-placed business. We are pleased to resolve these regulatory matters.

Over the course of the year, we continued to invest in the transformation of our lender-placed platform to further enhance our strong customer service offering. We also increased our loans tracked to $36 million, up 8%, further solidifying our leadership position in this market.

Turning to our housing fee-based, capital-light businesses. Multi-family housing increased revenues by 14% to $320 million in 2016. We now protect almost 1.5 million renters across the growing property management network and affinity relationship nationwide.

Additionally, mortgage solutions is investing in key technology enhancements to support continued growth across field and valuation services. And we added products and services through the acquisition of American Title. In 2016, the business grew fee income by 14% to nearly $330 million. Multi-family housing and mortgage solutions now account for 28% of the segment's revenue. And we continue to expand our business with new and existing clients while adding innovative offerings.

In Global Lifestyle, we reinforced our competitive position in the mobile industry where we now protect nearly 32 million devices worldwide. In 2016, we processed 8.8 million devices at our repair and logistics operations in the U.S., helping to drive nearly 20% growth in fee income for Global Lifestyle. Recently, we also made a small investment in a mobile device and asset disposition in South Korea, strengthening our footprint in Asia, an important priority for Assurant.

In addition to this acquisition, we also grew organically through expanded relationships and new offerings across mobile carriers, e-commerce and OEM distribution channels. At the same time, we are continuing to manage the impact of declines in the clients in legacy businesses. Our focus remains on ensuring we have the appropriate platforms and cost structures in place across our operations worldwide. These factors, in addition to increasing scale, are important to margin expansion over time.

In Global Preneed, we now provide prefunded funeral insurance to 1.9 million policyholders across North America. Our breadth and depth of experience in this area, along with our long-term partnerships, gives us the scale and data that enables us to help our clients grow their business. Our integrated approach also allows us to be a single point of contact for the agent and the funeral home, offering a seamless experience for the end consumer.

As we continue to make progress in our multiyear transformation, performance is measured against 3 key financial metrics: net operating income, operating earnings per diluted share and operating return on equity. All of these metrics exclude reportable catastrophe losses, given the inherent volatility of the weather.

For full year 2016, net operating income decreased by 9% to $379 million, primarily due to the expected decline of lender-placed. Despite lower income, operating earnings per diluted share increased modestly to $6.12, up from $6.06 in 2015, driven by our disciplined capital deployment.

Full year operating ROE, excluding AOCI, was 10.5%. Fee-based, capital-light offerings now represent 52% of revenue. Continuing to grow these businesses will be an important driver in achieving our goal of 15% ROE by 2020.

At the end of December, holding company capital totaled $775 million. This is after returning $995 million to shareholders in 2016. We have now delivered 2/3 of our commitment to return $1.5 billion of capital through dividends and buybacks by the end of 2017.

We also deployed approximately $210 million in strategic investments last year to strengthen our offerings, capability and distribution in housing and lifestyle. As we look ahead to 2017, we expect Assurant's net operating income, excluding reportable catastrophe losses, to be roughly level with 2016 earnings, also excluding cat losses.

Growth in Connected Living, multi-family housing, mortgage solutions and our vehicle protection business will offsite -- offset declines in lender-placed and other legacy businesses. We're already realizing savings from our enterprise transformation projects, while in the short term, we are investing in procurement, IT and other initiatives that will drive profitable growth over time.

We also expect to grow operating earnings per share, excluding catastrophe losses, by double digits this year, primarily due to the share repurchase activity already executed throughout 2016.

Over the long term, we are committed to growing net operating income and generating 15% average annual growth in operating earnings per share. We are confident the progress made in 2016 will enable us to produce meaningful operating earnings growth longer term as we progress further toward our 2020 objectives.

We believe our attractive business portfolio and a more efficient operating structure will produce more diversified earnings while continuing to generate strong cash flow to support our disciplined capital management strategy.

I'll now turn the call over to Richard to review results for the quarter and the outlook for 2017 in greater detail. Richard?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Thank you, Alan, and good morning, everyone. Before I begin, I want to remind everyone that unless specifically mentioned, all of my comments are related to fourth quarter 2016 as compared to the prior period last year.

Overall, as Alan said, Assurant's results came in as we expected. We'll start with Global Housing, which produced earnings of $10.8 million, including $44 million of reportable catastrophe losses related to Hurricane Matthew. Excluding cat losses, net operating income was down $13 million. This was due to continued lender-placed normalization and additional regulatory expenses.

The combined ratio for our Global Housing risk-based businesses increased 15% to 105%, driven by higher cats. Excluding cat losses, the combined ratio was 88.8%, up 2 percentage points. This was the result of higher regulatory and new client onboarding expenses. More favorable non-cat losses related to lower frequency and severity of claims were a modest offset.

Multi-family housing and mortgage solutions generated a pretax margin of 11.2%, down 50 basis points. Expanded profitability in multi-family housing was more than offset by higher expenses needed to support growth in our field services and valuation businesses.

Turning to revenue. Fourth quarter net earned premiums and fees in Global Housing decreased 5%, primarily due to lower placement and lower premium rates. Our placement rate of 2.13% in the third quarter decreased to 2% at year-end. As we mentioned on our last call, we started to onboard 2.7 million loans in the third quarter and lower than average placement rates. These new loans drove about 9 of the 13 basis point decline. The remaining 4 basis point reduction relates to the ongoing lender-placed normalization.

Now let's move to revenue for our fee-based Global Housing businesses. Multi-family housing increased 11%. This reflects double-digit growth in renters' policies sold through our affinity channels and property management network. For mortgage solutions, fee income was up 5%, including the acquisition of American Title. If we exclude the acquisition, mortgage solutions was down 10%, primarily related to lower volumes in field services.

As we continue to work toward our 2020 goal of 15% to 20% pretax margins in the housing fee-based business, we will continue to invest in technology that supports business expansion, while we also look to create efficiencies.

As Alan mentioned, we closed the acquisition of Green Tree Insurance Agency last week. Through this deal, Assurant will retain its existing book of voluntary insurance for borrowers serviced by Ditech Financial Services. And we'll have the opportunity to write additional housing business, all at attractive double-digit margins. Taking into account the amortization of intangibles, we expect this transaction to have minimal impact on Global Housing's earnings in 2017 and to be accretive over time.

For 2017, we anticipate a continued decline in Global Housing premiums and earnings, excluding catastrophe losses, as we move closer to a normalized steady-state in lender-placed. Revenue growth in our fee-based businesses is expected to continue. And overall, we believe these offerings will account for a larger portion of the segment's earnings as we capture market share.

Additional expense savings from initiatives implemented across our Global Housing are also expected. Longer term, we continue to expect Global Housing to produce a 20%-plus operating ROE as we maintain our leadership position in lender-placed and grow our fee-based product and services.

Now let's move to Global Lifestyle. The segment's earnings increased by $15 million to $35 million. This was largely due to improved performance in mobile and service contracts, along with higher investment income from real estate joint venture partnerships. Year-over-year, mobile improvement was driven by lower expenses, along with a more profitable mix of devices.

Revenue in Global Lifestyle decreased by 4%, mainly driven by premium declines from a change in program structure for a large service contract client. In addition, revenue was lowered by the impact of foreign exchange and also continued reductions in legacy retailers and credit insurance. This was partially offset by growth in our vehicle protection business as well as fee income from expanded mobile service offerings.

In the fourth quarter, as I mentioned, there was a change in the program structure for a large service contract client. While this change has no bottom line impact, it did reduce revenues by $47 million. We expect it also to reduce 2017 premium and expenses by $500 million. The revised contract does allow us to deepen our relationship with the long-term client. This change will also affect our global Connected Living pretax margin, which we now expect to increase from 8% to 9.5% by 2020.

The combined ratio for the risk-based business, which includes vehicle protection and credit insurance, increased by approximately 100 basis points to 95.6%. A modest increase in vehicle protection losses was partially offset by better credit loss experience. Overall, the quarterly and full year combined ratios are within the 96% to 98% range, which we would be expected to maintain through 2020.

The pretax margin for the fee-based business or global Connected Living was up from negative 1% to a positive 3.7% this quarter. The key drivers were improved performance from both mobile as well as service contracts.

In 2017, we expect net operating income in Global Lifestyle to increase. This will come from Connected Living, driven primarily by mobile, along with higher profitability from the vehicle protection business and expense savings. At the same time, we will continue to manage declines from U.S. credit insurance and lower production from North American retail clients.

Net earned premiums and fees for the segment overall will be down for the year due to the client contract change. However, excluding this change, revenue is expected to increase from growth in mobile and vehicle protection. Our results are also subject to the impact of foreign exchange and variability in the mobile market. While fluctuations from year to year are likely, we continue to expect 10% average annual growth in net operating income over the long term.

Now let's turn to Global Preneed. Earnings increased modestly to $10.9 million, mainly the result of $1.4 million of investment income from real estate joint venture partnerships. Underlying performance of the business was otherwise stable.

Total revenue for the quarter was up 7%. This was due in part to sales written in previous years that are now beginning to earn. In 2017, we expect fee income and earnings to grow in Preneed from increased production across North America and operational efficiencies.

Before turning to Corporate, I did want to point out one additional change. A part of our new segment reporting, the goodwill in former Solutions segment was distributed between Lifestyle and Preneed. Approximately $140 million of Solutions' goodwill has been allocated to Preneed as of December 31. Therefore, our previously announced ROE target of 12% is now 11%.

Moving to Corporate. The fourth quarter loss decreased $10 million to $20 million. The change was due to lower taxes and increased investment income from higher assets at the holding company. This was partially offset by an increase in expenses to support our multiyear transformation. For the full year 2017, we expect the Corporate loss to approximate $70 million as expense savings are offset by investments to support our multiyear transformation.

Moving to capital. We ended the quarter with $525 million in deployable capital at the holding company. We received $341 million in total dividends comprised of $245 million from capital previously supporting the Employee Benefits business and Health runoff operations and $96 million from Global Housing, Global Lifestyle and Global Preneed.

For 2017, we expect the segment dividends will approximate segment earnings, subject to the growth of the business and rating agency requirements. In addition, we anticipate receiving about $100 million in dividends from Assurant Health and Assurant Employee Benefits, pending regulatory approval.

Our strong cash flow generation during the quarter allowed us to: first, return $212 million to shareholders through share repurchases and dividends; second, to complete a tender offer for a portion of our senior notes maturing in 2034, reducing deployable capital by $125 million; and finally, to set aside $130 million in advance of the February close of the Green Tree Insurance Agency acquisition as well as for the investment in mobile device capabilities. Through February 3, we bought back an additional 378,000 shares for a total of $36 million.

So to summarize, there are a few things we want to take away from today's call. 2016 was another critical year in our multiyear transformation. We're making great progress implementing a stronger and more efficient operating model. And we are expanding profitably within our targeted growth areas.

All of these elements, in aggregate, will help position the company for long-term profitable growth. And with that, operator, please open the call for questions.

Question and Answer

Operator

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

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

In the mortgage solutions business, you talked about lower volume in field services. Is this still a growth business for you? Are you -- do you have any visibility for expanded relationships in that area that can bring in new revenue?

Alan B. Colberg
President, CEO & Director

Yes, no, this is absolutely a growth business for us. If you go back to when we made our first acquisitions in this area now about 2.5 years ago, we knew that broadly, the market would decline as foreclosure volumes normalized, but we had an explicit strategy to gain share by partnering with the leading companies that are already our partner around lender-placed homeowners. That has worked very well. Part of the issue in Q4, you have some normal seasonality in the field side of the business, where volumes are higher in Q2 and Q3 and lower in Q4 and Q1. But we feel very good about the progress. We have a new leader that just joined, probably to really integrate all of the 4 businesses together and give us a platform to drive even further growth in that business.

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

In the housing business, you talked about some higher regulatory expenses causing -- or contributing to the 200 basis point increase in combined ratio, excluding the cats. How much of that carries over into 2017? With these settlements, how much is the incremental expense or revenue hit for the coming year?

Alan B. Colberg
President, CEO & Director

So I think what we've talked about there is the settlement has been fully now reserved for in 2016. So as we make payments under the multistate settlement, assuming it's fully implemented in March, there's no impact on 2017. And as far as regulatory, at this point, as you've seen, we work closely with all of our regulators. We cooperate fully when there are issues and questions. And we feel appropriate -- we're in a good position with our regulators at this point.

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

With the change in business practices, anything like that, does that have an ongoing impact on the margin? Or is it truly one time?

Alan B. Colberg
President, CEO & Director

The change in practices have already largely been implemented. We started 5-plus years ago now evolving the product, evolving our processes, ending things like quota shares that had been in place. So as we reach the settlement with the multistate, the practices that are memorialized there are largely the practices that are already in place.

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

Where -- and final question, where do you think now we bottom out in terms of steady state in the lender-placed business? At what placement rate and when does that happen?

Alan B. Colberg
President, CEO & Director

The market, as we've said, we've been wrong often in the timing of the normalization, but not wrong on really where the normalization is headed. In 2011, when we put out the original 1.8% to 2.1% range, that was looking at the steady state kind of before the crisis. We're getting close to being in that normal range now. The 1.8% to 2.1% will probably update at some point. We have substantially more loans now than we did in 2011. We've added a block, a very large block that is a very low-placement block. But the way to think about lender-placed normalization is we're nearing the end. 2017 is probably the last full year of impact of that normalization.

Operator

Our next question comes from Seth Weiss from Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Just first, on the placement rate and that 1.8% to 2.1% target, I mean, should we think of that as directionally being just a little bit lower just mathematically because of the addition of these 2.7 million low-placement rate loans?

Alan B. Colberg
President, CEO & Director

I think the answer is, we still feel good about the 1.8% to 2.1%. If we start to see that maybe it could be a little bit lower, we'll update all of you at some point. But right now, we still feel good about what we put out.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And Richard, I may have missed it, I apologize, the $775 million Corporate capital position, I just want to verify, that's net of the $130 million set aside, correct, that's already been taken out of the Corporate capital position?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Yes, that's exactly right, Seth.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Great. So as you think about your $1.5 billion goal of buybacks and dividends over '16 and '17, considering all of the pieces of capital that you have, which is substantial and considering substantial free cash flow capacity from operating dividends, how should we think about that goal? Is that a moving target which seems like you could exceed here? Or should we think about that $1.5 billion as really more of a set target with other money being set aside for perhaps other purposes?

Alan B. Colberg
President, CEO & Director

Seth, the way to think about the $1.5 billion was that's effectively the amount of capital that we generated through the sale of Employee Benefits and the wind-down of Health. And we made a commitment to all of our shareholders that over the course of the 2 years as that capital came in, we would return it to shareholders, and that hasn't changed. If you look at the rest of our capital, we have the same ongoing strategy we've always had, which is we're fortunate to have very strong businesses that generate a lot of cash flow. Priority number one is support the organic growth in our targeted growth areas. And then the other priorities are continue to return capital to shareholders and look for selective M&A that can deepen or extend in housing and lifestyle. Nothing has changed there.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And then if I could just ask one more, on the expense saves and the $100 million target over the long term, I believe that's actually more of a gross number than a net number. So if we're thinking about kind of the benefits on more of a net basis, how would we think about that?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Yes, Seth, it's Richard. I think what we've seen to date and what we've talked about to date is the fact that we have started to save. But at the same time, we are in the process of transforming the company, so we've done some pretty good things relative to our IT area, in our finance, in our CL operation, et cetera. So what we're seeing is during '16 and as we said in '17, there's investment that goes along with the save. After that, we will see the save come out. We are targeting the $100 million. In the early years of that, though, I think part of it will be absorbed. As we go forward through '18, '19, '20, we will see some good saves coming out.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. So is it fair to categorize that kind of long term, beyond 2020, that $100 million should all fall down to kind of the pretax number?

Alan B. Colberg
President, CEO & Director

We've never said that. What we've said is that that's a gross savings target, and some portion of that will probably be reinvested continuously, but we expect a lot of it to fall to the bottom line as we get closer to 2020.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, that's helpful. I mean, the expense saves is a theme we're seeing really across the group, but we tend to see it -- the longer-term targets on a pretty specific net basis, which is why I asked the question between gross and net. So to the extent that could get refined in future periods, I think that would be helpful in terms of thinking about the earnings power.

Alan B. Colberg
President, CEO & Director

Yes, Seth, we agree, and we recognize that it -- we owe all of our investors some more transparency on that. And as time goes by, we will definitely do that.

Operator

[Operator Instructions] Our next question comes from John Nadel from Crédit Suisse.

John Matthew Nadel
Crédit Suisse AG, Research Division

I guess my first question is around Global Lifestyle. When you guys laid out your plans or targets for the old Solutions segment, you were talking about 10% on average annual growth and earnings from that segment over a multiyear period of time. That was when the total segment was about $195 million of earnings, inclusive of Preneed. Now I think that target is still 10% earnings growth on average over time, but also the Global Lifestyle piece, which is earning about $150 million, give or take, is that the right way to think about it and to think about a much lower earnings growth rate for Preneed?

Alan B. Colberg
President, CEO & Director

Yes. So let me just clarify our target and then I'll answer your question specifically, John. We put that target out for the legacy Solutions in 2013. At that point, the business was making about $130 million. So over the 3-year period, obviously, with some variability, the legacy Solutions more than delivered on that commitment. But to your specific question, yes, Preneed is not going to grow as fast as Lifestyle, so that you should think about the 10% as a Lifestyle number going forward.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay. And so we lose a little bit of absolute dollar earnings as you look out the next couple of years, unless Lifestyle grows faster than that 10%. Is that a fair way for me to be thinking about that?

Alan B. Colberg
President, CEO & Director

Yes, that's fair.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay. And then you guys have provided us now global covered mobile devices, right, which was up a little over 1% year-over-year by year-end 2016. There's not a ton of history there, so can't really get a good sense for what the growth rate looked like over a longer period of time. What kind of growth rate in that particular line item do you guys forecast as sort of part of the underlying driver of achieving that 10% longer-term growth in earnings for the segment?

Alan B. Colberg
President, CEO & Director

So you're absolutely right, there's not a lot of history to look at there, but the way to think about this is we only entered this business really in 2008, and so there's been dramatic growth over that time period. And we did on the earnings call maybe a year ago, a couple of years ago, I think we said we had about 20 million devices at that point in time. So you get a sense over the last couple of years of the magnitude of the growth. And we don't -- I'm not going to put out a specific number on what we expect that metric to grow at, but it's an important metric to look at as we try to just more fully penetrate the mobile ecosystem.

John Matthew Nadel
Crédit Suisse AG, Research Division

Is it fair though, Alan, to think about it as you guys probably expect more than 1% annual growth in that number?

Alan B. Colberg
President, CEO & Director

Yes, 2016 was a year where we were still working through the tablet program loss that we've talked about previously. But certainly, we have a history over the last 8 years of outgrowing the market. And certainly, as we look at the opportunities we have in our various geographies, we still have that opportunity. The other important point, it's not just the devices covered, John, we also are now increasingly doing a range of fee income that is not necessarily even related to a device that we covered.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay. Well, that -- and I'm not sure if that's necessarily a segue to this question, but I was interested in -- I think you mentioned in your prepared comments that you -- that your operations refurbished a little over 8 million devices during calendar 2016. Is that about right?

Alan B. Colberg
President, CEO & Director

Yes, I think we said 8.8 million. And that was up from...

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay, 8.8 million. Is...

Alan B. Colberg
President, CEO & Director

John, sorry, but that was up from about 8 million in 2015.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay. And it seems to me like that would be part of that other fee income that you just described. Is that right?

Alan B. Colberg
President, CEO & Director

Yes.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay, okay. So is that a number that we can maybe track over time?

Alan B. Colberg
President, CEO & Director

No. Let me talk through that with our team. And if appropriate, we'll disclose that as well. But let me -- let us look into that.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay. And then just bigger picture, Alan, as you think about the flat operating earnings, I guess it's versus about $380 million in 2016, if I exclude all the tax, I think one-time unusual items, the tax benefit, the legal cost, I think those were largely washing on a year-to-date basis. So it feels like $380 million is the right baseline. First, I guess I'd ask you if that's reasonable. And then second, as you think about flat for 2017, I mean, I suspect that that's not the kind of pace that you need and expect longer term beyond '17 to get to that 15% ROE target by 2020?

Alan B. Colberg
President, CEO & Director

Yes. So John, first of all, on the $380 million, that is roughly the right number to think about. And that's the way we think about it as we put out the outlook that it's going to be flat. If you think about achieving our longer-term targets, we need to grow operating earnings, and we're very focused on that in addition to the disciplined capital deployment. I think we feel good about 2017. We're absorbing another and hopefully, the tail end of lender-placed normalization. And we're fully offsetting it for the first time in the earnings of the company through the growth in the areas and some of the efficiencies we are realizing that are starting to fall through to the bottom line. So yes. Would we like to do more in 2017? Always. But if you look at that outlook, we feel well-positioned coming out of 2017 to really grow earnings in 2018 and beyond.

Operator

Our next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar

JP Morgan Chase & Co, Research Division

So just a couple of questions, and they're similar to what's been asked before. But as I think about your long-term EPS growth guidance of around 15%, and especially beyond 2018 when you've got -- or when you've gotten the full -- or '17 and '18, when you've gotten the full benefit of the rapid share buyback plan and you're buying back just based on your free cash flow, it would seem like you'd need to grow your operating income at the mid -- sort of mid to maybe slightly high single-digit rate. And that just seems hard to imagine, given that a big part of your business isn't going to be growing that fast, which is the lender-placed business. So where do you really see a lot of growth in the business that you think can offset the slower growth maybe in lender-placed as well as in Preneed if you are to achieve your 15% long-term target?

Alan B. Colberg
President, CEO & Director

Jimmy, first of all, you're absolutely correct, we need to grow operating earnings, and that's what we are very focused on as the leadership team. If we get to the future, which we expect where we'd no longer have a drag of lender-placed normalization, we're already realizing very strong growth in mobile, Connected Living, in vehicle protection services, in multi-family housing and in mortgage solutions. And you can find that with the expense efficiencies that we talked about beginning to drop more to the bottom line. That's how we get to the earnings growth that's needed in 2018 and beyond to deliver our EPS commitment.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then within the Lifestyle business, are there areas where you think you're going to see a pickup in growth beyond what your -- obviously, ForEx had been my debate, but beyond that, are you seeing like the mobile business or are there other parts of that business where you actually expecting an acceleration and growth despite the fact that in a year, 2 years, the business is going to be larger overall?

Alan B. Colberg
President, CEO & Director

We've had strong growth in mobile. We've had strong growth in service contracts on the digital side. We've just been dealing there with the legacy retailers in decline. That's another headwind that we've been facing that's closer to the end than the beginning. And then if we look at that business, we think we're well-positioned to continue to grow across those products: mobile, service contracts, vehicle.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then just lastly, on buybacks, I think if we look at your guidance for the $1.5 billion and -- of capital deployment in '16 and '17 that implies buybacks of around $400 million this year. And you can correct if I'm wrong, but then also, should we assume that if there aren't any large deals or a number of small deals, that some of your free cash flow would go towards buybacks for this year as well?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Jimmy, it's Richard. Yes, I think I'd go back to Alan's earlier answer. I mean, one of the things that we did earlier last year was we put out that target of $1.5 billion, and we got ahead of it in 2016, roughly 2/3. And I think your math is correct, saying we have $500 million to go. We have about $100 million in dividend. That gives us $400 million left to meet that target that we put out. So we are focused on that and meeting that. But what we'll do during the course of the year, we do it often, I can promise you is to look at where we are with our level of deployable capital, look at the internal investments we're making, look at the M&A possibilities that we have and think about the best use of that capital and also, in particular, thinking about giving it back to shareholders.

Operator

And we have no one left in queue at this time. I'll turn the call back to Mr. Colberg for closing remarks.

Alan B. Colberg
President, CEO & Director

Thank you, everyone, for participating in today's call. We look forward to updating you on our progress in May. As always, you can reach out to Suzanne Shepherd with any follow-up questions. Thanks.

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