S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

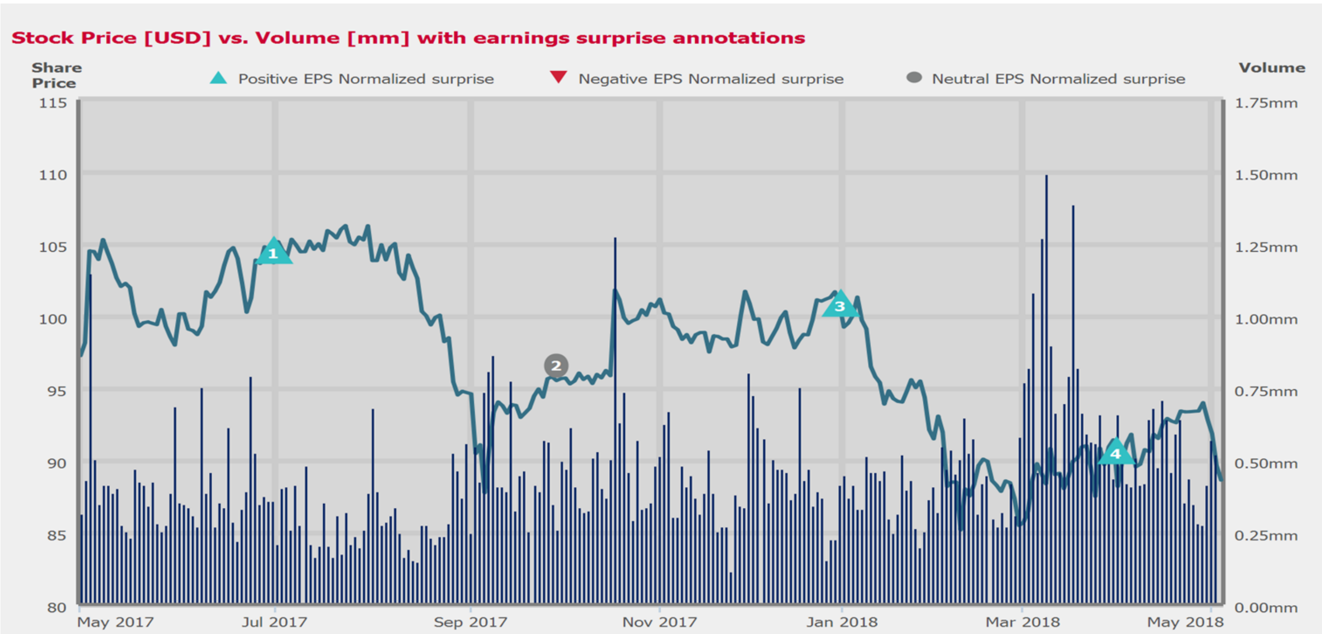
FQ2 2018 Earnings Call Transcripts

Wednesday, August 08, 2018 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.75	2.13	▲21.71	1.72	7.40	8.30
Revenue (mm)	1738.44	1831.70	▲5.36	1773.60	6971.40	8263.00

Currency: USD
Consensus as of Aug-08-2018 10:30 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	1.60	1.63	▲1 1.88 %
FQ3 2017	(1.79)	(1.40)	NM
FQ4 2017	1.57	1.84	▲2 17.20 %
FQ1 2018	1.89	2.00	▲3 5.82 %

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Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Suzanne Shepherd
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Morgan Stanley, Research Division

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Presentation

Operator

Welcome to Assurant's Second Quarter 2018 Earnings Conference Call and Webcast. [Operator Instructions]

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

Suzanne Shepherd
Vice President of Investor Relations

Thank you, Christina, and good morning, everyone. We look forward to discussing our second quarter 2018 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 second quarter results. The release and corresponding financial supplement are available on assurant.com.

We'll start today's call with brief remarks from Alan and Richard before moving into a Q&A session. On May 31, we closed the acquisition of The Warranty Group, or TWG.

As of June 1, net operating income and net operating income per diluted share include TWG results and the $1.2 billion of acquisition financing obtained this past March as well as related costs.

Dividends on the preferred stock are also an ongoing expense reflected in net operating income. For the period between March and closing, these financing costs were reflected only in our GAAP net income and therefore, not part of net operating income.

In addition, last week, we closed the sale of our mortgage solutions business. While our second quarter 2018 results include the operating results in mortgage solutions, given the disposition, the associated assets and liabilities were held for sale with the resulting net loss of $34 million reflected in consolidated net income. Starting August 1, mortgage solutions results will no longer be included in operating results.

Some of the statements made today may be forward-looking. Forward-looking statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by these statements. Additional information regarding these factors can be found in yesterday's earnings release as well as in our SEC reports.

During today's call, we will also refer to other non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to yesterday's news release and financial supplement available on assurant.com.

I will now turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. Good morning, everyone. We are pleased with our performance in the second quarter. Results reflected strong organic growth in both Global Housing and Global Lifestyle. Initial contributions from The Warranty Group acquisition as well as the benefit from the lower effective U.S. tax rate.

In May, we closed the acquisition of TWG and welcomed nearly 1,500 new colleagues to Assurant. Our global planning efforts during the months leading up to the close allowed us to hit the ground running on day 1. Relying on our principal of best of the best, we are now bringing together our organizations, leveraging the deep talent, processes and technology across our combined companies. Conversations with our clients also continue and feedback remains favorable.

To capitalize on growth opportunities and emerging market trends, we've rebranded our vehicle business, now known as Global Automotive, under new leadership. We have dedicated leadership for each of our primary auto distribution channels as well as deeper expertise to drive innovation as we look to deliver new offerings to clients and consumers worldwide.

We've also integrated TWG's extended service contract business within Connected Living with the growing focus of building our capabilities around the connected home. And we've realigned our legacy credit business, now named Financial Services, to pursue emerging opportunities in the banking sector.

Globally, the acquisition meaningfully expands our business outside the U.S., increasing our total international annual revenues by 50%. We've also added infrastructure across Asia Pacific where we see some of our greatest opportunities, particularly around mobile. We have refined our view of operating synergies and are starting to realize these benefits. In addition, our business leaders are now pursuing potential revenue synergies, which provide upside to our original acquisition thesis.

Overall, we remain confident in the growth opportunities ahead with The Warranty Group and more broadly, across our lifestyle and housing businesses.

Let me share some of the highlights from the quarter. Starting with Global Lifestyle, the segment posted very strong results for the quarter. While these included some onetime benefits, they illustrate momentum across Connected Living and Global Automotive.

Our recently launched mobile programs continue to thrive from strong market success, particularly in Japan, which is the second largest postpaid mobile device market. We now protect 44 million covered mobile devices worldwide, and in Global Automotive, we are the market leader protecting nearly 47 million vehicles.

Overall, we see significant opportunity to continue to scale our businesses and introduce innovative offerings around the increasingly connective lifestyle of consumers.

Turning to Global Housing. The segment also posted solid results, driven by multifamily housing earnings and revenue growth and favorable loss experience in lender-placed.

During the quarter, we finalized our $1.3 billion reinsurance program for 2018. We now protect more than 2.9 million homeowners and renters in the U.S. and Latin America against severe weather and other hazards. This coverage represents a projected probably maximum loss of a roughly 1 in 170-year event storm. So the likelihood of us exceeding the total coverage for 1 single event is significantly less than 1%. At the same time, we were able to lower our net loss prevent retention to $120 million as we continue to decrease the potential earnings volatility from cat losses.

As part of our June announcement, we also shared several new metrics to further illustrate the strength of our program, including a review of historical losses and examples for how the 2018 program would work under various storm scenarios. We believe our continued commitment to excellence in risk management will again serve us well as we move through hurricane season.

As exemplified by our cat program, protecting and servicing our policyholders is core to what we do each and every day. We were pleased to be recognized by 2 of our key lender-placed clients as one of their best vendors for delivering a superior customer experience. We also believe that in order to sustain this advantage, we must continue to invest, including in an ongoing enhancements to our processes and systems. Our work on our single-processing platform continues, and we expect to migrate another important client in the coming months. This new platform will generate significant cost savings and help deliver a better customer experience.

With nearly 1.9 million insured renters, our multifamily housing business continues to generate both strong revenue and earnings growth. This quarter, we rolled out additional enhancements to our renters platform, which makes it easier to engage with our property management companies and their renters. This is yet another example of how we're investing to improve our customer experience and sustain our market-leading position.

As part of our ongoing portfolio management efforts, we conducted a comprehensive strategic and financial assessment in mortgage solutions and decided to sell this business. One of the key criteria we used to evaluate our businesses is the ability to be market leaders. Despite some initial success, we did not see a long-term path to a leadership position for mortgage solutions.

Last week, we closed on the sale to Xome Holdings for $35 million in cash with potential future payments based on performance. We believe Xome will be a better owner of this business, given its focus and committed resources in the space. The sale will allow us to concentrate on our core housing business as well as deploy greater resources to build out offerings in areas, such as the rental economy and the connected home. I'd like to thank the mortgage solutions team for their dedication and hard work on behalf of our clients, and I wish them the best as part of Xome.

Turning to our financial results. We currently measure our success against 3 key metrics: net operating income, net operating income per diluted share and operating return on equity, all excluding catastrophe losses. Beginning in June, these metrics now include results for TWG and related acquisition financing.

For the first 6 months of the year, Assurant's net operating income increased by $39 million or 20% year-over-year to $236 million, driven by strong organic growth in the business, a lower effective tax rate and initial contributions from TWG.

Operating earnings per diluted share was $4.24, up 21%, largely driven by earnings growth as well as 2017 share repurchases. Annualized operating return on equity, excluding AOCI, was 11%, up 60 basis points since year-end.

At the end of June, holding company capital totaled $497 million after returning a total of $36 million in common and preferred dividends. In July, we resumed share repurchase activity given the stronger cash balance following the closing of the acquisition. As always, we are committed to managing our capital prudently and returning excess capital to shareholders.

Turning to our full year 2018 outlook, we've updated it to reflect the acquisition of TWG and the August 1 sale of mortgage solutions. We now expect Assurant net operating earnings excluding reportable catastrophes to increase 20% to 25% from last year. This reflects contributions from TWG, included expected operating synergies, the benefit of a lower effective U.S. tax rate and modest organic growth across our company.

We also expect strong growth in net operating income per diluted share this year, however, at a slower rate than net operating income. This is mainly due to the effect of the TWG-related share issuance without a full run rate contribution of TWG income and synergies.

In summary, we're pleased with our performance so far this year. We're confident in our ability to continue to expand earnings and cash flow long term. Our attractive business portfolio, combined with a more efficient operating structure, will produce more diversified earnings. This allows us to continue to invest in the business and return excess capital to shareholders over the long term.

I'll now turn the call over to Richard to review our second quarter 2018 results and updated segment outlook in greater detail. Richard?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Thank you, Alan, and good morning, everyone. Let's start with Global Housing where net operating income for the second quarter totaled $73 million, a $16 million increase from the prior year period. The lower effective tax rate accounted for $11 million of the increase, as only a small amount of the tax savings was reinvested into the business in the quarter. The balance of the increase was due to more favorable noncatastrophe loss experience in lender-placed insurance and growth in multifamily housing. This was partially offset by ongoing declines in lender-placed, reflecting the strength of the housing market.

Looking at our key metrics, the risk-based combined ratio for our lender-placed and manufactured housing businesses improved to 85.7% from 87% in the prior year period. This was mainly due to more favorable noncat loss experience compared to a very active hail and wind season last year. Results also benefited from lower expenses.

The pretax margin for the fee-based, capital-light offerings increased to 14.3% from 11.7% in the second quarter of last year, largely reflecting strong growth in multifamily housing as well as expense reductions.

Moving to revenue, total Global Housing net earned premiums and fees were down slightly in the second quarter. Given the strength of the overall market, we continued to see reductions in real estate on volumes and lower placement rates in lender-placed. Fee income was impacted by lower client demand in mortgage solutions, primarily in field services and valuations.

The placement rate for lender-placed dropped 21 basis points year-over-year or 4 basis points from the first quarter, in line with our expectations. This reduction reflects the overall strength of the housing market and a higher mix of low-placement loans. We continue to expect ongoing declines in the placement rate for the balance of 2018, eventually beginning to moderate as we exit the year.

Multifamily housing continued to grow, mainly from affinity partners and expansion of our international and other housing products. As noted earlier, while second quarter operating results for Global Housing still includes mortgage solutions, the associated assets and liabilities were classified as held for sale as of June 30, given the plan to sell the business. This resulted in an impairment loss of $34 million, reflected in our consolidated net income. The impact of the final purchase price and any other adjustments as part of the loss on sale of the subsidiary will be recorded in our third quarter financials.

Moving to Global Lifestyle, the segment reported earnings of $68 million for the second quarter compared to $40 million in the prior year period. This included a $5 million benefit from a lower effective tax rate following the passage of U.S. tax reform. In addition, TWG contributed $9.4 million after tax, inclusive of $1 million of realized operating synergies and $1 million of intangible amortization for the month of June.

Excluding tax reform and the acquisition, results benefited from the ramp-up of the mobile programs launched last year as well as favorable loss experience in Global Automotive. We also recorded nearly $6 million of onetime contributions in the quarter, which we do not expect to recur. This encompasses $4 million related to a onetime tax benefit and $2 million from the Global Automotive business. Continued declines in Financial Services partially offset that increase.

Turning to revenue. Net earned premiums and fees were up 32% or $266 million in the quarter. TWG accounted for $203 million of this increase. Looking more closely at the TWG contribution by line of business, approximately 70% of revenues is included in Global Automotive with 28% in Connected Living and the remainder in Financial Services.

Organic growth was driven by new mobile programs, including an increase in subscribers and continued growth in vehicle protection offerings. This was partially offset by lower average selling prices for mobile trade-in activity.

Looking at the segment's profitability metrics, the combined ratio for the risk-based businesses improved slightly to 96.6%. Excluding the acquisition, the ratio was unchanged. The pretax margin for fee-based, capital-light businesses was 7.1% in the second quarter or 7.6% excluding TWG. This compares to 6.4% in the prior year period. Overall, the improvement was driven by mobile programs started in 2017 in both Asia and the U.S. The Connected Living margin reflected the legacy TWG mix of business, mainly more sensitive -- more service contracts offerings. We would expect this to lower our reported Connected Living margin in the next few quarters. Overall, we're very pleased by Lifestyle's results for the first half of the year, which exceeded our expectations.

Next, let's move to Global Preneed. The segment recorded $15 million in net operating income for the quarter, up $2 million year-over-year. This was exclusively due to lower tax rate. Only a modest amount of tax savings was reinvested back into the business in the quarter.

Revenue in Preneed for the quarter was flat. Growth in the U.S., including prior period sales and the Final Need product, was offset by lower production in Canada compared to a favorable second quarter 2017. We are encouraged, however, by 8% growth in face sales after several periods of decline.

At Corporate, the net operating loss was $17 million, a year-over-year increase of $7 million. This was due to higher employee-related expenses and additional technology investments as well as a $2 million adverse impact from the lower effective tax rate.

Turning to capital, we ended June with $497 million in holding company capital or about $247 million of deployable capital after adjusting for our risk buffer. Dividends from the business totaled $296 million, which included $284 million of dividends from Global Housing, Lifestyle and Preneed. The $86 million from the reduction in deferred tax liabilities following tax reform was a key driver. In addition, $12 million of residual capital supporting our former benefits in health businesses contributed to the total. Overall, dividends as a percent of segment earnings year-to-date were at a higher level relative to our typical seasonal pattern as we prepared for the TWG closing in the quarter.

Looking at outflows, we paid $36 million in shareholder dividends, $31 million for common stock and $5 million for our preferred stock. For the full year 2018, we expect dividends from our operating segments to be greater than segment operating earnings. This is mainly due to excess dividend capacity following the reduction in our deferred tax liability and dividends from TWG equal to their 12-month earnings. In other words, legacy Assurant dividends are still expected to equal segment earnings. As always, our dividend outlook is subject to customary rating agency and regulatory capital requirements as well as profitable growth in the businesses. And we resumed our share repurchase program in July. This reflected our view of the stock as well as the higher level of deployable capital at the holding company following the acquisition close. Through August 3, we have bought back 319,000 shares for approximately $34 million. We believe our capital position will provide ongoing flexibility to invest in our businesses, support The Warranty Group integration and return capital to shareholders in 2018 and beyond.

As Alan previewed, we also updated our full year outlook for our segments to take into account TWG. Overall, we expect net operating income excluding catastrophe losses to increase 20% to 25% from $413 million in 2017. The lower effective tax rate of roughly 22% to 24% will be a key driver of that with roughly 1/3 of savings being reinvested back into the business. We've already committed the majority of the spend in the second half of 2018 toward technology and capability enhancements, originally planned for next year.

Another important driver of that earnings increase will be the contributions from TWG, along with organic growth in the business. More specifically, for the full year, Global Housing's earnings, excluding catastrophe losses, should increase, reflecting a lower effective tax rate. Excluding the tax impact, underlying earnings should decline year-over-year, primarily as a result of the ongoing normalization of lender-placed. This will be partially offset by the expansion of our affinity and property management relationships as well as increased penetration rates in our multifamily housing business.

As a reminder, late last year, we benefited from unusually low noncat loss experience and additional income from processing a significant value of flood claims related to Hurricane Harvey. We are not expecting either of this to reoccur in the second half of 2018.

Earnings growth in Global Lifestyle will reflect the combination of organic growth and the TWG acquisition, along with the benefit of lower effective U.S. tax rate. Organic growth will be driven by mobile and auto, partially offset by declines in Financial Services, mainly from runoff and discontinued partnerships as we move into the third quarter. Foreign exchange could also be a factor.

Looking at Connected Living. Mobile increases will be driven by programs implemented in 2017 and continued expansion from our offerings with existing clients. But as we have mentioned before, mobile trade-in activity may fluctuate, depending on the success of new phone introductions, availability of those phones and mobile carrier promotional activity. We expect continued growth in our Global Automotive business as strong sales from prior periods continue to earn, along with the contributions from TWG. This also includes synergies realized as we combine our operations and streamline our infrastructure. Based on our current plans, we expect to realize approximately $13 million pretax or $10 million after-tax in synergies this year.

On a run-rate basis, this represents roughly half of our commitment to realize $60 million of pretax operating synergies by the end of 2019. We anticipate the majority of those synergies will be reflected in Lifestyle's results with some flowing through Corporate as we align our shared service functions.

At Global Preneed, we anticipate earnings will continue to increase modestly before the impact of tax, driven by the expansion of new and existing clients and adjacent product offerings.

And finally, Corporate nonoperating loss is now expected to be between $80 million and $85 million. This reflects the adverse impact of a lower tax rate at roughly 20% and some level of reinvestments, along with the additional net expenses associated with TWG. This will be partially offset by continued expense management.

In addition, we expect our annual interest expense to increase to roughly $65 million after-tax for 2018, including the debt incurred to finance the TWG acquisition. Net operating income will also include around $11 million after-tax for the payment of our preferred dividends.

Before moving into Q&A, I want to highlight certain key initial purchase accounting items related to TWG. As of June 30, we recorded $1.5 billion in goodwill and approximately $450 million in other intangible assets. These other intangible assets will be amortized over periods of up to 15 years based on the economic benefit achieved and, therefore, will not be linear. For 2018, we expect the pretax net impact of the purchase accounting adjustments in Global Lifestyle to be around $7 million, of which $1 million was expensed in June. Based on current estimates, we expect that amount to increase in 2019 to $18 million pretax for the full year and $27 million in 2020 as the business previously written begins to earn. This will eventually reach $30 million to $35 million pretax by year 5.

In summary, we're very pleased with our performance and remain focused on delivering on our commitments for the full year.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question is coming from Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

My first question on the TWG acquisition. Can you tell us a little bit more about the early indication, now you own it for 2 months now? How about the integration? And also can you quantify the accretion from this deal? Because you give some numbers like $9.4 million for 1 month. Is that good run rate for the rest of the year?

Alan B. Colberg
President, CEO & Director

Thanks for the question, and welcome to our earnings call as well. Let me start and then, Richard, you should feel free to add to it. We're now 2 months post-closing, and we're really 9 months post-planning for the deal after we announced that we were fortunate in some ways to have a 7-month period. And so we had a really good line of sight developed to the hard cost operating synergies, and we feel like that's going very well. Two months in, we -- our run rate, about halfway to our $60 million pretax public commitment. And now that we own the company, we are beginning to aggressively go after revenue synergies, leveraging their infrastructure in certain markets to bring our products into those markets and similarly the other way around. We also have a significant opportunity in front of us in claims cost where, with our combined scale and now having 47 million vehicles that we manage globally. Both the revenue and the claims costs were not in our deal model. In terms of the accretion, what we've said is, when we announced the deal, it would be modestly accretive. We're certainly still on track for that, and at the right point in time, once we have the run rate synergies, we'll come back to that. But we feel good about the progress, but Richard, what would you add?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes, thank you, Alan. Kai, I'd just mentioned that, yes, as Alan said, the $9.4 million. I would also point out 2 items we highlighted in our conversation in a minute ago. One, it includes $1 million of synergies. We expect it to ramp up to $10 million going through the P&L for the end of the year. And then secondly, on the P GAAP adjustment, $1 million ran through that. In June, we would expect $7 million throughout the rest of the year. So those 2 small adjustments to factor into your analysis.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. My second question on full year guidance. The midpoint of it is about $500 million for the full year. In the first half, you already achieved like $230 million, so which imply the second half, you probably need $270 million net operating earnings, and that's including the TW (sic) [TWG] contribution. My estimate each month is sort of around $9 million, so that will be sort of more than $50 million or $60 million, which imply the underlying business -- other business right now, second half earnings will be less than the first half. Could you sort of explain that a little bit, maybe if the investing in your -- like tax benefits?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes. So a couple of things going on. First of all, as you think about the TWG contributions, you also need to add in the interest expense and the preferred dividends. But to go back to the start of your question, we feel very good about the first half of the year and we don't see any change in our full year outlook for legacy Assurant, which is the guidance we'd originally given. The biggest factor in the second half of the year that will be a negative relative to the first half is spending some of those tax reform savings. We spent a little bit in the first half of the year. We're going to spend the balance of it in the second half of the year, and that's the majority of it. And those are really pulling forward critical technology and capability investments that help us really differentiate and innovate product offerings. But no change in how we feel about the underlying business, and we feel very good about the early days of integrating TWG.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. One last one, if I may, on the potential impact from tariffs. So your contract mostly written, but would not be earned in like 2 or 3 years down the road. How do you factor that in like a potential rising cost for the component, for example, for mobiles or for the autos?

Alan B. Colberg
President, CEO & Director

Yes, so you raised a good point. So most of our current revenue and earnings are coming from contracts that were written previously. So if I think about rising tariffs, it could impact new sales, for example, in mobile, but that would probably drive up the value of used phones. And so when I look at mobile, we don't think it as a material impact when you'd look at the various [items] going on. And then in auto, what tends to happen if new car sales get affected, used car sales go up and we play equally on new and used cars. So as we've looked at it, we don't see a material impact on our business. Obviously, if cost go up over time, we can also factor that into our pricing relatively quickly in the service contract business.

Kai Pan
Morgan Stanley, Research Division

Okay, that's more on the revenue side impact. I'm more thinking about on the cost or the margin of the business. Are you pricing in potential rising cost of the components or materials?

Alan B. Colberg
President, CEO & Director

Yes, what I would say, Kai, is it's not going to -- we don't think it will have a material effect on earnings. Some things may go up, but we also benefit from rising cost on things like our used phone disposition business. And if we did have rising cost, we're able to adjust service contract pricing much more quickly than traditional insurance products. So again, we look at it not a material risk to our business.

Operator

Our next question comes from John Nadel from UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

I guess first question is when I'm looking at the covered device growth, it's really strong, and I know you guys added KDDI pretty recently, and so that's got to be affecting the growth rate. I was wondering if you could just talk a little bit about new client activity and the impact on covered devices versus organic growth on more of a same-store basis. What are you seeing there?

Alan B. Colberg
President, CEO & Director

So I think, and generally, in Connected Living and mobile, we see growth on multiple fronts. So we have good organic growth in our legacy clients as we've added additional services, as the -- as we've talked about in previous calls, gradually, we're seeing rising attachment rates on the core underlying product given the rising cost of phones. Also, TWG did have some mobile business so that's now in the count. And then the new contracts, we -- or new clients we started to serve last year, KDDI and Comcast, that we've mentioned publicly, are performing at or above expectations and going well.

John Matthew Nadel

UBS Investment Bank, Research Division

Okay. And what was -- how many covered devices did TWG add? It wasn't that meaningful, was it?

Alan B. Colberg
President, CEO & Director

About 5 million.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. I didn't realize it was that high. And then I guess secondly, Richard, how much in incremental dividends from the operating units are available to the parent company for the remainder of this year, if we think about relative to that full year earnings?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes, John, well, I think the way to look at it is when we gave the indication for the full year in terms of -- or what we've brought up to date, I would say, $296 million, about $86 million of that was linked to the DTL. Another $12 million, we brought up as well. So if you take that back, it gives you about $200 million that we brought up from the operating entities. And basically what we're saying is, we think we're -- we should be in a good position to bring up the operating earnings for the full year for those entities. So if you look at our guidance with the 20% to 25% increase and take out what we've brought up to date, we should be in that kind of zone. Same thing with TWG in terms of what we're expecting from their operating earnings, we should be able to bring those up as well.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay, okay. And so the -- so bringing the buyback back earlier, clearly earlier than expected, this isn't just a short-term thing. You've -- you're at the point where you think buyback activity can probably continue through this year.

Alan B. Colberg
President, CEO & Director

John, as you've heard us say, we are committed to appropriately and prudently managing our capital, and that return -- includes a commitment to return excess capital to shareholders. The fact that we started buyback tells you how we feel about our capital position.

John Matthew Nadel
UBS Investment Bank, Research Division

Yes. And last question is just, what was total intangible amortization for the company in the second quarter?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Total intangible, we'll have that in the Q. I don't have that right with me at the moment because that would include all the intangibles of previous acquisitions and so forth that are running through.

Operator

Our next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I had first a question just on rates and rates, and I think you had mentioned previously that you expect them to decline. I think you said 4 to 5 basis points or something in that neighborhood, but I think you're expecting them to stabilize next year. So clearly, they can't go to 0, but what gives you confidence that they will stabilize next year? And how are you sort of quantifying the 4 to 5 basis points? And sort of any reasons on why you feel comfortable that they are not going to continue to drift lower as you go through this year, especially if the housing market remains strong?

Alan B. Colberg
President, CEO & Director

Yes, Jimmy, I appreciate the question. So our placement rate is really driven by 2 things. One is the traditional bake-in foreclosure or seriously delinquent home, and that's the piece that is countercyclical with the housing market. But equally, we have a large part of our placement that is voluntary where the homeowners choosing to take our product, maybe it's the best available offer, maybe the only available offer. And that piece of our business has actually been growing. One of the benefits of our much more competitive rates over the last 4 or 5 years is we are more competitive. It's just an alternative for the consumer. So the gradual decline in placement rates is really driven by the housing cycle of it. Importantly though, as we go into 2019, we are managing that business and with the expense actions we've been taking that we believe that business can stabilize and have flat earnings roughly next year no matter what happens if the placement rate continues to gradually decline. So we're feeling good, and importantly, that business is countercyclical and we'll grow significantly if we have any issues in the housing market.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then on buybacks, I realize you're not going to give any specifics on what you intend to do, but I think you might -- part of the reason you bought back stock earlier than almost -- than most people had assumed is because you didn't end up paying -- making a payment on the caller on the deal as you might have thought that -- or you might have thought that, that was possible. Is that a fair assessment? I think -- and if that is the case, then would we assume that buybacks for this year would be limited to what you would have saved from not being -- making a payment on the caller? Or could they be higher than what you would have assumed -- would have been the potential payment?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes, I'll take that. Thanks for the question, Jimmy. I would say you're right in the first part of your question, which is, yes. When we were looking at the final purchase price and the reference rate in terms of the purchase and the stock we were going to issue to TPG, we took into account sort of a conservative look -- view on that. So the caller did help us when we -- the stock price came up very nicely at close. So that's one factor that came to us saying we can go back and start buying back again. I would say, overall, though, we just found ourselves in a very strong financial position, and so it was one of the elements. It wasn't the total element in our decision to go and start buying back. Go -- as Alan said a few moments ago, just it's hard to then extrapolate for the rest of the year as we go through and look at our performance and get through cat season, we'll go and reassess that and then come back next quarter and update you.

Operator

Your next question comes from Mark Hughes from SunTrust.

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

Could you update us on your latest thoughts on the potential cost savings from the -- I think the platform rollout in lender-placed? I think in times past, you've given kind of a specific target as to what that could mean. Could you update us on your latest thinking?

Alan B. Colberg

President, CEO & Director

Yes, Mark, maybe I'll will start with expenses just more broadly. As you recall, we put out a target of $100 million of kind of G&A expense savings gross by 2020. That does not include lender-placed, the project encore. And at this point, we've realized we owe our investors an update on that, but we're about halfway through realizing the $100 million. And you're starting to see that flow through the P&L. If you look at how our margins have grown in Connected Living, in the fee businesses, the housing, a lot of that growth is coming from the various expense initiatives that had been underway. So we recognize we owe full accounting of that in the future, but we feel good about the progress. Specifically, the lender-placed, which is separate from what I just said, we put out a long-term expense target. We're a little bit above that right now as we're investing in that single platform. But as that continues to roll out over the next year, 1.5 years, we expect we will trend back down. And towards that 42% to 44%, I think is the long-term expense target we put out for lender-placed.

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

Very good. Any sense you can share of the trade-in market now? I think some of that influenced by new phone shipments. Does that -- is that market showing a little more life? Or is that still kind of a flat more broadly?

Alan B. Colberg
President, CEO & Director

Yes, the macro trend is increasing whole time by consumers of phones. That's been the fact over the last couple of years. Volumes are a little bit better in 2018 than they were in 2017, but it's still a fairly flattish type market. And if you look at new phone shipments, they're up a little but not dramatically. So as we plan for the year, we kind of expect the rest of this year, unless there's significant new product introductions, mobile device volumes will gradually improve, but not like we saw a few years ago.

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

And finally, I think you touched on this a little earlier, but I did not pick up the specifics. You had mentioned the upside to your thesis in terms of synergies, and I assume you're talking about maybe both revenue and expenses or at least perhaps revenue relative to the TWG acquisition. What was that, that you highlighted?

Alan B. Colberg
President, CEO & Director

Yes, so a couple of things. So we have the public commitment of $60 million pretax operating synergy run rate by the end of 2019. Think of that as hard cost savings. And what we've said now is we have good line of sight to that, and we're already halfway there on a run-rate basis, 2 months in. So we feel good about that. The other two I mentioned, were revenue synergies where TWG, for example, have infrastructure in a company -- in a country, but doesn't necessarily have access to clients. We have the client relationships, but don't have that particular capability. We have a long list of specific opportunities that are in development with clients right now. Now most of those won't hit 2018. Those will be things that could begin to benefit 2019 and 2020, but they're not in the deal model. We assume 0 in the deal model. The other one I mentioned, is just claims cost around autos. If you think about controlling now 47 million vehicle contracts globally and growing, we are one of the largest single distributors of repairs in the market, and how do we then leverage our scale, contracts, get better pricing. That's a significant upside over time for us as well. Again, the deal model assumes 0 for that.

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

Any early estimates on that?

Alan B. Colberg

President, CEO & Director

No, we're -- we have to work through contracts. It will take time. It won't affect 2018, but it's a significant upside in 2019 and beyond. Once we have confidence, we'll obviously share that with our shareholders.

Operator

Our next question comes from Christopher Campbell from KBW.

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

I guess first question on Global Housing results are really strong. Any thoughts on why the LPI book wasn't as impacted as noncat -- by noncat weather as some of your competitors?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Chris, it's Richard. I think it's really a question of the footprint we have versus where the storms happened, and we show in our supplements the distribution of our footprint in the lender-placed area. So if you look at that, you'll see kind of we've -- during the first part of the year, we just weren't in those spots.

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

Okay, great. And then I'm just -- a question on mortgage solutions. How should we think about the capital-light fee-based margins on that going forward? And then any thoughts on -- I mean, was -- I mean, I'm assuming mortgage solutions margins were less. Was is money-losing? Or can you give us any color there?

Alan B. Colberg
President, CEO & Director

So a couple of thoughts. First of all, mortgage solutions was not material to our company, but it became -- as we realized there wasn't a good path to market leadership, it became more of a distraction for our team and for the housing team. We have a lot of promising opportunities that I'd rather have us invest resources on, and so that was really behind the decision that there's a better owner who will do a better job with that than we could. But the way to think about it, not material to our company, not material to our outlook for this year.

Operator

Our next question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had more of a macro question on the automotive services business and just what the -- you talked a little bit about the opportunity that you have to grow, but I was wondering about the broader market itself. What is going on there in terms of penetration of the market, the number of consumers buying products? Is there a broader trend that's in a sense helping all the competitors?

Alan B. Colberg
President, CEO & Director

I think one of the things that we're exciting to us about The Warranty Group deal are some of the longer macro trends in automotive that create real opportunity for future growth. One example is electric, and obviously it's early days still for the adoption of electric cars. But if you think about an electric car from a consumer point of view, there's less that can go wrong, but when it goes wrong, it's really expensive. Our hypothesis to be proven is that, that will drive up attachment over time of service contracts. That's a significant opportunity. And one of the reasons why we're really intrigued by The Warranty Group, they're doing this heavily in markets like China that are ahead of the U.S. in kind of electric car technology today. Another major trend is autonomous vehicles and ridesharing, and again, that creates real opportunities. Cars may be owned differently, and that could change. But every time there's an owner, there's an opportunity when that car sells to attach a service contract. So in the short term, we haven't seen a lot of changes in attachment rate across the vehicle business. But longer term, we feel extremely well positioned compared to competitors to respond to some of these real long-term changes in the way cars are going to be owned and operated.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So you're basically saying that you think there's a good chance attachment rates could rise as cars shift ownership, shift type, shift toward electric and that kind of thing.

Alan B. Colberg
President, CEO & Director

It's our hypothesis, and we're well set up to be a beneficiary if that actually plays out that way.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. I'll take it as a hypothesis. I -- and can I shift over the mobile, same kind of question. It sounds like you were talking about things slowing down a little bit in mobile. And I wondered if you have -- is that -- you need to do something else to build growth in that market? Or are there other opportunities where you can expand what you're doing there?

Alan B. Colberg
President, CEO & Director

Yes. So Gary, let me make sure I didn't cause any confusion. No, things are not slowing down in mobile. You saw in the quarter, we added not just the new contracts from The Warranty Group, but we had significant growth in mobile. The part that's been relatively flattish the last few years are device trade-in volumes. We haven't had in the last 2, third and fourth quarters, the big seasonal spike up that we used to have. But with that said, volumes are gradually rising just because the market is gradually growing. And opportunities for us is consumers hold the phone longer. With what we've done in some of the markets, we're now doing effectively extended warranties on phones, which go beyond the underlying manufacturer warranty. That's what we've always done in autos. Never been done in phones before at least by us, and it's creating a new growth opportunity for us in mobile. So no, we don't see anything that would cause us to say mobile's slowing down. There's a lot of opportunities, and our growth remains strong.

Operator

Our next question comes from John Nadel from UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

I wanted to circle back a little bit on expenses and spending. And just -- I understand in the first half of the year as it relates to sort of the reinvestment of some of the tax savings, there was very little. And can you just give us an expectation in terms of actual dollar amount of spend that you expect in the third and fourth quarter that's sort of specifically related to investing some of those savings to pull forward some projects?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes, John. It's Richard. Essentially, what we've said to the market is -- and this was sort of last year, still holds true, is that we would be reinvesting approximately 1/3 of the tax savings we benefited from the change in tax reform. And think about that as ramping up in the first half of the year as we identified projects started to invest, and what we're really saying is that 1/3 will flow through over the next couple of quarters and will be in place through the end of the year. Q2 had only about... .

John Matthew Nadel
UBS Investment Bank, Research Division

And I guess, I'm...

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Q2 had about $1 million or so in it, so very small portion of the overall.

John Matthew Nadel
UBS Investment Bank, Research Division

Yes, I guess the question to be more specific is, do you expect 1/3 of the full year tax savings to be coming through the numbers in the back half of the year? Or 1/3 of just the year-over-year second half?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

No, the -- exactly the first point. It's 1/3 of the total amount that will come through in the second half of the year.

Alan B. Colberg
President, CEO & Director

And you can...

John Matthew Nadel
UBS Investment Bank, Research Division

Okay, so that's a big ramp. Okay.

Alan B. Colberg
President, CEO & Director

Got it? You can look at it and then do the math, but it's in the order of magnitude of $20-or-so million pretax.

John Matthew Nadel
UBS Investment Bank, Research Division

Got it, that's helpful. And then I also just wanted to talk real quick on the synergies from TWG. There was a modest amount obviously in the second quarter, $1 million I think you guys mentioned. But you did say, I think, that after 2 months, so here in the third quarter, that you're run rating at about half of those saves. So I guess my math is implying that $7 million or $8 million of saves at this point on a quarterly basis. Is that about right? Do you expect that to grow significantly from here at least in the calendar 2018?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes. Yes, essentially, what we've said is, we're ramping up the synergies given that we just closed at the end of May. Those synergies will be coming through the P&L through the course of the year. So we have -- we've captured about $1 million in the June period. Through the end of the year, not Q3, but through the end of the year, about $10 million will come through our P&L.

Alan B. Colberg
President, CEO & Director

After tax.

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

After tax. Now if you think about that for $10 million to come through, we'll have put in place a run rate much more than that. So what we're saying there is that will be equivalent to really half or about $30 million, which would come through if we stopped right there the next -- the rest of the year. Obviously, we'll just keep going and capture more synergies running up to the $60 million target.

John Matthew Nadel
UBS Investment Bank, Research Division

Got it. Understood. Okay. So the real big ramp is really more in the second half of '19 when we get to see the, really, the full effect equivalent of those saves?

Alan B. Colberg
President, CEO & Director

Yes. No, that's the right way to think about it, John. So $10 million after tax hitting this year's P&L. If we stopped, as Richard said, and we didn't do anything else ever again, we're now at a run rate of $30 million pretax. That's what will show up in '19 if we didn't do anything else. Obviously, we're going to do a lot more, and we'll -- we are committed to our $60 million pretax target, but significant positive into 2019 P&L.

Operator

Our last question is coming from Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

I have 2. One is on -- can you talk a little bit about your e-commerce partnership in term of the growth rates, the take-up rates as well as the margin of the business? You can compare and contrast with the big-box retailers.

Alan B. Colberg
President, CEO & Director

Yes. So without talking about specific clients, which we generally don't do, our experience over the years has been a almost complete rotation from traditional big-box retailing, which had relatively high attachment rates to now almost everything is digital, whether it's with e-commerce partners or even the traditional legacy retailers, a lot of that has become digital. Attachment rates started lower in the digital world. We've been, over the years, getting much better at doing attachment on digital, and they're not yet at the same level as the historic big-box was, but it's a lot closer. And it is more profitable business in the sense of you don't have the same intermediaries that are involved. We have more -- it's a better consumer experience because we have more direct control over the consumer experience. So it's a trend that we've been investing against for years, and have made a lot of progress on.

Kai Pan
Morgan Stanley, Research Division

Roughly, what percentage of that is now in your exchange warranty business?

Alan B. Colberg
President, CEO & Director

Hard to answer that quickly because our embedded contracts, many of them last for years from the prior business. But most of our new sales, they're digital contracts.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. My last one is on the follow-up on the buybacks. And will you be able to participate in the -- after the lockup expiration in August and November?

Alan B. Colberg
President, CEO & Director

Yes. So regarding TPG, we obviously don't have any insight into what their plans are. We do know they're economically rational and they're going to be motivated if they decide to sell, which they may or may not. They'll be economically rational. We're exploring options where we could help meaningfully manage that if they decided to sell, but we have nothing at this point that we can say on it.

All right. Well, thank you everyone for participating in today's call. We're pleased with our results so far this year, and we look forward to updating you on our progress on our third quarter earnings call in November. In the meantime, please reach out to Suzanne Shepherd or Sean Moshier with any follow-up questions. Thanks, everyone.

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Thank you.

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