

Assurant Inc.'s Specialty Insurance Niche Drives Addition to CUSP

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The CUSP portfolio managers added specialty property and casualty (P&C) insurer Assurant, Inc to the CUSP in March 2022. The company has significantly evolved its business operations over the last several years, having divested from its employee-benefits and global preneed businesses while transitioning to higher growth, service-oriented P&C insurance businesses that serve more than 300 million customers globally. Through this evolution, Assurant has focused on delivering a superior customer experience and driving sustainable, profitable growth within a relatively less competitive business environment. The company has remained cash flow positive, providing financial flexibility that allows the firm to further invest in growth and cost-saving measures.

Why do the CUSP managers believe that Assurant can succeed within such a competitive P&C Insurance sector? The answers are through product differentiation, strategic capital management and an increasing interest rate environment.

First, Assurant has differentiated its product offerings to reduce competition and allow for increased pricing power within its market. The firm operates in two segments, Global Lifestyle and Global Housing. Assurant protects 94 million appliances and electronics, 56 million credit card holders, 53 million mobile devices, 52 million motor vehicles, 2.5 million rental units and 500 thousand homes from flood damage while also offering mortgage services to 30 million units. Through such product differentiation, Assurant now protects 15 of the top 50 most valuable global brands, resulting in impressive profitability, with a doubling of net income from continuing operations between 2019 and 2021.

Second, Assurant has strategically managed its capital generated through both continuing operations and divestments, effectively striking a balance between returning capital to shareholders and reinvesting in the company. In 2019, Assurant set an enterprise financial objective of returning \$1.35 billion to shareholders through 2021, which it achieved, and authorized two new share repurchase programs in 2021 for a total of \$1.5 billion. Furthermore, Assurant intends to return \$900 million of the net proceeds from the sale of its Global Preneed segment, while reinvesting the remaining portion into its two other segments. Since 2018, the company has scaled its Global Lifestyle and Global Housing segments via three acquisitions, which have contributed an estimated 20% of Adjusted EBITDA growth: The Warranty Group, American Financial and Automotive Services and HYLEA Mobile. This strategic capital management will promote sustainable, profitable growth over the long-term.

Third, interest rates are expected to rise throughout 2022, which will greatly improve the investment income of Assurant over time. However, it's important to note that increased yields may take time to benefit investment income from fixed maturity securities, depending on the time horizon of such securities.

Thus, Assurant's future growth prospects are promising, and CUSP Managers believe that Assurant is attractively valued relative to its competitors, with a price/sales (ttm) ratio of 1.06 compared to the current industry average of 1.44. Furthermore, Bloomberg lists a 12-month price target that indicates a potential 13% upside, and all analysts tracking the stock recommend a "buy" rating. As the company continues to execute on its strategy of driving sustainable, profitable growth within a less competitive environment of specialty P&C insurance, CUSP Managers are

confident that robust returns will follow in a company that is fairly valued given our thorough evaluation.