

## Assurant, Inc. (AIZ)

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Financials

### INTRODUCTION

Assurant, Inc. (AIZ) is a global provider of risk management solutions. The company provides a diverse range of specialty insurance products such as manufactured home coverage, creditor-placed homeowners insurance, pre-need funeral policies, and extended service contracts for electronics, appliances, and vehicles. Assurant's products are distributed through sales offices and independent agents across North America, Latin America, Europe, and the Asia/Pacific region. Roughly 75% of Assurant's revenue originates in the United States and Canada. Assurant operates through three primary segments: Global Lifestyle (60%), Global Housing (35%), and Global Preneed (5%). Global Lifestyle, the largest segment, provides mobile device protection and extended service contracts for consumer electronics and appliances, vehicle protection, and credit and related insurance. The Global Housing segment offers lender-placed insurance, multi-family housing products, homeowners' insurance, and manufactured housing insurance. The Global Preneed segment offers pre-funded funeral insurance and annuity products in the United States and Canada.

### RATIOS AND STATISTICS

Price (\$):	97.24	Beta:	.79		<u>2016A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Price Target (\$):	110-120	WACC:	11.3	Revenue (mil):	7,344	6,384	7,996	9,643
52 WK H-L (\$):	84.34-111.43	Profit Margin (%):	7.27	% Growth:	-28.7	-13.1	25.2	20.6
Market Cap (mil):	6,155.8	CF/Share:	18.24	Operating Income:	810.1	488.1	593.3	670.0
Float (mil):	2.2	Debt/Capital (%):	20.1	EPS:	11.53	6.12	7.13	8.56
Short Interest (%):	4.18	Operating Margin (%):	7.93	% Growth:	345.2	-46.9	63.1	40.1
Avg. Daily Vol:	61.,793	ROA (%):	1.4	P/E:	8.05	16.48	16.24	11.59
Dividend (\$):	.6	ROE (%):	11.4	P/CF	41.66	11.84	5.88	5.71
Div. Yield (%):	2.3	ROIC (%):	9.8	P/Book	1.27	1.24	1.19	1.16

### RECOMMENDATION

We recommend a *Buy* for Assurant at a one-year target price range of \$110-\$120 due to the following reasons: Assurant's successful acquisition of The Warranty Group, their increased focus on providing niche products and services, and the strong growth potential of their financials. Assurant recently finalized an acquisition of The Warranty Group, deepening their global footprint in the vehicle and homeowners' markets. The Warranty Group had amassed valuable consumer insights, which Assurant will utilize to capitalize on emerging markets, specifically in the Asian Pacific region. The acquisition increases and diversifies Assurant's product line and is expected to return over \$2B in revenue and \$60M in net income by the end of 2019. Assurant is also making substantial efforts to become a niche insurer in many different markets. By selling off underperforming operating segments such as mortgage lending and health insurance, Assurant has been able to increase their focus towards markets that are

less risky and more poised for future growth. Because of this “transformation”, we believe Assurant will be able to capitalize on positive trends in vehicle, renters, mobile, and appliance insurance. Additionally, we believe Assurant will be able to outpace their competitors in these markets through facets of product diversification and technological innovation. Although Assurant’s financial status has slightly weakened as of late, losses were predicted, and they are now poised for strong future growth. Revenue fell from \$10.3B in 2015 to \$6.4B in 2017, while net income fell from \$516M to \$338M over the same period. This fluctuation is almost entirely due to Assurant’s transformation process, as they were required to shift focus from profits during this time. Even though revenue decreased, the company was able to beat consensus earnings every quarter during this process. Now that this process is complete, we believe Assurant is poised for strong future revenue growth, with 2018 revenue expected to reach \$8B.

## INVESTMENT THESIS

**Multi-Year Transformation:** Assurant successfully completed a multi-year transformation earlier this year, allowing them to transition out of the health insurance, employee benefits, and mortgage lending markets. Compared to the rest of the markets Assurant operates within, these markets had been underperforming and posed more future risk. The company utilized the proceeds from the sales of these segments to invest in purchases that neatly complement their existing offerings, specifically in niche product lines that are poised for strong future growth. We believe this transformation will lead to accelerated revenue growth in the near future.

**Warranty Group Acquisition:** A defining moment for Assurant in 2018 was the acquisition of The Warranty Group. This transaction further cements Assurant’s position as a global leader in vehicle and renter protection and supports the company’s growth strategy in the broader global lifestyle market. With an attractive product line and client portfolio, The Warranty Group expands Assurant’s size and scale and will generate more diversified and predictable earnings over time. It is expected that this merger will generate over \$2B in revenue and over \$60M in net income by the end of 2019. Additionally, Assurant has been able to minimize incurred debt from this acquisition, as their total debt to total equity remained healthy at 20% throughout the entire process. This acquisition was finalized in Q3 of 2018, therefore Assurant is currently experiencing its first post-acquisition quarter.

**Innovative Products and Services:** Assurant continually implements new lines of business and offers new products and services within existing lines of business to offer customers a competitive array of products and services to choose from. Additionally, Assurant offers an exceptionally diverse selection of insurance products, resulting in a malleable revenue stream. The insurance industry is continuously undergoing rapid technological changes and Assurant is taking advantage of these changes. They are doing so by increasing their operational efficiency which serves customers better through platforms such as mobile insurance origination and online claim filing systems. We believe future advancements in technology will allow Assurant to serve its customers on a much larger scale, resulting in strong revenue growth.

**Value Chain Integration:** Assurant owns or manages multiple integral pieces of their value chain. This enables the company to create products and service offerings based on specific client needs and provide a more seamless experience for consumers. Offering end-to-end solutions allows Assurant to adapt more quickly and efficiently to client needs. Advancements in A.I and blockchain technology have resulted in higher visibility across the value chain, allowing Assurant to vastly improve the consumer experience.

## VALUATION

To properly value Assurant's future stock price, we have effectively utilized key methods that are common in insurance valuation. Our first method was the price-to-book value model. Global financial institutions adopt the price-to-book value model to value insurance companies, as the earning cycle of the insurance industry can be very cyclical with large fluctuations. Our price-to-book value model resulted in a target price of \$121. Our next method was the price-to-earnings model. We utilized this method in place of the DCF model, as Assurant's cash flows have been extremely volatile in recent years. Additionally, the price-to-earnings model is widely accepted for the valuation of financial institutions. Our price-to-earnings model resulted in a target price of \$110. Our final method was the price-to-enterprise value model. This ratio is crucial, as it can reveal the true performance of a company. Based on a 10% growth rate, we arrived at an estimated enterprise value of \$8.2B. After multiplying by our P/EV ratio, we achieved a target price of \$120. We then applied a 70% weight towards the price-to-book value model and a 30% weight towards the price-to-earnings model. We then applied a 50-50% split between the result and our price-to-enterprise value model, resulting in a final target price of \$119, with a target range of \$110 to \$120. Additionally, we performed a Monte Carlo sensitivity analysis with 10,000 trials, adjusting for variables such as policy growth, claim rates, and catastrophe losses. This analysis resulted in a 72% probability of a buy.

## RISKS

**Natural Disaster-Related Losses:** Insurance operations, particularly homeowners and vehicle insurance, expose Assurant to large claims arising out of natural disasters. These catastrophes have the potential to generate losses in excess of \$5 million, pre-tax and net of reinsurance. While the frequency and severity of catastrophes are inherently unpredictable, it is expected that they will steadily increase over future generations due to climate change. Additionally, the establishment of appropriate reserves is a complex process. The ultimate cost of losses may vary materially from recorded reserves and such variance may have adverse effects on the company's financial condition.

**Competitiveness of the Insurance Industry:** Assurant competes with many insurance and financial service companies that provide similar products and services. Many competitors, as a result of their larger size, may be able to offer a broader range of services, including newer technologies. Thus, there is a risk that purchasers may be able to obtain more favorable terms from competitors, rather than renewing coverage with Assurant. As a result, competition may adversely affect the persistency of Assurant's policies. Assurant must consistently offer products and services that are both competitively priced and in high demand in order to remain competitively advantageous.

**Potential Investment Losses:** Assurant is subject to credit risk in their investment portfolio, primarily from investments in corporate bonds, preferred stocks, and leveraged loans. Defaults by third parties in the payment or performance of their obligations could reduce investment income or potentially result in an investment loss. Additionally, the value of the company's investments may be adversely affected by changes in interest rates or downgrades in bond ratings. Unpredicted losses in investments may result in an inability to appropriately reserve for future claims.

**Unfavorable Economic Conditions:** General economic and financial market conditions could have an adverse effect on the results of Assurant's operations. Deteriorations of real estate markets, declines in consumer confidence and consumer spending, increases in the rate of inflation, or periods of high unemployment could contribute to increased volatility and diminished expectations of financial markets, including the market for Assurant's stock.

## MANAGEMENT AND COMPENSATION

Alan Colberg (56) has been President/CEO of Assurant since 2014. Prior to his tenure as CEO, Mr. Colberg served as Assurant's executive Vice President of Marketing and Business Development, where he managed strategy development and oversaw business growth initiatives. Before joining Assurant, he was a consultant for Bain & Company for 22 years, serving as an advisor to Assurant during much of this time. Mr. Colberg champions innovation and has played a vital role in the company's success. Additionally, he has served as a member of the board since joining the company.

Gene Mergelmeyer (59) acts as Assurant's Executive Vice President and COO. In this role, Mr. Mergelmeyer oversees the company's global operations and is responsible for the profits and losses for its business units. Prior to 2014, he served as president and CEO of Assurant's specialty property business. He is credited with architecting Assurant's new enterprise operating model structure that has enhanced the strength of the company across the world.

We believe the strong team of experienced and devoted leaders will continue to drive Assurant towards substantial growth and expansion for many years to come.

## STOCK PRICE GRAPH



## PEER ANALYSIS

Name	Ticker	Market Cap (Million)	Combined Ratio (%)	Revenue (Million)	EPS	P/E	ROE (%)	Total Debt to Total Capital
Assurant, Inc.	AIZ	6,155.8	73.35	7,996	8.56	11.59	11.4	.20
Principal Financial Group	PFGE	13,866.5	214.16	13,714	5.59	13.82	11.23	.36
Kemper Corp.	KMPR	4,771.9	99.46	3,312	3.60	20.46	5.91	.28
First American Financial Corporation	FAF	5,373.6	68.96	5,800	4.25	11.32	10.81	.21
AmTrust Financial Services	AFSI	2,771.8	98.2	5,942	2.23	14.62	10.3	.43
Peer Group Average	-	6,587.9	120.195	7,352	4.85	14.36	9.92	.30

The peer group consists of four companies within the insurance industry of similar size to Assurant. We believe this peer group is accurate given their similar products, services, size, and geographic scope. Assurant has strong financials relative to their peers. Specifically, Assurant leads their peer group in Earnings Per Share and Total Debt to Total Capital, giving them a competitive edge. Assurant is also above average with their P/E ratio and Return on Equity.

## OWNERSHIP

Ownership Type	% of Shares Owned
Inside Owners	.92%
Institutional/Mutual Fund Owners	99.08%

## TOP 5 SHAREHOLDERS

Holder	Shares	% Out
TPG Group Holdings	7,869,230	12.68%
Vanguard Group	5,653,635	9.11%
T. Rowe Price Group	4,226,798	6.81%
Fidelity Management and Research	3,966,505	6.39%
Blackrock Inc.	3,597,122	5.80%

