

Discussions underway to unlock value

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The investment case pivots on the progress of strategic options under consideration for the two operating businesses. Specifically, these relate to the outcome of discussions with potential buyers for each entity, a process which has been simplified by their legal separation. We see potential scope to realise a net return above R&Q's current market value.

Initial discussions focus on Accredited, R&Q's program management business for which it confirms receipt of interest from a number of parties. Accredited is estimated to be the second largest program manager globally with operations in both the US and UK/Europe.

Exploring strategic options

To recap, in April R&Q announced the decision to evaluate strategic options for its businesses and in Q2 completed their legal separation. These two operations, Accredited (program management) and R&Q Legacy are well-established and competitively positioned, have undergone significant internal transformation and restructuring, and have capital bases required to operate independently. Accredited's status as a standalone insurance industry counterparty was recently confirmed via its AM Best (A- financial strength) rating.

- Accredited no longer relies on the group balance sheet for its financial strength rating. Margin improvement (from 36% to 57%) reflects scale (GWP US\$1.8bn) and greater operational efficiency. This business has the size and reputation to continue to grow towards its full potential.
- R&Q Legacy has developed more slowly than expected but continues its planned transition into a more capital efficient business. Its capital base was recently boosted by US\$50-60m of preferred equity raised by the group. FY22 did, however, include US\$32m of adverse development, mainly related to older transactions.

Sum of the parts seen above current market cap

A possible valuation template for program managers has been provided by transactions such as Markel's acquisition of State National (2017) and Mitsui Sumitomo's acquisition of Transverse Group (2023), both concluded at multiples above 10x EBITDA (undisclosed, according to industry sources).

Accredited is a high potential, fast-growing business. A sum of the parts based on its sale achieving the above multiples (net of FY22 US\$345m group net debt) should more than cover the current group market cap (c US\$244m) and enable R&Q to separately consider various options for Gibson Re (R&Q Legacy), including a potential trade sale.

Summary FY22 results

Year end 31 Dec, US\$m unless stated	2020	2021 Restated	2022
Group Pre-Tax Op. Profit	20.6	(21.4)	(33.3)
PM Fee Income (incl. minority stake)	24.1	56.1	98.0
PM PTO	3.3	20.6	55.7
Legacy Insurance PTO	49.0	(6.1)	(56.6)
EPS (c)	17.5	(46.8)	(91.3)

Source: R&Q report & accounts

Company Data

EPIC	RQIH
Price	52p
52 weeks Hi/Lo	111p/44p
Market cap	£193m

Share Price, p



Source: ADVFN

Description

R&Q Insurance Holdings Ltd is a long-established UK and US insurance business, led by experienced management.

It is focused on two core strategies:

Program Management (PM) is a fully regulated commission fee-based business, which acts as a conduit between reinsurers and MGAs (insurance distributors).

Legacy Insurance provides exit solutions for legacy/run-off insurance assets to vendors in the US, Europe, and Bermuda.

Roger Leboff (Analyst)

0207 065 2690
roger@equitydevelopment.co.uk

Andy Edmond

0207 065 2691
andy@equitydevelopment.co.uk

Two high potential businesses requiring further investment

Both entities' transformations are ongoing, and R&Q has committed to further investment to upgrade and rationalise technology, people, risk management and governance cultures.

Both look well placed to grow as they evolve and build further scale to compete independently, but views on intrinsic value are impacted by a challenging FY22 for R&Q Legacy and volatile markets generally.

R&Q Legacy continuing transition in softer pricing market

The unexpected US\$32m adverse development in older legacy books was a major source of R&Q Legacy's disappointing headline US\$56.6m pre-tax operating loss, but the comparative also reflects the transition to a capital efficient model based upon annual recurring, fee-based revenue vs a balance sheet intensive, day-one gain structure.

FY22 Fee Income was US\$12.1m (FY21: nil). FY22 saw four transactions for US\$68m of Gross Reserves Acquired, a 91% fall vs 2021 due to extra prudence in a softer pricing market. Period end RUM was US\$396m (FY21: US\$417m), but that increased to over US\$1bn post the MSA Safety transaction involving non-insurance liabilities which closed in January 2023.

Summary Financial Performance, y-o-y			
(US\$m, except where noted), y/e 31 Dec	2022	2021	Change
Accredited			
Gross Written Premium	1.8bn	1.0bn	+76%
Fee Income	80.0	44.9	+78%
Pre-Tax Operating Profit	55.7	20.6	+170%
PTOP Margin	56.8%	35.7%	
R&Q Legacy			
Gross Reserves Acquired	68.8	735.0	-91%
Reserves Under Management	395.6	417.0	-5%
Fee Income	12.1	0.0	
Pre-Tax Operating (Loss)	(56.6)	(6.1)	
Corporate / Other			
Net Unallocated Expenses	(1.9)	(13.2)	-86%
Interest Expense	(30.5)	(22.7)	+34%
Group			
Fee Income (excl. MGA stakes)	92.0	44.9	-105%
Pre-Tax Operating (Loss)	(33.3)	(21.4)	+55%
Operating (Loss) / share	(9.9)c	(7.5)c	+32%

Source: R&Q FY22 results



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 16 -18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690