

\$100m new equity to support expansion

30 April 2020

A reassuring announcement on April 29th confirmed the underlying resilience of R&Q's existing businesses, that the potential to grow both core divisions is intact (and conceivably will be buoyed by the current turmoil) and that the group can access expansion capital as required.

Robust outlook for existing business

Management believes that the pandemic will have a limited effect on its existing business, other than possible short-term delays in completion of transactions. The group's existing legacy books have limited exposure to unexpired risk, and its program management portfolios are largely reinsured with highly rated counterparties.

A third area of possible volatility, the group's investment portfolio, has a current two-year average duration, with approximately 92% of holdings rated BBB or better, of which c 51% is government bonds and cash. Reported net unrealised losses were just 1.4% as of 22 April 2020.

Strategic growth plans intact

R&Q reiterated its previous strategic outlook and intention to proactively pursue opportunities to grow its two core businesses, program management and legacy acquisitions. It expects the impact of the current disruption on the wider insurance industry to generate considerable growth opportunities.

To quote the statement, it has become '*apparent that market dislocation will increase demand for these specialist capabilities as traditional insurance company balance sheets come under increased strain*'. To support its growth plans R&Q secured \$100m of new equity to finance expansion from two investors (more detail on page 2).

FY19 results due, expected to be in line with expectations

R&Q will alert the market in due course re the expected release date for its FY19 results. Our forecasts are unchanged. We will review them post the results, as well as the potential EPS impact of the new equity. The recent statement confirmed that FY19 was 'a record year' and that PTP will be in line with management's expectations, although the audit review has not yet been completed. R&Q also expects to announce a distribution to shareholders in the form of additional ordinary shares.

Summary forecasts

Year end 31 Dec	2017A	2018A	2019E	2020E
Operating Profit (EBIT) (£m)	14.3	18.6	52.0	49.0
Pre-tax (continuing) (£m)	9.8	14.3	42.0	39.0
EPS (p)	10.5	7.8	18.3	15.9
Yield on distribution (%)	5.5	5.7	5.8	6.0
Net Tangible Assets / share (p)	105	124	141	156

Source: Group report & accounts and ED estimates

Company Data

EPIC	RQIH
Price (last close)	144p
52 weeks Hi/Lo	223p / 112p
Market cap	£289m*
*Excludes new shares	

Share Price, p



Source: ADVFN

Description

Randall & Quilter Investment Holdings Limited (R&Q) is a long-established UK and US insurance business led by an experienced team.

It is focused on two core strategies: to drive commission income from writing niche books of business using its two licensed UK and US carriers and to grow an industry leading provider of exit solutions for legacy/ run-off insurance assets to vendors in the US, Bermuda and Europe.

Roger Leboff (Analyst)

0207 065 2690
roger@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

New equity: \$100m to finance growth

The group secured a US\$100m equity injection (c £80.3m) to finance '*significant growth opportunities*' in its core program management and legacy businesses. With this cash on hand R&Q will have considerable flexibility to move rapidly if required and take advantage of opportunities as they arise.

Vote of confidence by experienced industry investors

The investment consists of:

- A US\$80m subscription in a new series of preferred stock by Brickell Insurance Holdings LLC, an investment vehicle controlled by 777 Partners, an existing R&Q investor with a current 9.4% stake. This new preferred stock is issued by Randall & Quilter PS Holdings Inc., an indirect wholly owned subsidiary of R&Q.

The Preferred Stock issue is conditional upon shareholder approval for the issue of the Ordinary Shares due on Exchange. Once issued, it will in certain circumstances, be exchangeable into a total of 47.61m new Ordinary Shares at 135p, equivalent to 18.27% of R&Q's total issued ordinary share capital.

- US\$20m subscription in c 11.902m new R&Q Ordinary Shares (equivalent to 5.6% of the enlarged R&Q share capital) by funds managed by Hudson Structured Capital Management Ltd at £1.35/share

The effective issue price for the new shares was 135p, a 7.2% discount to the 28 April closing mid-market price of 145.5p share. Following admission – expected on 5 May 2020 – there will be 212,998,410 ordinary shares in issue.

We will comment on the adjustment to fully diluted EPS when we update forecasts post the release of the FY19 results.



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690