

Completing separation of group businesses

14 June 2023

R&Q's US\$60m equity issue is a key component of its plan to separate its legacy and program management operations and in line with a strategy to increase operational focus and revenue transparency, both of which should assist any appraisal of underlying value. The cash enables its program management business (Accredited) to access an AM Best financial strength rating on a standalone basis, without any issues related to reliance upon the group balance sheet.

The new funds assist that clean break by (a) increasing the capitalisation of R&Q Legacy, which is providing reinsurance support for completed legacy transactions originated by Accredited and (b) generating cash for general corporate purposes. The latter reflects the fact that Accredited will no longer pay intra-group dividends to R&Q to secure its financial strength rating from AM Best.

Strategic options being explored

To recap, in April the group announced plans to separate its two businesses Accredited and R&Q Legacy in order to enable them to function fully independently. It has now received all necessary approvals to complete this internal reorganisation and these entities will now operate under two separate holding companies within the group. Accredited will receive a separate, subgroup financial strength rating from AM Best, a vital component of a stand-alone entity.

Post completion of the internal reorganisation to separate its businesses, R&Q intends to accelerate strategic options. These may include sale of all or part of Accredited - disposal of a controlling interest could enhance that entity's standalone financial rating. The terms are likely to benefit from a positive Q1 performance: a 34% y-o-y increase in Gross Written Premium to US\$0.5bn and 24% growth in Program Fee Income. Accredited added five new programs in 2023 and expects to add additional partnerships from a strong pipeline over the remainder of the year. The statement confirmed that interest in it has been expressed by a number of parties.

The net proceeds of any sale could potentially allow R&Q to repay outstanding group debt and use any surplus to redeem newly issued equity (should the new shareholder elect to take that option) or for other distribution.

That would leave it with one core business, Legacy Insurance, a deliberately 'capital light' operation which does not require a credit rating. Although not yet profitable, Legacy has signed or completed three transactions this year and has a strong pipeline to grow RUM beyond US\$1.0bn. Strategic alternatives are also being explored for this operation.

Up to US\$60m capital raise

R&Q secured up to US\$60m via the issue of perpetual non-voting preferred stock issued by an indirect, wholly owned subsidiary, Randall & Quilter PS Holdings Inc. Of that, US\$50m is from investment funds affiliated with one of its largest shareholders, Scopia Capital Management, which has the right to subscribe for another US\$10m. Under certain circumstances it can also elect to exchange preferred stock for new R&Q ordinary shares at 60.98p (10% above the 20-day volume weighted average price prior to the agreement date).

Results for the 12 months to end December 2022 will be announced on 26 June. That should provide **greater clarity on the capital structures** of the two independent businesses, and we plan to explore the impact of completion of its preferred strategic option for each entity.

Company Data

EPIC	RQIH
Price	55p
52 weeks Hi/Lo	111p/49p
Market cap	£154m

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 has 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



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

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