

Prospects for an independent R&Q

6 June 2022

R&Q is expected to launch a US\$100m fundraising on or around 13 June 2022 following the release of its FY21 results. It has stated that it expects to offer a maximum of 10% of its issued share capital on a firm basis and additional shares conditional upon shareholder approval at an SGM expected to take place on or around 11 July 2022.

Under that timetable new ordinary shares placed with investors in the Firm Placing and the Conditional Placing would be issued and admitted to trading on AIM on or around 15 June 2022 and 12 July 2022, respectively.

- It has also announced plans to raise up to \$8m via an Open Offer, in addition to the US\$100m placing. Following a short market sounding process, RQIH confirmed that certain of its existing shareholders indicated strong interest to subscribe for a sum in excess of \$100m in the fundraise. This new funding will reduce balance sheet leverage and improve the group's financial profile.
- From the proceeds \$60 million will be used to fund collateral requirements and the balance to pay down debt.
- R&Q had received pre-emptive waivers from its bank lenders on its existing financial covenants until the earlier of completion of an equity raise or 29 June 2022. R&Q is in discussions with its lending banks to extend the waivers.

Recap of recent developments

This brief note rounds-up recent news i.e., the initial plan for the acquisition of RQIH by its largest shareholder (that would have included a cash injection), which will now not proceed, as well as **positive trading updates related to both divisions**.

On 1 April 2022 R&Q announced a recommended (175p/share) acquisition by its major shareholder, Brickell PC Insurance Holdings LLC (Brickell). The price represented 1.8x tangible net asset value and a 20% premium to the unaffected market price. That was accompanied by news of Brickell's commitment to provide US\$100m of new equity. This transaction was prompted by the results of in-depth review of the group's legacy insurance portfolio initiated by new management in Q4 2021. This identified a potential c.\$90m non-cash, pre-tax charge associated with impairing a structured reinsurance contract previously capitalised as an asset.

This reflects the need for this subsidiary, acquired 15 years ago, to provide liquidity to meet anticipated claims which have accelerated above expectations. The impairment is not related to either of its two core businesses nor any of the Accredited companies, which are capitalised above target levels.

In the event, this transaction was put to shareholders at a SGM on 25 May and did not receive the level of support necessary to for it to proceed. As a result, the acquisition and equity funding agreements with Brickell have been terminated and RQIH is progressing toward an equity fundraising from its broader investment base.

Which means?

The uncertainty related to an unsuccessful takeover bid has adversely affected the shares, **but the business's underlying strengths remain intact** - subject to successful and timely completion of the fundraising. We have withdrawn our forecasts, including comment regarding valuation, pending notification of the precise terms of the fundraising which is due by the middle of this month and its successful execution.

Company Data

EPIC	RQIH
Price (last close)	94p
52 weeks Hi/Lo	190p / 78p
Market cap	£258m

Share Price, p



Source: ADVFN

Description

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

The group is focused on two core strategies, both of which are designed to generate growing, substantial and visible revenue streams.

Program Management (PM) earns commission income from writing niche books of business using its carriers, which are fully licensed in key regions in Europe and the US.

The Legacy division is an industry leading provider of exit solutions for legacy/run-off insurance assets to vendors in the US, Bermuda, and Europe.

In September 2021 RQIH announced the creation of Gibson Re, a 'sidecar' which transforms this division into, effectively, an asset manager, which will generate fee income managing legacy portfolios on behalf of third parties.

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Confident trading updates

The group reported that it continues its transformational into a primarily recurring fee-based business by 2024.

- It expects pre-tax operating profit above US\$90m in 2024 (note that ED forecast for FY21 was US\$20.5m). As R&Q scales, the results should reflect the group's **inherent operational gearing**. Key drivers will be ongoing growth in the Program Management business and further deployment of Gibson Re's capital into its Legacy Insurance operation.
- **Program Management's reported growth is also ahead of our expectations.** R&Q expects to achieve c US\$1.75bn of gross written premium (GWP) in 2022. PM fee income is c 5% of written premium ceded to reinsurers. This division's result includes RQIH's 40% share in the profits of Tradesman Program Managers.
- With respect to the Legacy Insurance, Gibson Re has the capacity to assume US\$1.6bn of reserves over a three-year underwriting period. Just over US\$400m of this was assumed at year-end 2021. **RQIH expects to receive recurring fee income of 4.25% pa of reserves under management.**
- The timing of legacy transactions remains episodic and Q4 weighted. A small number of legacy transactions have been completed this year and it reports a strong pipeline. As the business transitions to a recurring fee generating business, the timing of legacy transactions will impact short term profitability. Yet, the focus of management is on the deployment of Gibson Re's capital and growth in reserves under management that **will generate significant recurring fee income in the future.**

Comments made by Executive Group Chairman William Spiegel on 30 May support this positive outlook, including reference to strong growth in, and **"another excellent quarter"** for, the Program Management business. RQIH is established as **"a leading player in both the US and Europe"**, reflected in long-term partnerships signed with **"highly regarded managing general agents (MGAs), including two multi-year agreements targeting combined premium in excess of £3bn."**

Sensitivities: rating under review pending completion of fundraising

On 27 May 2022 AM Best revised the Under Review Status to Negative for the credit ratings of Randall & Quilter IH and its rated subsidiaries. This reflects the announcement on 25 May that shareholders had not approved the required special resolutions for Brickell's proposed acquisition and consequently, the expected cancellation of an issue of US\$100m of convertible preference shares to Brickell

The latter would have offset the impact of an expected IFRS FY21 loss of US\$135-145m on RQIH's capital base. RQIH has since announced its intention to raise US\$100m through an equity raise, which is expected to complete on 12 July 2022. The rating decision reflects the perceived risk that the equity raise will not be completed, and that the group's risk-adjusted capitalisation will not then return to historical levels. The ratings will remain under review until AM Best has certainty around R&Q's capital position and we believe, should be remedied by the proposed Placing and Open Offer.

All key RQIH subsidiaries i.e., Accredited Specialty Insurance Company, Accredited Surety and Casualty Company Inc. and Accredited Insurance (Europe) Limited (Malta), have previously been assigned AM Best Group Financial Strength Ratings of A- (Excellent) with stable outlooks.

AM Best is a credit rating agency focused exclusively on the worldwide insurance industry. Its ratings assess an insurance company's creditworthiness and thus its suitability as a counterparty.



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