

Tiptree Inc. (NASDAQ: TIPT) Initial Screen

Hidden Gem: Fortegra

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Key Ratio and Statistics

Recommendation	Buy	P/B	1.73x
Market Cap	679.87mm	LTM P/E	53.70x
52-Week Low	12.12	EV/EBIT	6.40x
52-Week High	18.72	Net Debt/LTM EBITDA	N/A
Share Price	18.50	Date	11/28/2023

Business Overview:

Tiptree is a holding company.

- They own approx.. 73.1% of specialty insurer, Fortegra.
 - TIPT has filed to take Fortegra public with Goldman, JPM, Jeffries and Barclays
 - https://www.sec.gov/Archives/edgar/data/1841612/000162828023037815/fortegras-12023.htm#i574d067347c44c29a11d5664d07095cf_19
 - Fortegra's legitimacy is further validated by a minority interest investment from Warburg Pincus
- Tiptree Capital
 - Includes Tiptree's non-insurance operations and investments
 - Acquire or invest in companies outside the insurance with balance sheet capital

Fortegra Financial Overview:

(\$ in millions)

	Nine Months Ended September 30,		Year Ended December 31,			
	2023 (Unaudited)	2022 (Unaudited)	2022	2021	2020	2019 (Unaudited)
Gross written premiums and premium equivalents	\$ 2,440	\$ 1,957	\$ 2,681	\$ 2,194	\$ 1,667	\$ 1,297
Net written premiums	936	844	1,089	895	544	537
Earned premiums, net	826	662	905	686	478	499
Service and administrative fees	290	233	321	261	187	106
Total revenues	1,160	903	1,249	984	691	635
Income before taxes	86	39	68	70	27	37
Net income attributable to The Fortegra Group, Inc.	63	27	46	49	23	27
Adjusted net income ⁽¹⁾	\$ 83	\$ 60	\$ 84	\$ 67	43	33
Key Ratios:						
Loss ratio	40.3 %	37.7 %	37.7 %	35.1 %	36.2 %	28.7 %
Acquisition ratio	36.3 %	39.2 %	39.0 %	38.7 %	36.9 %	47.0 %
Underwriting ratio	76.6 %	76.9 %	76.7 %	73.8 %	73.1 %	75.7 %
Operating expense ratio	13.9 %	13.8 %	13.7 %	16.5 %	17.9 %	16.6 %
Combined ratio	90.5 %	90.7 %	90.4 %	90.3 %	91.0 %	92.3 %
Return on average equity	22.9 %	12.1 %	14.6 %	17.1 %	8.1 %	10.7 %
Adjusted return on average equity ⁽¹⁾	30.3 %	25.8 %	26.1 %	22.2 %	15.2 %	12.3 %
Pro forma earnings per share of common stock (Unaudited)⁽²⁾:						
Basic	\$ 0.94	\$ 0.46	\$ 0.77			
Diluted	\$ 0.91	\$ 0.46	\$ 0.76			
Pro forma weighted-average shares of common stock outstanding (Unaudited):						
Basic	61,165,408	54,420,174	56,122,795			
Diluted	68,547,048	54,601,481	56,708,367			

Figure 1: Fortegra Financials

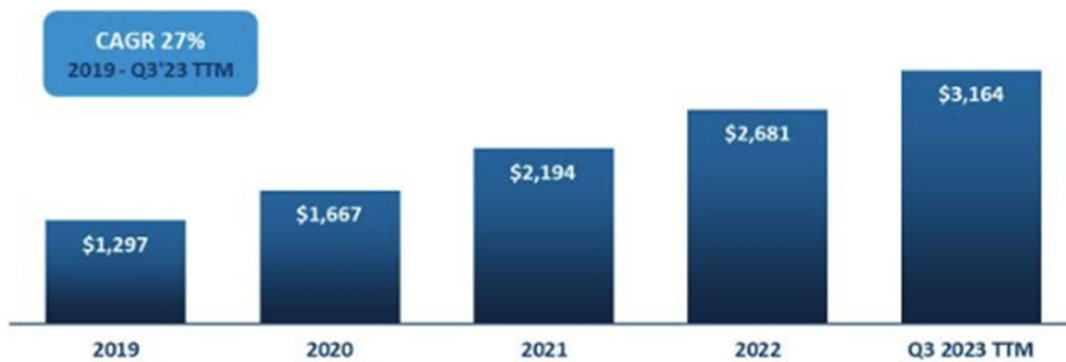


Figure 2: Fortegra GWPPE Growth

GWPPE (gross written premiums & premium equivalent) has grown at a 27% CAGR since 2019. Many of Fortegra’s products are multiyear policies where premiums are earned over the life of the policy. So as gross premiums written gross, Fortegra’s earned premiums tend to lag. This creates the balance sheet item of “unearned premiums and deferred revenue”. This unearned premium balance sheet item creates a benchmark for Fortegra’s future earnings.

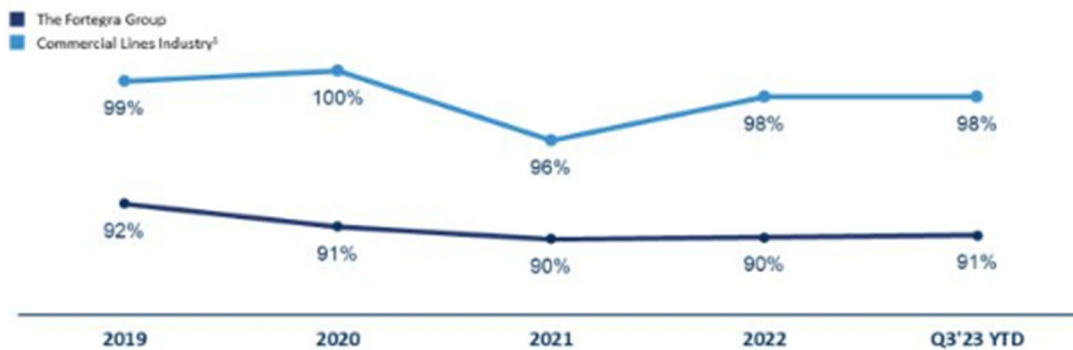


Figure 3: Fortegra Combined Ratio

Fortegra has been consistently profitable. They have consistently performed with a combined ratio in the low 90s with a standard deviation of 1%. This is exceptional and stands out relative to an insurance peer group with an average combined ratio standard deviation of 5% over the last 13 years.

Although not included in the graph above, the combined ratio for 2017 and 2018 was also 92%. For 2016 and 2015 the combined ratios were 90.2% and 89.1% respectively.

Fortegra’s Underwriting Niche:

Fortegra specifically focused on specialty insurance products which are generally focused on underserved markets or require niche product knowledge. They design, market, and underwrite specialty commercial and personal property and casualty insurance products incorporating value-added coverages and services for select target markets or niches. They serve markets that larger and less agile insurers are not able to tap.

This approach allows them to compete by offering customized coverage and solutions, rather than competing solely on price.

Fortegra lines of business with lower risk limits and use risk mitigation to limit both aggregation and catastrophic exposure. Fortegra has been able to produce superior underwriting results through a more granular spread of risk.

U.S. Insurance:

a) Commercial Lines

- Primarily admitted and E&S lines
- A substantial portion of the underwriting risk is transferred to third-party reinsurers for which Fortegra is paid a ceding fee
- Generally, 30-60% of the premium is retained on a net basis
- General liability, professional liability, property and other short-tail
- General liability provides insurance for general and occurrence-basis other liability, commercial multi-peril liability (protects businesses against general claims involving bodily injuries and property damage)
- Professional liability covered damages or injuries to others on your personal property
- Property and other short tail provides coverage for commercial auto physical damage, commercial property, earthquake, homeowners and inland marine

b) Personal Lines

- Credit insurance, collateral insurance, non-standard auto insurance, and other niche personal lines
- Credit insurance products offer consumers and lenders protection from life events that limit a borrower's ability to make payments on outstanding loan balances. These products offer consumers and lenders the option to protect loan balance repayment in the event of death, involuntary unemployment or disability
- The collateral insurance products are designed to protect the lender from losses to collateral pledged to secure an installment loan. In most instances, these products offer lenders the option to protect collateral from a comprehensive loss due to fire, wind, flood, and theft. If the collateral is an automobile, the coverage does protect against collision losses.

U.S. Warranty Solutions:

- Provides consumers with protection from covered losses on automobiles, mobile devices, consumer electronics, appliances, and furniture in the United States
- Offerings include vehicle services contracts, roadside assistance and motor clubs, automobile dent and ding repair, key replacement, cellular handset protection, and service contracts on other consumer goods
 - The service contract products specifically offer benefits such as replacement, service, or repair coverage in the event of mechanical breakdown, accidental damage, and water or spill damage. A large portion of their service contract products are extensions of coverage provided by OEMs.
- They are active in all 50 U.S. states

Europe:

- This is a new expansion that they started in late 2022 and intends to offer all of the coverage offered in the U.S. Warranty Solutions segment
- They are still rolling out all of the lines in Europe

Fortegra's Distribution Channel:

For the warranty segment, policies are distributed through Fortegra's network of partner MGAs, wholesale agents, retail agents, brokers, and mobile device retailers. Fortegra hires experienced underwriters with a proven track record of underwriting profitability. This approach accelerates and de-risks Fortegra's entry/expansion within particular business lines. Fortegra thus effectively benefits from the underwriter's prior experience within a particular line of business without the cost and volatility associated with carriers solely reliant on unproven, blue-sky initiatives.

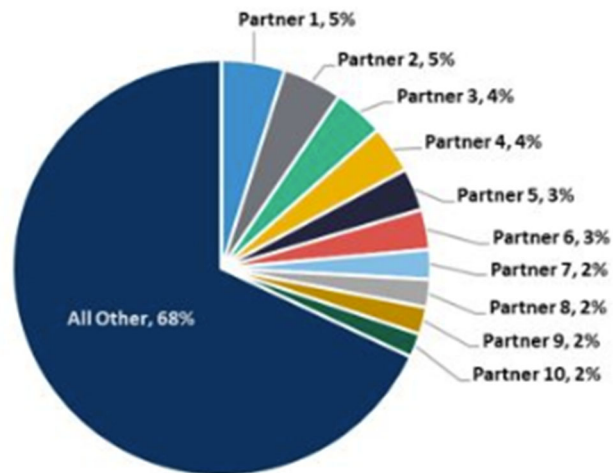


Figure 4: Overall Fortegra Partner Distribution

Management Overview:

Fortegra’s CEO is Richard Kahlbaugh. He used to be the CEO of Volvo’s Global Insurance Group. He then joined Fortegra as COO in 2003 and became CEO in 2007. VIC author ‘bigvic’ has talked to Richard and from his impressions the CEO came off as conservative. And bigvic states that alongside his conservatism he has consistently/accurately predicted the sustainability of the ‘hard’ market. Therefore, it is argued to be conviction-building that Richard still expects growth to continue in both Fortegra’s U.S. and EU geographies.

Key Competitive Advantages:

- 1) Focus on Niche, Underserved Specialty Lines with Significant Fee-Based Income
 - a. They pursue and acquire agents with select books of business that they believe will maintain risk-appropriate rates and agents that have underwriting expertise in select specific niches
 - b. They target lines of business that are overlooked by the standard market
 - i. They target lines that are highly profitable, have the potential to grow, and are underserved by competitors
 - ii. They have a unique ability to source niche programs that meet their rake, form, and risk requirements through their extensive distribution network
 - iii. Their underwriting expertise, proprietary technology, and deep distribution relationships allow them to serve specialty markets and capture share
- 2) Scalable, Proprietary Technology that drives Efficiency and delivers Premium Customer Service
 - a. Significant flexible technology infrastructure that allows Fortegra to launch new insurance and fee-for-service programs and expand GWPPE volume quickly and seamlessly without significant incremental expenses
 - b. Technology stack delivers low-cost, highly automated underwriting and administration services to Fortegra’s partners without substantial up-front investments
- 3) Strong economic alignment and risk sharing with distribution partners through sliding scale commission structures where agent compensation increases with underwriting performance
 - a. These retrospective commission agreements help maintain Fortegra’s lower combined ratio as increasing losses are penalized with lower commissions paid to underwriters and vice versa. The result is:
 - i. Increasing alignment
 - ii. Increasing retention (95% persistency rate with insurance producing agents over past 5 years)
 - iii. Attracting high-performing agents

Fortegra currently has a rating of “A-” (Excellent) from A.M. Best. This too sometimes can be considered a competitive edge on its own. But I think there are better qualitative points to latch onto.

Tiptree Capital Overview:

Quick Theses:

- 1) True value of Fortegra hidden by the current complex Holdco structure
 - a. This discount goes away once people realize the true quality of Fortegra as a standalone business
 - b. High likelihood of spinoff given that Fortegra has already filed an S-1
 - c. Kind of like an SOTP, but very clear and definitive value unlocking event

VIC User “bigvic” Valuation:

VIC user bigvic valued Fortegra based on the 2021 investment that Warburg Pincus made into Fortegra. I think this provides a very quick and brief framework for us to also value Fortegra just to get an idea of the mispricing and potential upside.

In late 2021, Warburg Pincus bought 24% of Fortegra at an implied valuation of ~800mm USD. Warburg Pincus paid 13.5x adjusted net income for their Fortegra investment. Since then, Fortegra’s adjusted net income has increased from \$47mm to \$107mm. So then bigvic slaps on the same 13.5x multiple to LTM adjusted net income which implies that Fortegra is worth ~\$25.37/share to TIPT shareholders.

As of today, TIPT shares trade at \$18.50. This only represents a 37% upside, but this obviously excludes the future growth potential of Fortegra (maybe the 13.5x multiple is not fair?) and the existing business of Tiptree capital.

I haven’t really thought about what the most conservative way would be to model Tiptree capital but bigvic thinks it is worth \$6/share.

This leads to a preliminary target price of \$31.37/share which would represent an approximate 74.2% upside.

(Net Income is adjusted to include net investment income, and excludes net unrealized gains and losses in the investment portfolio)

Appendix:

Exhibit 1: Fortegra Ownership Structure (Fully Diluted, Assuming Warburg Pincus exercises all stock options)

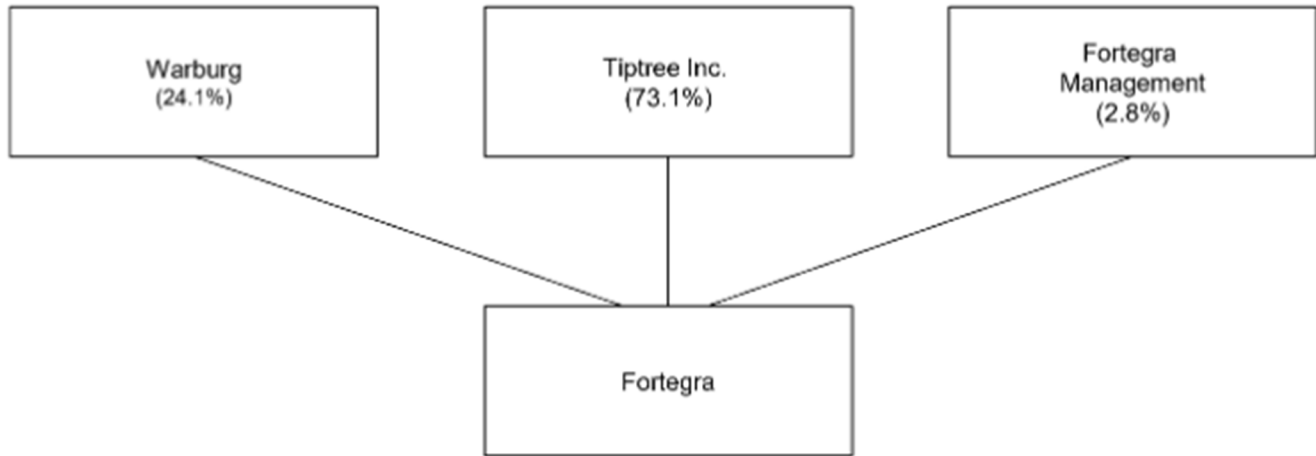


Exhibit 2: Links to VIC pitches on TIPT

https://valueinvestorsclub.com/idea/TIPTREE_INC/1233108520#description

https://valueinvestorsclub.com/idea/TIPTREE_INC/5714089950

Exhibit 3: Definitions

- 1) Excess and Surplus (E&S) Lines: Excess and surplus lines insurance is any type of coverage that cannot be placed with an insurer admitted to business in a certain jurisdiction