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Pre-IPO

SelectQuote IPO: Can Covid-19 Accelerate Pre-Pandemic Tailwinds For Insure-Tech?

SelectQuote, Inc. (NYSE: SLQT) kicked off its shortened, likely 100% virtual, IPO roadshow on Friday and is expected to start trading as a public company on Friday, May 22. The anticipated IPO pricing range of $17 to $19 per share implies a potential market cap of approximately $3.1bn (at the high end of the IPO pricing range, assuming approx. 162.5mn shares outstanding). Typically, elevated market volatility and macro uncertainty tend to be the kryptonite for Tech IPOs. We think SelectQuote IPO will provide a litmus test for upcoming IPOs and early trading could set the tone for a bunch of growth IPOs over summer. **We are not participating in the offering, nor are we making a recommendation or initiating coverage in this report.**

We watched Select Quote's IPO roadshow presentation and are impressed by the company's healthy fundamentals and human + tech combo approach. SLQT benefits from secular and demographic tailwinds, particularly with rising number of baby boomers. Amidst COVID-19, this tailwind might become more pronounced, so we aren't surprised that SLQT is the first direct-to-consumer Internet IPO during the crisis. However, we were surprised that SLQT's filing does not have detailed quarterly financials. Thus, our financial model has only annual figures. Select Quote's implied IPO valuation (at the high end of the IPO pricing range), implies approx. 4.0x to 4.5x EV/Rev (CY '21E) and 13.0x to 15.0x EV/EBITDA (CY'21E). These valuation levels are at a discount on a growth adjusted basis to comps such as EverQuote and LendingTree. **Our SLQT financial model and comps sheet are available upon request.**

Company Overview: SelectQuote is a technology-enabled, direct-to-consumer distribution platform that provides consumers with a way to compare and shop insurance products including senior health, life and auto & home insurance policies from a panel of 50+ insurance carriers. SLQT does not sell insurance products and its service is free to consumers. Rather, as a distributor, insurance carriers pay SLQT a commission based on policies sold. SLQT has accelerated its focus on senior healthcare contributing to 66% of revenues, followed by term life at 25% and then home/ auto at 8% of total revenues.

IPO Overview: SelectQuote's IPO includes a mix of primary (72%) and secondary (28%) shares. There are 25mn shares being sold in total, with 18mn primary, 7mn secondary, with a filing range from $17 to $19 per share. Plus, there's a 15% greenshoe option of ~3.75mn shares, with 100% secondary shares. Assuming the greenshoe is exercised, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, at the high end of the IPO pricing range, we estimate the company would raise ~$315mn in cash, and selling shareholders would receive about ~$190mn. Post-IPO, the company expects to be in a positive net cash position — from $184mn cash/$425mn debt to $363mn cash/$325mn debt.

Generally Positive Fundamentals: SLQT hasn't disclosed quarterly financials, so we are unable to inspect its fundamental trends closely. However, on an annual basis and on a YTD basis, SLQT's revenues accelerated from 44% y/y growth during FY19 (TTM June 2019) to 48% y/y YTD (9-months ended Mar 2020). SLQT has healthy double-digit EBITDA margins, but they haven't been consistently going up. Adjusted EBITDA Margin increased to 31.2% in FY19 from 21.4% in FY18, but decreased to 29.2% for the nine-month period ended March 31, 2020, from 32.6% for the nine-month period ended March 31, 2019.

Investment Positives: (1) Large market opportunity: $180bn+ in annual insurance commissions spent in three focused verticals (senior, life, auto/ home); **(2)** Supportive demographic trends: more baby boomers next 10 years and complexity in senior segment healthcare is growing; The senior market is the company's largest market accounting for over 70% of revenue with its offering of Medicare Advantage and Medicare Supplement policies; **(3)** Secular tailwinds: More time spent online, more consumers acquired via online channels, ongoing shift to digitization of insurance products & workflows; **(4)** Still early days in a secular shift towards online distribution: Insurance is still early in the secular shift to online advertising. Digital advertising currently represents about $6bn out of $16bn of total insurance industry advertising; (**5**) Tech + Human approach: SLQT has 1000 licensed agents along with purpose-build tech unlike a tech-exclusive approach by emerging tech startups; **(6)** Potential acquisition candidate: Insure-Tech has attracted significant VC attention recently, and we think incumbents might become more interested. In September, Prudential (PRU, Not Rated) acquired Assurance IQ, a startup that uses data science and machine learning to speed up the insurance buying process for $2.35bn.

Investment Negatives: (1) Lack of quarterly disclosure in S-1 filing. Also, we are unclear about L-T business model or margin profile targets for the company; **(2)** Fragmented and diverse competitive landscape: there are several insure-tech players with different value propositions. Also, Select Quote likely competes against all of the insurance companies it represents that also market directly to consumers. In addition, it competes against other direct insurance brokers; **(3)** Insurance spend is both cyclical and seasonal: Select Quote is exposed to auto insurance cyclicality and annual insurance renewal seasonality; **(4)** COVID-19 appears more than 30 times in SLQT's latest S-1, although we think this likely creates a near-term greater awareness amongst consumers to optimize their insurance needs; **(5)** Insurance is a regulated industry, e.g., a single payer system or "medicare for all" would be a negative for Select Quote; Or, big changes to Medicare plans (which account for >50% of revenues) might create uncertainty/volatility.

See pages 3-4 for analyst certification and important disclosures.

Valuation: Select Quote's implied IPO valuation (at the high end of the IPO pricing range), implies approx. 4.0x to 4.5x EV/Rev (CY'21E) and 13.0x to 15.0x EV/EBITDA (CY'21E). These target valuation multiples are at a discount on a growth adjusted basis to comps such as EverQuote (EVER, Not Rated) and LendingTree (TREE, Not Rated).

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