

# NINGI RESEARCH

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## List of abbreviations

Class A common	Shares traded on Nasdaq exchange
Class B common	Shares not traded on any exchange
GAAP	Generally accepted accounting principles
HO4 policy	Renters insurance
LIBOR	3-month interbank offered rate (REUTER: LIBOR01)
LLC units	Equity interest in Baldwin Risk Partners LLC of Pre-IPO shareholders/insiders
MGA	Managing general agent
MGAF	MGA of the Future
MSI	Millennial Specialty Insurance LLC, a BRP subsidiary
NAIC	National Association of Insurance Commissioners
SOFR	Secured Overnight Financing Rate
USDC	United States District Court
YoY	Year-over-Year comparison

## List of references

All citations, references and sources are publicly available. Annual reports and other company documents were obtained through the respective issuer's website, through regulatory filings and commercial registries. Documents are cited as follow:

< company name > < year of publication >, < document title >, < page >, (for online source) < url >

Some SEC filings were retrieved through direct URLs within the EDGAR system and those filings are quoted directly.

The phrase "company data" indicates that we aggregated the specific metrics from the respective regulatory filings.

## List of figures

If not stated otherwise all figures are obtained through the quoted references in the footnotes and can be found in the respective source.

All amounts in thousands unless otherwise stated.

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We are short BRP Group, Inc. (NASDAQ: BRP), because, in our opinion, BRP has doctored its organic growth rate to beat analysts' estimates. On top of that, shareholders are faced with a company whose key intellectual property was misappropriated, whose growth is declining, whose margins are not improving, and whose interest expense will increase significantly.

BRP Group, Inc.	
Ticker:	BRP
Market Cap:	USD 3.76bn
Share Price:	USD 32.37
Consensus	USD 32.20

In our opinion,

- The company misled investors by presenting inorganic revenue as organic revenue through a self-proclaimed separate agreement with an affiliate,
- **BRP's true organic growth for Q2/2022 was 16.7% versus the reported 23.9% and analysts' estimate of 18.6 percent,**
- The company's margin improvement is due to a change in the fair value of its contingent considerations, which **indicate lower sales projections and growth opportunities,**
- **The organic growth for BRP's "MGA of the Future" platform is 27% versus the reported 70 percent,**
- **In 2020 BRP's proprietary "MGA of the Future" technology was misappropriated by an employee and handed to a competitor,** as alleged by BRP in a lawsuit,
- The company allegedly did not notice the misappropriation until May 2021 but **did not disclose the intellectual property theft to investors to date,** despite arguing in a **lawsuit that the theft has and will have severe damage to BRP's revenue and market share,**
- BRP updated its risk factors regarding intellectual property theft instead, leading to an additional full page of risk information, and the audit committee was tasked to monitor the company's cybersecurity procedures,
- **BRP's M&A strategy has been falling apart as well** as sales projections have to be slashed,
- **The company's plan for deleveraging the balance sheet through outsized organic growth is built on wishful thinking,**
- the quantitative tightening of the Federal Reserve will lead to an estimated **interest expense of 37 million dollars in the second half of 2022,**
- **BRP could be forced to do a share offering to fund its operations.**

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## BRP Group, Inc.

BRP Group, Inc. Is a Tampa-based nationwide operating insurance brokerage. The company went public in 2019 and is part of a growing mid-cap insurance brokerages segment. Most of these are owned by private equity funds, but some have gone public as well – like Hagerty, Goosehead Insurance, and Lemonade. BRP, founded in 2011 by three experienced insurance brokers, is currently managed by Trevor Baldwin, the son of the majority shareholder and founder Lowry Baldwin.<sup>1 2</sup> Due to a complex dual-class shareholder structure, the Baldwin family got significant influence over the company even after its IPO.<sup>3 4</sup>

But the business model is rather simple: BRP brokers products on behalf of insurance companies or advises policyholders on the selection of insurance products. Ultimately, one way or another, BRP earns a commission and recognizes it as revenue. A concentration of the operational business lies within the renters' insurance and homeowners' insurance market. The company does not take any risk on its balance sheet but acts as a so-called Managing General Agent (MGA) for some insurance companies. MGAs act as a front and can therefore also take on underwriting, pricing, and/or settling claims.<sup>5 6</sup> This method is beneficial for all parties involved and MGA has been established for decades.<sup>7</sup> It's a tried and tested business model. The main focus of BRP's business strategy is on the one hand a qualitative consolidation of smaller brokers and a technological disruption of the MGA business model.<sup>8</sup>

For several years, the company implemented an aggressive M&A strategy in which BRP acquires insurance brokers of various sizes through a combination of cash and stock.<sup>9</sup> The current group came about through the acquisition of dozens of companies totaling USD 2.5 billion, with most of the acquisitions being bought with USD 1.8 billion in cash.<sup>10 11 12</sup> The remainder was paid for by issuing Class A common and to some extent Class B common stock. The transactions took place across all of the company's segments: Middle Market, MainStreet, Specialty, and Medicare.<sup>13 14 15</sup> A large proportion of the 46 transactions focused on the Middle Market, Specialty, and Medicare business areas. The biggest acquisition to date was the purchase of Westwood Insurance Agency in the first quarter of 2022 and that company was consolidated in the MainStreet segment.

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<sup>1</sup> BRP Group, Inc. (2019), Amendment No. 1 to FORM S-1, p. 150,

[https://www.sec.gov/Archives/edgar/data/0001781755/000119312519266232/d220886ds1a.htm#toc220886\\_17](https://www.sec.gov/Archives/edgar/data/0001781755/000119312519266232/d220886ds1a.htm#toc220886_17)

<sup>2</sup> Raymond James Financial, Inc. (2022), Raymond James Institutional Investors Conference 2022 – Fireside Chat, <https://kvgo.com/rj-43rd-iic/brp-group-march-2022>

<sup>3</sup> BRP Group, Inc. (2019), Amendment No. 1 to FORM S-1, p. 172,

[https://www.sec.gov/Archives/edgar/data/0001781755/000119312519266232/d220886ds1a.htm#toc220886\\_17](https://www.sec.gov/Archives/edgar/data/0001781755/000119312519266232/d220886ds1a.htm#toc220886_17)

<sup>4</sup> BRP Group, Inc. (2022), 10-K filing, p. 12, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

[20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>5</sup> Insurance Business America Magazine (2021), What is an MGA?, <https://www.insurancebusinessmag.com/us/news/breaking-news/what-is-an-mga-115496.aspx>

<sup>6</sup> William Blair & Company (2022), William Blair 42nd Annual Growth Conference 2022 - Fireside Chat, <https://wsw.com/webcast/blair66/brp/1774872>

<sup>7</sup> Insurance Business America Magazine (2021), What is an MGA?, <https://www.insurancebusinessmag.com/us/news/breaking-news/what-is-an-mga-115496.aspx>

<sup>8</sup> BRP Group, Inc. (2022), 10-K filing, p. 8, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

[20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>9</sup> BRP Group, Inc. (2022), 10-K filing, p. 8, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

[20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>10</sup> BRP Group, Inc. (2020), 10-K filing, p. 76, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2)

[k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2](https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2)

<sup>11</sup> BRP Group, Inc. (2021), 10-K filing, p. 79, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb_142)

[20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb\\_142](https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb_142)

<sup>12</sup> BRP Group, Inc. (2022), 10-K filing, p. 95, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

[20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>13</sup> BRP Group, Inc. (2020), 10-K filing, p. 76, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2)

[k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2](https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfp201910-k.htm#sDC1E28E662ED5E79A5F86DBD316B12B2)

<sup>14</sup> BRP Group, Inc. (2021), 10-K filing, p. 78, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb_142)

[20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb\\_142](https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb_142)

<sup>15</sup> BRP Group, Inc. (2022), 10-K filing, p. 93, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

[20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

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In addition to its M&A activity, the company plans to achieve significant market share through technological disruption and its “MGA of the Future” (“MGAF”) platform. The company bought a Californian direct broker called Millennial Specialty Insurance (“MSI”) in 2019 and based on this acquisition developed its concept of “MGA of the Future”.<sup>16</sup> MGAF’s technology is integrated into several property manager platforms - for example, ResMan, Buildium, and Rent Manager use the interface.<sup>17</sup> Ultimately using property management software, a landlord can offer the future tenant the opportunity to take out an HO4 policy – so-called renters insurance – during the application process for an apartment, if the tenant does not already have one.<sup>18</sup> BRP thus takes on the direct placement and benefits from the fact that the tenant concludes a transaction for convenience or is forced to conclude the transaction within the process and thus via BRP. In the first half of 2022, the company also launched a proprietary homeowners’ product for its MGAF platform.

## Intercompany accounting shenanigans

Although the company did not provide any sales figures or current policies in force for its MGAF platform, the public reacted positively to the strong organic revenue growth of 70 percent.<sup>20</sup> The company did say in its conference call that a material positive impact was due to the launch of its homeowners' product:<sup>21</sup>

*[...] As we previously signaled, the launch and ensuing momentum and the distribution of our proprietary homeowners' products had a material positive impact on our second quarter organic growth rate in the MGA and we expect that to continue to be a meaningful contributor to organic growth during the balance of the year and into 2023. [...]*

By comparison, MGAF’s growth for the second quarter was double of its pure-play competitors Goosehead Insurance and Lemonade. Goosehead reported a 35% increase in policies in the second quarter and growth at competitor Lemonade was 31% YoY (see Figure 1).<sup>22</sup> <sup>23</sup>

YoY growth in %	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021
BRP Group	70	42	37	48	53
Goosehead Insurance	35	39	42	44	48
Lemonade Insurance	31	37	43	45	48

Figure 1 YoY revenue growth compared to pure play competitors, source: NINGI Research, company data

Organic revenue growth, in %	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021
BRP Group	23.9	16.5	18.0	25.9	32.3
Brown & Brown	10.3	7.8	11.0	8.5	14.7
Arthur J. Gallagher & Co.	10.8	9.6	10.6	9.0	3.4
AON	8.0	8.0	10.0	12.0	11.0

Figure 2 Organic revenue growth, source: NINGI Research, company data

<sup>16</sup> BRP Group, Inc. (2020), 10-K filing, p. 76, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175520000022/brpfy201910-k.htm#DC1E28E662ED5E79A5F86DBD316B12B2>

<sup>17</sup> Millennial Specialty Insurance (2022), Millennial Specialty Insurance - Home, <https://msimga.com>

<sup>18</sup> Raymond James Financial, Inc. (2022), Raymond James Institutional Investors Conference 2022 – Fireside Chat, <https://kvgo.com/rj-43rd-iic/brp-group-march-2022>

<sup>19</sup> William Blair & Company (2022), William Blair 42nd Annual Growth Conference 2022 - Fireside Chat, <https://wsw.com/webcast/blair66/brp/1774872>

<sup>20</sup> BRP Group, Inc. (2022), BRP Group, Inc. Second Quarter 2022 Earnings Call – Earnings supplement, p. 5, <https://ir.baldwinriskpartners.com/static-files/32c0c61a-3c9a-4442-8093-ed86ecff6528>

<sup>21</sup> BRP Group, Inc. (2022), BRP Group, Inc. Second Quarter 2022 Earnings Call – webcast, [https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp\\_key=1ea624bde7](https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp_key=1ea624bde7)

<sup>22</sup> Goosehead Insurance, Inc. (2022), 10-Q filing, p. 22, <https://www.sec.gov/Archives/edgar/data/0001726978/000172697822000087/gshd-20220630.htm>

<sup>23</sup> Lemonade Insurance, Inc. (2022), Shareholder Letter Q2 2022, p. 15, [https://s24.q4cdn.com/139015699/files/doc\\_presentations/Shareholder-Letter-Q2-2022-8.8.2022-FINAL.pdf](https://s24.q4cdn.com/139015699/files/doc_presentations/Shareholder-Letter-Q2-2022-8.8.2022-FINAL.pdf)

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The significant organic growth in MGAF also contributed to the total organic revenue growth of almost 24 percent and beat analysts' estimates of 18.6 percent. Like the company's twice as high growth rate compared to BRP's pure play competitors, its organic revenue outperformed its traditional peers as well (see Figure 2).

**A crucial part of the organic growth** in the second quarter of 2022 **happened in BRP's Specialty segment** and primarily in the revenue source 'Policy fee and installment fee' **with 53 percent and 681 percent year-over-year** – in absolute figures USD 16m and USD 8.6m (see Figure 3).<sup>24 25</sup>

**Policy fee and installment fee revenue** represents revenue earned for acting in the capacity of an MGA and providing payment processing and services and other administrative functions on behalf of Insurance Company Partners. **Policy fee and installment fee revenue increased \$8.6 million** and \$9.9 million during the three and six months ended June 30, 2022 as compared to the same periods of 2021, respectively, **largely due to organic growth**. These fees are generated by our Specialty Operating Group.

Figure 3 Extract of the Q2/2022 filing, source: company filings

Total policy fee and installment fee revenue grew by 180 % year-over-year to 13.4 million dollars in the second quarter (see Figure 4).

SPECIALTY	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021	Q1/2021	Q4/2020	Q3/2020	Q2/2020
Commissions	56,270	37,747	37,259	34,092	23,170	17,898	18,404	21,908	14,535
Policy fee and installment fee	13,419	5,708	5,433	5,157	4,792	4,476	4,150	4,051	3,653
Profit-sharing	1,374	3,178	2,064	879	1,243	1,925	1,244	902	904
Other	3,238	2,890	1,629	1,318	900	783	720	625	364
Total Specialty revenue	74,301	49,523	46,385	41,446	30,105	25,082	24,518	27,486	19,456

Figure 4 Specialty's revenue breakdown, source: NINGI Research, company data

Being a major contributor to Specialty's total revenue, a breakdown of what drives that revenue should be helpful for the public.

The 'Policy fee and installment fee' revenue represents revenue earned for acting in the capacity of a managing general agent (MGA) and providing payment processing and services and other administrative functions on behalf of Insurance Company Partners.<sup>26 27</sup>

Policy fee and installment fee revenue represents revenue earned for acting in the capacity of an MGA and providing payment processing and services and other administrative functions on behalf of Insurance Company Partners. **Policy fee and installment fee revenue increased by \$1.1 million during the three months ended March 31, 2021 as compared to the same period of 2020 from our "MGA of the Future," which resides in our Specialty Operating Group.**

Figure 5 Paragraph removed from Q2/2021 on, source: company filings

In earlier SEC filings it was clarified that any revenue from 'Policy fee and installment fee' is generated entirely by "MGA of the Future" (see Figure 5).<sup>28</sup> This phrase has been removed as of Q2/2021, but we think that is still the case.<sup>29</sup> With that definition of 'policy fee and installment fee' revenue in mind, the public may also take a closer look at **the intercompany transactions, which in the same quarter increased by 3,883 percent**. The intercompany revenue of Specialty from the MainStreet segment amounted to 8.6

<sup>24</sup> BRP Group, Inc. (2022), 10-Q filing, p. 36, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>25</sup> BRP Group, Inc. (2022), 10-Q filing, p. 31, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>26</sup> BRP Group, Inc. (2022), 10-Q filing, p. 31, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>27</sup> BRP Group, Inc. (2022), 10-K filing, p. 52, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e_19)

<sup>28</sup> BRP Group, Inc. (2021), 10-Q filing, p. 27, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000031/brp-20210331.htm>

<sup>29</sup> BRP Group, Inc. (2022), 10-Q filing, p. 31, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

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million dollars – making up the majority of 92 % of total intercompany revenue. There was no reported intercompany revenue between these two segments in previous quarters (see Figure 6).

Intercompany revenue	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021	Q1/2021
Middle Market intercompany revenue from Specialty	400	300	428	604	109	359
Specialty intercompany revenue from MainStreet	8,600					
Specialty intercompany revenue with itself		100	159	41		
MainStreet intercompany revenue from Middle Market	100	100	194	121	61	30
Mainstreet intercompany revenue from Specialty	300					94
Medicare intercompany revenue with itself		600	358	176	66	
Total	9,400	1,100	1,139	942	236	483
YoY growth	3883%	128%	-	-	-	-

Figure 6 Intercompany revenue, source: NINGI Research, company data

So the boost in organic revenue of USD 8.6m was accompanied by a substantial jump in intercompany revenue of the same size. **We believe that is not a coincidence. In our opinion, this intercompany transaction accounts for the reported organic growth in ‘Policy fee and installment fee’.**

The reason for this intercompany transaction is easy to explain. In the first quarter of 2022, BRP announced the purchase of Westwood Insurance Agency and in the following quarter completed the acquisition with the consolidation into the MainStreet segment.<sup>30 31 32</sup> The seller was the insurance company QBE Insurance.<sup>33</sup> In the press release disclosing the acquisition, BRP also announced that its subsidiary Millennial Specialty Insurance (MSI) entered into a ‘Program Administrator Agreement’ (PAA) for \$200m in written premiums with a QBE affiliate (see Figure 7).<sup>34</sup> It was emphasized, that this agreement was separate from the purchase of Westwood Insurance Agency.

Separate from the purchase of Westwood, Millennial Specialty Insurance, LLC (“MSI”), BRP Group’s “MGA of the Future” platform, has entered into a Program Administrator Agreement with a QBE affiliate to assume operations of QBE’s builder-sourced homeowners book, which is expected to add \$200 million<sup>3</sup> of premium to MSI’s homeowners MGA platform. Per the agreement, MSI will assume all MGA functions associated with the book of business, for which QBE will provide balance sheet capacity for a period of 5 years. MSI will not assume any balance sheet risk associated with the book of business.

Figure 7 Extract from the press release, source: BRP Group, Inc.

MSI will assume operations as the MGA and QBE will provide balance sheet capacity for five years (see Figures 7 and 8).<sup>35 36</sup>

<sup>30</sup> BRP Group, Inc. (2022), BRP Group, Inc. Enters Into Agreement to Acquire Westwood Insurance Agency and Separately Enters Into Agreement to Assume MGA Operations for QBE North America’s Builder-Sourced Homeowners Book, <https://ir.baldwinriskpartners.com/news-releases/news-release-details/brp-group-inc-enters-agreement-acquire-westwood-insurance-agency>

<sup>31</sup> BRP Group, Inc. (2022), BRP/Westwood Insurance Partnership – March 4, 2022, p. 3, <https://ir.baldwinriskpartners.com/static-files/0953c896-b540-4b67-bb0e-ab22b8039872>

<sup>32</sup> BRP Group, Inc. (2022), 10-Q filing, p. 14, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>33</sup> BRP Group, Inc. (2022), BRP Group, Inc. Enters Into Agreement to Acquire Westwood Insurance Agency and Separately Enters Into Agreement to Assume MGA Operations for QBE North America’s Builder-Sourced Homeowners Book, <https://ir.baldwinriskpartners.com/news-releases/news-release-details/brp-group-inc-enters-agreement-acquire-westwood-insurance-agency>

<sup>34</sup> BRP Group, Inc. (2022), BRP Group, Inc. Enters Into Agreement to Acquire Westwood Insurance Agency and Separately Enters Into Agreement to Assume MGA Operations for QBE North America’s Builder-Sourced Homeowners Book, <https://ir.baldwinriskpartners.com/news-releases/news-release-details/brp-group-inc-enters-agreement-acquire-westwood-insurance-agency>

<sup>35</sup> BRP Group, Inc. (2022), BRP Group, Inc. Enters Into Agreement to Acquire Westwood Insurance Agency and Separately Enters Into Agreement to Assume MGA Operations for QBE North America’s Builder-Sourced Homeowners Book, <https://ir.baldwinriskpartners.com/news-releases/news-release-details/brp-group-inc-enters-agreement-acquire-westwood-insurance-agency>

<sup>36</sup> BRP Group, Inc. (2022), BRP/Westwood Insurance Partnership – March 4, 2022, p. 4, <https://ir.baldwinriskpartners.com/static-files/0953c896-b540-4b67-bb0e-ab22b8039872>



## MGA of the Future's Program Administrator Agreement with QBE

- MSI's homeowners MGA platform to assume operations of \$200 million <sup>(2)</sup> builder-sourced homeowners book from affiliates of QBE
- QBE will provide balance sheet capacity for a period of 5 years (BRP will not assume any balance sheet risk)
- Expected to generate incremental EBITDA synergies of ~\$8mm related to BRP's existing homeowners MGA initiative

Figure 8 Extract from the investor presentation, source: BRP Group, Inc.

The public may have missed that, in the presentation slides regarding the agreement, the 'OBE affiliate' suddenly became 'affiliates of OBE' and within the conference call, it was made clear that around 40% of all Westwood 2021 premiums-in-force of 464 million dollars came from QBE (see Figure 8).<sup>37</sup> In absolute terms, that's 185 million dollars – noteworthy close to the USD 200m to be administered under the PAA by MSI in the future.

4 March 2022

## QBE ANNOUNCES SALE OF WESTWOOD AGENCY BUSINESS

QBE has entered into an agreement with Baldwin Risk Partners (NASDAQ:BRP) for the sale of its wholly owned North American agency, Westwood Insurance Agency ("Westwood"), for consideration of \$375M. Westwood is a leading national full service personal lines agency, specialising in builder sourced homeowners' insurance.

QBE Group CEO, Andrew Horton, said: "QBE's strategy in North America is focused on building its Commercial, Specialty and Crop insurance portfolios. Whilst an attractive franchise, the Westwood business does not align with this strategy, and following this transaction QBE will no longer own any agency businesses in North America."

Westwood has relationships with a number of insurers including QBE. In FY21, QBE underwrote ~\$200M of gross written premium placed through Westwood, predominantly in homeowners, and QBE will continue to provide underwriting capacity to Westwood for a period of at least three years post-sale.

Figure 9 Extract from the press release, source: QBE Insurance Group Limited

Since QBE Insurance is also a public company listed in Australia, it did publish a press release as well – which puts the acquisition and the PAA in a different light.<sup>38</sup> The press release only announced the sale of Westwood - without mentioning the PAA (see Figure 9).

The CEO of QBE is quoted as saying that as a result of the sale, QBE no longer has an agency business in North America. The next paragraph starts with reporting that OBE placed approximately \$200 million in gross written premiums through Westwood in 2021.<sup>39</sup> In our opinion, this makes it clear that the 'QBE affiliate' or 'affiliates of QBE' is in fact Westwood Insurance Agency. The paragraph ends on the note that OBE Insurance will continue to provide underwriting capacity to Westwood Insurance Agency for the next

<sup>37</sup> BRP Group, Inc. (2022), BRP Westwood Insurance Agency Partnership Announcement – webcast,

[https://viavid.webcasts.com/starthere.jsp?ei=1534904&tp\\_key=44b0cbca7c](https://viavid.webcasts.com/starthere.jsp?ei=1534904&tp_key=44b0cbca7c)

<sup>38</sup> QBE Insurance Group Limited (2022), QBE announces sale of Westwood Agency Business / QBE comments on recent flooding in Australia and Ukraine conflict,

<https://www.qbe.com/-/media/group/document%20listing/2022/03/03/22/58/asx%20announcement%20-%20qbe%20announces%20sale%20of%20westwood%20agency%20business%20-%20for%20asx.pdf?download=1>

<sup>39</sup> QBE Insurance Group Limited (2022), QBE announces sale of Westwood Agency Business / QBE comments on recent flooding in Australia and Ukraine conflict,

<https://www.qbe.com/-/media/group/document%20listing/2022/03/03/22/58/asx%20announcement%20-%20qbe%20announces%20sale%20of%20westwood%20agency%20business%20-%20for%20asx.pdf?download=1>



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three years (see Figure 9).<sup>40</sup> We think it turns out that Westwood is an MGA and there is, if any, an underwriting capacity agreement between Westwood and QBE – not with MSI (see Figure 10). But BRP represented it completely different to the public.

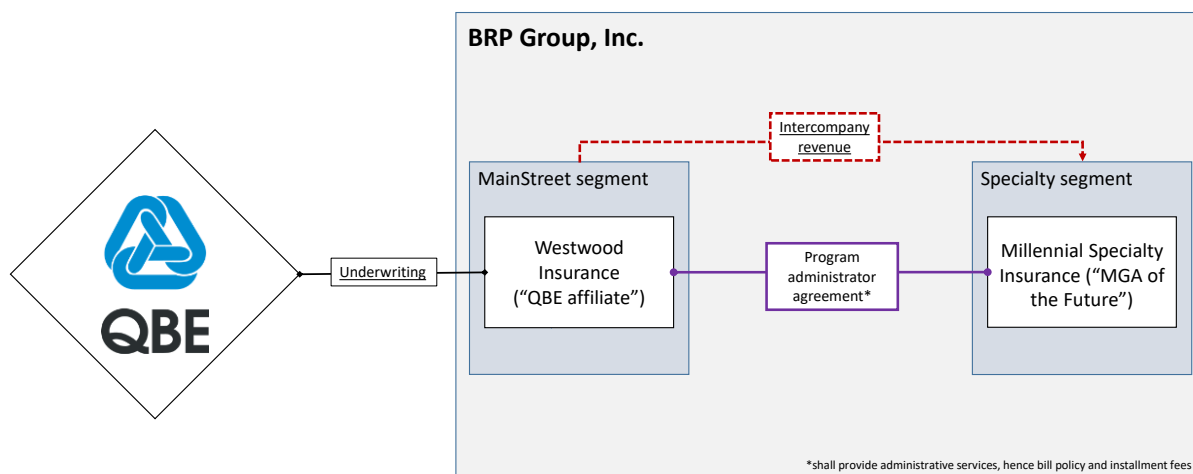


Figure 10 Structure of organic revenue' scheme, source: NINGI Research

We think BRP wants to frame the PAA as distinct business development of its subsidiary MSI, even though that agreement was part of the Westwood acquisition. The public might have noticed that the agreement was always referred to as 'separate' but never as 'independent'.<sup>41 42 43</sup> But there is a fine but meaningful distinction between 'separate' and 'independent'. **We think that, by framing the administrative functions as separate from the Westwood acquisition, BRP is attempting to circumvent its definition of organic revenue.**

We calculate Organic Revenue Growth based on commissions and fees for the relevant period by excluding the first twelve months of commissions and fees generated from new Partners. Organic Revenue Growth is the change in Organic Revenue period-to-period, with prior period results adjusted for Organic Revenues that were excluded in the prior period because the relevant Partners had not yet reached the twelve-month owned mark, but which have reached the twelve-month owned mark in the current period. For example, revenues from a Partner acquired on June 1, 2021 are excluded from Organic

Figure 11 Definition of organic revenue growth, source: BRP Group, Inc.

By definition, any revenue from the Westwood acquisition would be excluded from the calculation of the organic growth rate for the next twelve months (see Figure 11).<sup>44</sup> Due to the alleged "separate agreement" with MSI, the revenue in the function as the MGA can therefore be declared organic.

<sup>40</sup> QBE Insurance Group Limited (2022), QBE announces sale of Westwood Agency Business / QBE comments on recent flooding in Australia and Ukraine conflict, <https://www.qbe.com/-/media/group/document%20listing/2022/03/03/22/58/asx%20announcement%20-%20qbe%20announces%20sale%20of%20westwood%20agency%20business%20-%20for%20asx.pdf?download=1>

<sup>41</sup> BRP Group, Inc. (2022), BRP Group, Inc. Enters Into Agreement to Acquire Westwood Insurance Agency and Separately Enters Into Agreement to Assume MGA Operations for QBE North America's Builder-Sourced Homeowners Book, <https://ir.baldwinriskpartners.com/news-releases/news-release-details/brp-group-inc-enters-agreement-acquire-westwood-insurance-agency>

<sup>42</sup> BRP Group, Inc. (2022), BRP/Westwood Insurance Partnership – March 4, 2022, p. 3, <https://ir.baldwinriskpartners.com/static-files/0953c896-b540-4b67-bb0e-ab22b8039872>

<sup>43</sup> BRP Group, Inc. (2022), BRP Westwood Insurance Agency Partnership Announcement – webcast, [https://viaid.webcasts.com/starthere.jsp?ei=1534904&tp\\_key=44b0cbca7c](https://viaid.webcasts.com/starthere.jsp?ei=1534904&tp_key=44b0cbca7c)

<sup>44</sup> BRP Group, Inc. (2022), 10-K filing, p. 55, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e_19)

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In our opinion, this explains the intercompany transaction of 8.6 million dollars and the organic growth of 8.6 million dollars in 'Policy fee and installment fee'.

**The key question for the public:** Is intercompany revenue organic revenue? We don't think so. In our opinion, it is just a sleight of hand by BRP.

Organic revenue growth, in %	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021
BRP Group	16.7	16.5	18.0	25.9	32.3
Brown & Brown	10.3	7.8	11.0	8.5	14.7
Arthur J. Gallagher & Co.	10.8	9.6	10.6	9.0	3.4
AON	8.0	8.0	10.0	12.0	11.0

Figure 12 Organic revenue growth, source: NINGI Research, company data

This sleight of hand enabled BRP to report organic revenue growth of 23.9%, comfortably beating analysts' estimate for organic growth of 18.6%. **We think the real organic growth is only 16.7% and merely exceeded the first quarter's growth rate.** As a result, we conclude, that the guidance for the full year that BRP issued in the second quarter is obsolete as well. In our opinion, this new guidance was made by BRP on the assumption that the public won't question intercompany transactions in the future. We think, in comparison to its traditional peers, that BRP's growth rate is still higher but decelerating (see Figure 12). However, the company's peers have significantly higher EBITDA, gross, and operating margins. **In our opinion, BRP's recent margin expansion is largely driven by the change in the fair value of contingent consideration and not by its new homeowners' products or improved operational efficiency (see Figure 13).**

Operating margin, in %	Q1	Q2	Q3	Q4	FY
2019	38.0	2.0	3.8	-50.7	-3.7
2020	9.8	-13.3	-10.1	-19.8	-9.1
2021	23.7	-11.0	-12.4	-23.8	-5.6
2022	16.4	10.9			

Operating margin w/o change in FV contingent consideration, in %	Q1	Q2	Q3	Q4	FY
2019	28.6	-0.9	5.2	-12.3	4.2
2020	12.9	-4.4	-0.3	-8.5	-0.6
2021	22.7	0.1	-4.0	-10.0	2.4
2022	14.0	-0.6			

Figure 13 Operating margin and adjusted for change in FV of contingent consideration, source: NINGI Research, company data

The change in the fair value of contingent consideration is due to lowered sales projections. In our opinion, this is a leading indicator for decelerating growth as well because the marginal growth rate of sales projections led to marginal growth in the fair value of contingent considerations ultimately improving BRP's operating margin. This has happened in the past (see Figure 13). **We think, that the negative change in the fair value of contingent consideration is the indicator that projected sales growth has reached a tipping point.** In the short term operating margins will improve, pretending an organic margin expansion, but in the medium term margins will compress again.

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As a consequence of our organic revenue analysis, we concluded that MGAF's total growth is not due to new homeowners' policies but due to fees for administration of past written policies in the unowned period of Westwood.

YoY growth in %	Q2/2022	Q1/2022	Q4/2021	Q3/2021	Q2/2021
BRP Group	27	42	37	48	53
Goosehead Insurance	35	39	42	44	48
Lemonade Insurance	31	37	43	45	48

Figure 14 YoY revenue growth compared to pure play competitors, source: NINGI Research, company data

The MGAF organic growth rate of 70% – mentioned at the beginning of this chapter – is only 27 percent and thereby lower than its peers (see Figure 14). But declining growth is not the problem for the “MGA of the Future” platform, which was concealed from the public.

## Proprietary information in the hands of competitors

In our opinion, the above-revealed decline in MGAF's growth is connected to a loss in market share because of entering competitors. The new competitors may rely on BRP's proprietary knowledge because from August 2020 on, allegedly thousands of files have been taken and passed on to a competitor (see Figures 15 and 16).<sup>45</sup> Alleged by BRP itself in a lawsuit against a competitor and a former employee.<sup>46</sup>

48. On information and belief, [REDACTED] ported the Millennial OneDrive folder (including the 20,159 files) from her Millennial-issued computer to the external hard drive. The 20,159 files uploaded to the external hard drive contain proprietary information and Millennial trade secrets, including documents containing Confidential Information pertaining to Millennial's HO4 renters' program and multi-family renters' insurance offered by Millennial.

Figure 15 Extract from page 13 of the lawsuit filed by MSI and BRP, source: USDC Florida

19. On information and belief, Defendants knew [REDACTED] had been sharing Plaintiffs' highly sensitive, confidential and trade secret information with Defendants since 2020. Critically, [REDACTED] continued to supply Defendants with Plaintiffs' confidential trade secret information even after her resignation in May 2021. On

Figure 16 Extract from page 6 of the lawsuit filed by MSI and BRP, source: USDC Florida

BRP became aware of this security breach in May 2021 - more than ten months later and only after the stealing employee quit.<sup>47</sup> To date, the public was not informed about the alleged misappropriation of BRP's trade secrets.

In the lawsuit against the parties, BRP alleges that the employee, a former MSI executive, has worked for a competitor since 2020 (see Figure 16).<sup>48</sup> The former employee is alleged to have carried out the work

<sup>45</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 6

<sup>46</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 1

<sup>47</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 6

<sup>48</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 12

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at the competitor during her employment at BRP and to have taken more than 20,000 files from BRP.<sup>49</sup> The competitor, which allegedly received the information, is also alleged to offer similar MGA solutions through its companies Embark Insurance and King Insurance.<sup>50</sup>

Plaintiffs' highly sensitive, confidential and trade secret information. On information and belief, Defendants have used or plan to use Plaintiffs' highly sensitive, confidential and trade secret information to enter the national HO4 and multi-family renter's insurance market, including in the State of Florida, to compete against Plaintiffs. Prior to obtaining the confidential and trade secret information

Figure 17 Extract from page 6 of the lawsuit filed by MSI and BRP, source: USDC Florida

BRP claims the competitor allegedly planned to enter or has entered the HO4 and multi-family renter's insurance market (see Figure 17).<sup>51</sup> Based on our analysis Embark, through King Insurance, does offer MGA solutions for agents and several different insurance solutions – including HO4 and homeowners policies.<sup>52</sup>

**On top of the 20,000 files stolen, BRP cannot fully size up the data leak.** As alleged by the company in its lawsuit, the competitor and the former employee confirmed in June 2021 that they were no longer in possession of the files. However, during a forensic analysis at a later date, BRP noticed that thousands of documents more – containing highly sensitive, confidential, and trade secret information – had been allegedly misappropriated (see Figure 18).<sup>53</sup>

60. In June 2021 Both [REDACTED] and Defendants represented to Plaintiffs' that Defendants no longer possessed any of Plaintiffs' highly sensitive, confidential and trade secret documents. However, Plaintiffs discovered through a subsequent forensic investigation into [REDACTED]'s technological devices, the existence of thousands of pages of additional highly sensitive, confidential and trade secret protected documents she misappropriated from Plaintiffs.

Figure 18 Extract from page 16 of the lawsuit filed by MSI and BRP, source: USDC Florida

**BRP states in its lawsuit that the misappropriation of its proprietary information will cause great and irreparable injury to the company as it faces the threat of losing substantial revenue, market share, and advantage (see Figure 19).**<sup>54</sup>

<sup>49</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 13

<sup>50</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 14

<sup>51</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 6

<sup>52</sup> King Insurance Support Systems Inc. (2022), Program overviews, <https://kingmga.com/program-overviews/>

<sup>53</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 16

<sup>54</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 20

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79. Defendants wrongful conduct in misappropriating Plaintiffs' confidential information and trade secrets, unless and until enjoined and restrained by order of this Court, has and will cause great and irreparable injury to Plaintiffs' business as Plaintiffs face the threat of losing substantial revenue, market share and advantage, and will continue to do so in the future if their valuable trade secrets are utilized or disclosed by Defendants, or any other third party.

Figure 19 Extract from page 20 of the lawsuit filed by MSI and BRP, source: USDC Florida

Despite BRP arguing in its lawsuit that the information in the hands of third parties is and will be seriously damaging to its business, BRP's management has stated in its most recent filings that no legal proceedings will have a material impact on the business (see Figures 19 and 20).<sup>55 56 57</sup>

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Figure 20 Extract regarding legal proceedings from Q2/2022 10-Q filing, source: company filings

<p><b>Failure to protect or enforce our intellectual property rights, or allegations that we have infringed on the intellectual property rights of others, could harm our reputation, ability to compete effectively, business, financial condition and results of operations.</b></p> <p>To protect our intellectual property rights, we rely on a combination of trademark laws, copyright laws, trade secret protection, confidentiality agreements and other contractual arrangements with our affiliates, Colleagues, Clients, Partners and others. However, the protective steps that we take may be inadequate to deter misappropriation of our proprietary information or infringement of our intellectual property. In addition, we may be unable to detect the unauthorized use of our intellectual property rights. Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively. In addition, even if we initiate litigation against third parties, such as infringement suits, we may not prevail.</p> <p>Meanwhile, third parties may assert intellectual property rights claims against us, which may be costly to defend, could require the payment of damages and could limit our ability to use or offer certain technologies, products or other intellectual property. Any intellectual property claims, with or without merit, could be expensive, take significant time and divert management's attention from other business concerns. Successful challenges against us could require us to modify or discontinue our use of technology or business processes where such use is found to infringe or violate the rights of others, or require us to purchase licenses from third parties, any of which could adversely affect our business, financial condition and results of operations.</p>	<p><b>Failure to obtain, maintain, protect, defend or enforce our intellectual property rights, or allegations that we have infringed, misappropriated or otherwise violated the intellectual property rights of others, could harm our reputation, ability to compete effectively, business, financial condition and results of operations.</b></p> <p>Our success and ability to compete depends in part on our ability to obtain, maintain, protect, defend and enforce our intellectual property. To protect our intellectual property rights, we rely on a combination of trademark and copyright laws in the United States and certain other jurisdictions (whether via international convention, treaty or otherwise), trade secret protection, confidentiality agreements and other contractual arrangements with our affiliates, Colleagues, Clients, Partners and others. However, such measures provide only limited protection and the steps that we take to protect our intellectual property may be inadequate to deter infringement, misappropriation or other violation of our intellectual property or proprietary information. Policing unauthorized use of our intellectual property is difficult, expensive and time-consuming, particularly in countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. We may be required to spend significant resources to monitor and protect our intellectual property rights. In addition, we may be unable to detect the unauthorized use of our intellectual property rights.</p> <p>Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively. In addition, even if we initiate litigation against third parties, such as suits alleging infringement, misappropriation or other violation of our intellectual property, we may not prevail. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Additionally, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. An adverse determination of any litigation proceedings could put our intellectual property at risk of being invalidated or interpreted narrowly and could put our related intellectual property at risk of not issuing or being cancelled. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock. Any of the foregoing could adversely affect our business, financial condition and results of operations.</p> <p>Meanwhile, third parties may assert intellectual property-related claims against us, including claims of infringement, misappropriation or other violation of their intellectual property, which may be costly to defend, could require the payment of damages, legal fees, settlement payments, royalty payments and other costs or damages, including treble damages if we are found to have willfully infringed, and could limit our ability to use</p>
	<p>41</p>
	<p>or offer certain technologies, products or other intellectual property. Any intellectual property claims, with or without merit, could be expensive, take significant time and divert management's resources, time and attention from other business concerns. Moreover, other companies, including our competitors, may have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Successful challenges against us could require us to modify or discontinue our use of technology or business processes where such use is found to infringe, misappropriate or otherwise violate the rights of others, or require us to purchase costly licenses from third parties, which may not be available on commercially reasonable terms, or at all. Even if a license is available to us, it could be non-exclusive thereby giving our competitors and other third parties access to the same technologies licensed to us, and we may be required to pay significant upfront fees, milestone payments or royalties, which would increase our operating expenses. Any of the foregoing could adversely affect our business, financial condition and results of operations.</p>

Figure 21 Extract of risk factors mentioned in 2020 and 2021 10-K filing, source: company filings

<sup>55</sup> Millennial Specialty Insurance vs King Insurance Support Systems, 8:21-cv-02457, p. 20

<sup>56</sup> BRP Group, Inc. (2022), 10-K filing, p. 43, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e_19)

<sup>57</sup> BRP Group, Inc. (2022), 10-K filing, p. 45, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#9d496c9296cf4097a32fb8af2091969e_19)

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Instead, the risk factors regarding the intellectual property were significantly adjusted within the 2021 10-K filing. In 2020 just shy of half a page, the risk information in 2021 spanned over a full page (see Figure 21).<sup>58 59</sup> In addition, the audit committee has been tasked with monitoring cybersecurity procedures.<sup>60</sup>

## Questions for BRP's board of directors that may be of interest to the public:

- When and whom of the members of the supervisory board were informed about the misappropriation of MGAF's intellectual property?
- Have there been further any misappropriation of intellectual property, data or trade secret at BRP Group, any subsidiary or affiliate?

As BRP pointed out in its lawsuit already in part themselves, we think that the company will be harmed and lose significant market share as a result. **In our opinion, the data leak will have a severe negative impact on BRP's positioning in the market, its competitive advantage, and the company's capability for future margin expansion.**

## Mounting debt

Like "MGA of the Future", the facade of the successful M&A strategy begins to crumble as soon as the public focuses on the GAAP-compliant financial statements. In our opinion, BRP has maneuvered itself into a dead end with its M&A strategy.

In its current state, the company is hoping for outsized organic growth through its acquisitions in order to achieve a deleveraging within the next 12 to 18 months.<sup>61</sup> **We think, that the projection for outsized growth has already been discarded** as indicating the change in fair value of the contingent consideration, and in the next 12 months the financial health of the company will be on the brink due to its debt.

In 2020 – for the purpose of BRP's M&A strategy –JP Morgan Chase awarded a term loan totaling 850 million dollars and a revolving credit facility of USD 400m was issued, which was recently increased to over USD 600 million.<sup>62 63</sup> At the end of the second quarter, about USD 1,367m of the total available credit of USD 1,450m has already been drawn.<sup>64</sup> Despite BRP's interest rate derivatives, every 100 basis point increase in their floating rates, which is based on SOFR and USD LIBOR, leads to an 11.6 million dollar increase in interest expense per year.<sup>65 66</sup>

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<sup>58</sup> BRP Group, Inc. (2021), 10-K filing, p. 29, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb\\_142](https://www.sec.gov/Archives/edgar/data/0001781755/000178175521000015/brp-20201231.htm#i4d2cee4d739541bc9550a8f0d84eefcb_142)

<sup>59</sup> BRP Group, Inc. (2022), 10-K filing, p. 35, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>60</sup> BRP Group, Inc. (2022), Proxy statement, p. 12, <https://www.sec.gov/Archives/edgar/data/1781755/000119312522133800/d279471ddef14a.htm>

<sup>61</sup> BRP Group, Inc. (2022), BRP Group, Inc. Second Quarter 2022 Earnings Call – webcast, [https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp\\_key=1ea624bde7](https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp_key=1ea624bde7)

<sup>62</sup> BRP Group, Inc. (2022), 10-K filing, p. 61, [https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e\\_19](https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000008/brp-20211231.htm#i9d496c9296cf4097a32fb8af2091969e_19)

<sup>63</sup> BRP Group, Inc. (2022), 10-Q filing, p. 28, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>64</sup> BRP Group, Inc. (2022), 10-Q filing, p. 20, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>65</sup> BRP Group, Inc. (2022), BRP Group, Inc. Second Quarter 2022 Earnings Call – webcast, [https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp\\_key=1ea624bde7](https://viaid.webcasts.com/starthere.jsp?ei=1556394&tp_key=1ea624bde7)

<sup>66</sup> BRP Group, Inc. (2022), 10-Q filing, p. 43, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

# NINGI RESEARCH

Due to the quantitative tightening of the Federal Reserve, the current forward curves imply an increase of up to 3.74% for SOFR and 3.88% for LIBOR, which will lead to millions of dollars in additional interest expenses in the upcoming quarters.<sup>67</sup>

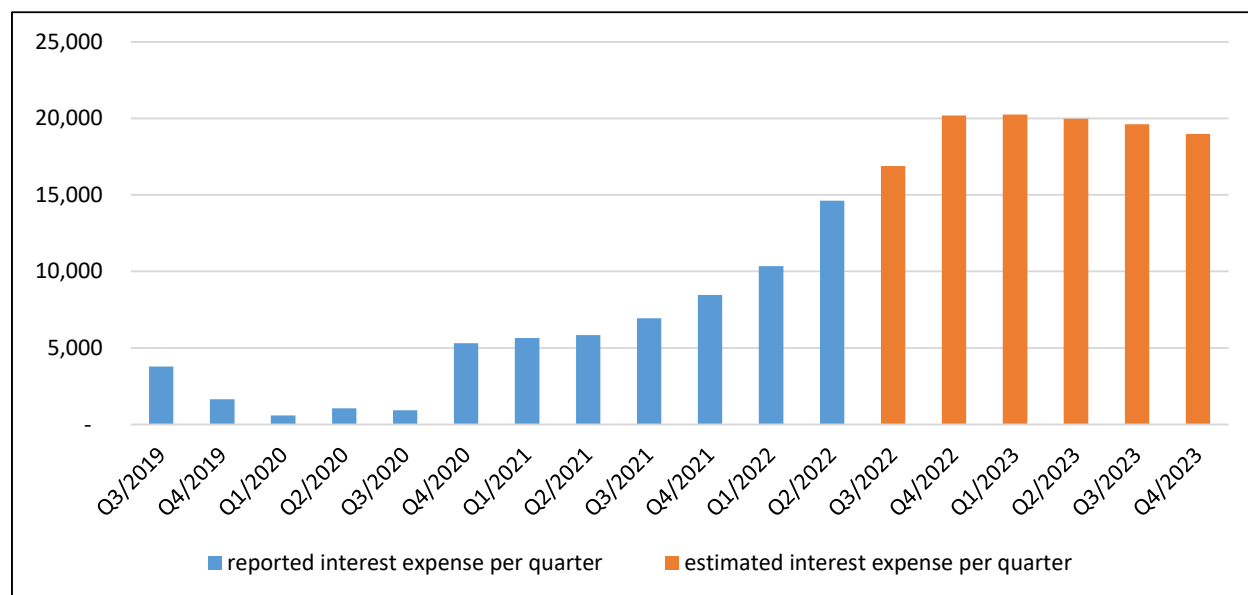


Figure 22 Reported and estimated net interest expense, source: NINGI Research, company data

**Based on BRP's statements, we think that the company will pay up to USD 37 million in interest in the second half of 2022 and 78 million dollars in 2023 (see Figure 22).**

At the end of the second quarter, BRP got USD 183m in unrestricted cash and USD 83m credit left for any acquisitions and working capital management.<sup>68 69</sup> In our opinion, this liquidity crunch will lead to another share offering because any debt issuance or any increase in the current credit agreement won't be provided by the syndicate. Without any new share offering in the near future, we think that declining organic growth, loss of any competitive advantage, and rising interest expenses will turn against the company.

**Based on all the information presented herein, we are short BRP Group.**

<sup>67</sup> Based on the reported SOFR and LIBOR forward rates on 09/05/2022

<sup>68</sup> BRP Group, Inc. (2022), 10-Q filing, p. 20, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>

<sup>69</sup> BRP Group, Inc. (2022), 10-Q filing, p. 5, <https://www.sec.gov/Archives/edgar/data/0001781755/000178175522000027/brp-20220630.htm>