

## Kingsway Financial Services (KFS): Significant changes after the appointment of CEO; recent acquisition

- Market Cap: \$125 million | Kingsway Financial Services is a holding company that owns or controls subsidiaries primarily in the extended warranty, asset management and real estate industries.
- Major shareholders - STILWELL JOSEPH – 29% | STILWELL VALUE – 28% | FRISCHER CHARLES L – 6% | FITZGERALD JOHN TAYLOR MALONEY – 5% | DAVID CAPITAL PARTNERS – 4%
- Screen: 8-K (Keywords)

### II. WHAT WE LIKE

- High barriers to entry: Vehicle service agreements are regulated. States regulate vehicle service contract companies by requiring them annually to file documentation, together with a copy of the contract of insurance covering their liability under the service contracts. The company claims that the industry is considered “too complex” by many.
- Recurring revenue: The Company's extended warranty segment generates revenue from vehicle service agreement fees, guaranteed asset protection commissions, maintenance support service fees, warranty product commissions, homebuilder warranty service fees, and homebuilder warranty commissions. Many of the company's contracts are multiple performance obligations, long-term, pre-paid contracts
- Stilwell Group (29.4%) has had a representative on the board since 2009:
  - Background: In January 2009, Stilwell Group entered into a settlement agreement. Pursuant to it, the company's CEO resigned and Stilwell's two representatives were added to the board. In July 2010, Larry G. Swets, Jr. (Stilwell Group's representative) was appointed as CEO. In May 2018, Stilwell opposed the re-election of Mr. Swets as a director. At the 2018 AGM, Mr. Swets was re-elected but received 33%

withheld votes. In September 2018, Larry G. Swets, Jr. resigned as CEO and John T. Fitzgerald was appointed as CEO.

- As of June 2021, Stilwell Group holds a 29.4% stake in the company and has had a representative on the board since April 2009.
- Oakmont Capital (12.7%): Its representative serves as the company's chairman:
  - Oakmont Capital holds a 12.7% stake in the company (as of April 2021) and it has two representatives on the board since 2009.
  - Terence M. Kavanagh, president of Oakmont Capital, has been serving as chairman of the board since 2013.

### III. SIGNIFICANT CHANGES AFTER THE APPOINTMENT OF NEW CEO

#### 1. CEO

In September 2018, the company appointed John T. Fitzgerald as CEO.

- 8% stake: Mr. Fitzgerald has held an 8.18% stake in the company as of April 2021.
- Co-founder & sale of the company: Mr. Fitzgerald joined Kingsway as EVP in April 2016 following the company's acquisition of Argo Management Group, a private equity investment partnership co-founded by Mr. Fitzgerald in 2002.
- Prior to co-founding Argo Management Group, Mr. Fitzgerald was managing director of Adirondack Capital,

LLC, a financial futures and derivatives trading firm, and he was a seat-owner on the Chicago Board of Trade.

- From January 2006 to September 2015, Mr. Fitzgerald was the CEO of Hunter MFG, LLP, a manufacturer and distributor of sports-licensed consumer products.

## 2. Management shakeup

- 7 out of top 10 are appointed since the new CEO's appointment.
  - CEO, Ravix Financial - August 2020
  - CFO – February 2020
  - President Geminus – January 2020
  - CEO, Professional Warranty Service Corporation - Oct 2018

## 3. Exit from non-core business

- In 2018, the company sold its Mendota Insurance Company and Mendakota Casualty Company for \$28.6 million.
- In 2019, the company exited several investments in non-core businesses – Itasca Capital Ltd., New Aera Assets, 1347 Investors LLC, 1347 Energy, DPM SPV, and Redseal SPV, LLC.

## 4. Roll-up strategy

- The company acquired three companies since 2019 for approximately \$44 million - Geminus Holding (Mar 2019, \$8.4mm), PWI (Dec 2020, \$24.4mm) & Ravix (Oct 2021, \$11 mm).

## 5. Strong recent quarter performance

- In Q3 2021, the company's extended warranty segments revenue increased 46.7% (or \$5.6 million) to \$17.6 million.
- Moreover, the segment's operating income increased to \$1.4 million compared with \$1.2 million in Q3 2020.

## IV. WHY ARE WE FLAGGING THIS?

### Recent acquisition

Entry into accounting & HR outsourcing:

- In October 2021, the company acquired Ravix Financial for approximately \$11 million.
- The company claims that Ravix was not materially impacted by COVID-19, growing 19% year-over-year in 2020. Historically, the company has grown at an annual rate of 15% from 2017-2020.

## V. OTHERS

### a) CEO's letters

- <https://www.sec.gov/Archives/edgar/data/1072627/000107262721000027/exhibit993-2020kfsannualsh.htm> (March 29, 2021)
- <https://www.sec.gov/Archives/edgar/data/1072627/00010726272000085/exhibit992-2019kfsannualsh.htm> (July 22, 2020)
- <https://www.sec.gov/Archives/edgar/data/1072627/00010726272000042/exhibit9923220.htm> (March 02, 2020)

### b) Strong industry growth:

- The company generates 77% of the revenue from the extended warranty segment.
- It is estimated that the warranty industry is forecasted to grow at a CAGR of 7.4% through 2027.
- As of September 2021, the company's extended warranty segment revenue has been growing at a **CAGR of 24%** since 2018 through both acquisition and organic growth.

### c) Valuation:

- Management estimate of intrinsic value: \$7.74 to \$9.60 per share valuation (sum of its parts valuation)
- Current stock price: \$5.4 per share in October 2021.

# Sum of the Parts: Valuation

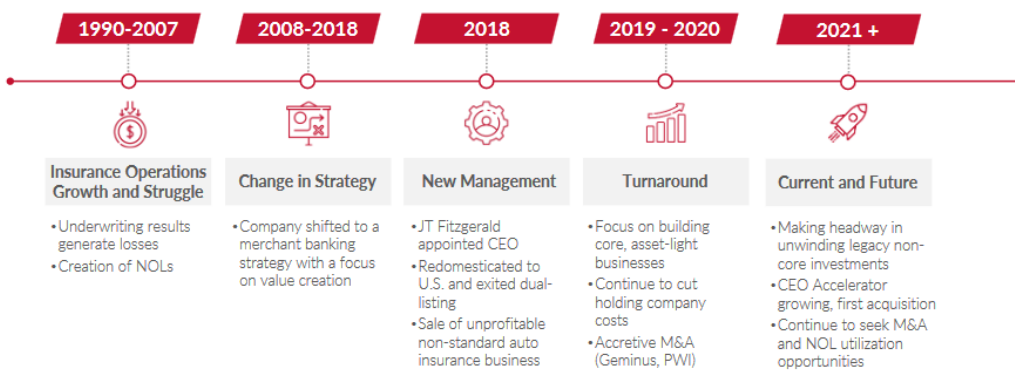
Management believes Kingsway's total intrinsic value should be viewed as a sum of its parts: *(in millions, except per share data)*

	Estimated Value	Rationale	Commentary
Operating Companies <sup>(1)</sup>	\$197.7 to \$242.5	12x to 15x of TTM EBITDA (Extended Warranty); 6.7x Ravix	Based on observed multiples in private market transactions, as well as non-cash taxpayer status, management believes this range to be very reasonable
Real Estate (CMC)	\$35.0	Net present value of future cash flows	The Company recently settled outstanding litigation regarding how proceeds from the lease are to be distributed; this reflects that settlement and assumes a hypothetical sale in 2029
Argo search fund	\$1.9	Economic value	
Non-strategic investments	\$25.3	Economic value	
Amigo	\$2.0	Equity less deferred income tax asset	
NOLs	\$TBD see Commentary	NOLs of -\$845 for which there is a -\$177 DTA that is fully reserved	The NOLs expire between 2026 and 2037 and there is reasonable uncertainty that the NOLs will be consumed before they expire. However, a rational valuation mechanism could be to multiply the total U.S. net DTAs by a probability of realization
Total Assets	\$261.9 to \$306.7		
TruPs	(\$58.2)	Fair value of debt at 3/31/21	
OpCo debt, net <sup>(2)</sup>	(\$17.8)	Outstanding principal	CIBC debt as of 6/30/21 (\$23.5 million); Avidbank debt as of 10/1/21 (\$6 million), net of \$11.7 million of unrestricted cash <sup>(2)</sup>
Intrinsic value	\$185.9 to \$230.7	Total Assets, net of debt	
Intrinsic value per share	\$7.74 to \$9.60	24.0 million shares outstanding	NOLs not fully valued

(1) Extended Warranty companies, plus Ravix (2) Includes unrestricted cash across all of Kingsway.

# Introduction to Kingsway: History and Transformation

Aligned management team and Board of Directors focused on proper capital allocation, operational excellence and people.



## Extended Warranty Industry

A Scalable, High Margin, Low Capital Intensity Business = Enduringly High ROTC



### Warranty Industry Advantages

Large and Growing	Estimated at over \$121B globally and forecast to grow at 7.4% CAGR through 2027 <sup>(1)</sup>
Fragmented	Management estimates that top companies in industry account for only 32.5% of revenue
High Barriers to Entry	Licensing/regulatory requirements; industry considered "too complex" by many
High Margin Recurring Revenue	Diversified; long-term, pre-paid contracts; industry margins estimated at 20% <sup>(2)</sup>
Investable 'float'	Risk-taking warranty businesses produce float similar to insurance
Low Capital Intensity	Less capital intensive than traditional insurance due to utilization of reinsurance

(1) Allied Market Research. (2) Colonnade Advisors - Market Commentary