

KBRA Assigns Rating to Junior Subordinated Notes to be Issued by Fortegra Financial Corporation

NEW YORK, NY (October 12, 2017) – Kroll Bond Rating Agency (KBRA) has assigned a rating of BBB- with a stable outlook to the junior subordinated notes to be issued by Jacksonville-based Fortegra Financial Corporation (Fortegra). The organization is a leading provider of credit protection, warranty, and specialty underwriting products and services. Fortegra currently has an issuer rating of BBB with a stable outlook.

KBRA expects Fortegra to issue up to \$125 million of fixed-rate resetting junior subordinated notes with a stated maturity of 2057. Fortegra intends to use all or substantially all of the net proceeds from the offering to repay the outstanding indebtedness under its existing senior secured credit facility, and upon such repayment, to terminate the facility. Remaining net proceeds, if any, will be used for general corporate purposes, which may include acquisitions or the redemption of its \$35 million of outstanding trust preferred securities due 2037. With a significant capital contribution in late 2016 from Fortegra's parent, Tiptree Inc. (NASDAQ: TIPT), the organization's financial leverage following the issuance will be roughly 32%. Additionally, Fortegra's pro forma interest coverage is expected to be sound – in the range of four to five times – and pro forma cash coverage in excess of three times. KBRA notes that the organization benefits from diversified sources of earnings, of which a significant portion is from non-insurance subsidiaries.

The notes will be unsecured, subordinated and junior to all existing and future senior indebtedness of Fortegra as well as structurally subordinated to all debt and other liabilities of its subsidiaries. Under the indenture, Fortegra has the right to defer interest for up to five consecutive years on a fully cumulative basis. The notes will pay an additional 2.0% interest if its rating is downgraded to the BB category and 4.0% if downgraded to the B category. The notes are non-callable for ten years from the date of issuance.

Fortegra's ratings reflect its consistent underwriting profitability, supplemented by considerable fee income, which has resulted in favorable trends in capitalization. In addition, Fortegra maintains a balanced mix of revenue and earnings facilitated by its diversified product distribution through small-to-medium sized banks, small loan companies, managing general agents, independent wireless retailers and auto dealerships. Partially balancing these strengths are Fortegra's moderate premium leverage and somewhat limited geographic diversification. Additionally, the organization possesses elevated intangibles driven by its acquisition-oriented strategy and 2014 purchase by Tiptree. KBRA notes that Fortegra's finite-lived intangibles will largely be amortized over the next several years.

A rating upgrade in the near future is not expected. However, sustained growth in earnings (both regulated and non-regulated), continued favorable capital trends, and maintenance of sound financial flexibility could result in positive momentum. Material increases in financial leverage – including the addition of securities to Fortegra's capital structure that are senior to the junior subordinated notes – or a significant decrease in interest coverage could result in a rating downgrade. In addition, a change in risk profile, a significant earnings miss relative to projections, material investment losses, decline in creditworthiness of Tiptree, or departure of key members of the management team could result in a negative rating action.

The rating was assigned using KBRA's [Global Insurer & Insurance Holding Company Rating Methodology](#) published on April 21, 2016.

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