

Goosehead Insurance Inc.

4Q23 production and 2024 guidance below expectations

Reiterate Rating: UNDERPERFORM | PO: 42.00 USD | Price: 68.28 USD

4Q23 adjusted EPS of \$0.28 vs. consensus of \$0.33

4Q23 revenue of \$63.0mn ran below our forecast of \$69.3mn and consensus of \$68.6mn and toward the lower end of guidance of \$62-69mn. The 4Q23 adj. EBITDA margin of 22.5% also ran below our forecast of 27.9% and consensus of 26.4%, while 4Q23 written premium volume of \$756mn split the difference between our forecast of \$743mn and consensus of \$764mn. 2024 revenue guidance of \$310-320mn falls below consensus of \$336mn, though ahead of our forecast of \$301mn. Management forecasts the soft contingent commissions are likely to weigh on revenue growth in 2024.

Agent count continues to fall

The company reported 1,226 operating franchises at year-end 2023, down from 1,285 at September 30, 2023 and down 13% from one year-prior. Over the course of 2023, Goosehead terminated 396 franchises with closures notably higher in 2H23 than in 1H23. The company indicates that productivity among all remaining franchises is significantly improved, though it doesn't necessarily seem that productivity among individual franchisees is rising (e.g. "same store sales"), but rather these numbers benefit from the exclusion of low-producing franchisees. The company onboarded 24 franchises in 4Q23 (down from 30 in 3Q23), the fewest since providing this data to investors (2018). Contracts from potential entrepreneurs considering opening a Goosehead franchise fell to 189 at YE2023, down from 299 three months earlier.

Premium growth falls below 30%

Quarterly premium volume of \$756mn was up 29% from the prior year and fell below management's long-term guidance of 30%+ growth through around 2027. We expect growth to further decelerate in 2024 as the tailwind of the most significant increases in auto insurance pricing in 50 years trails from its current peak. Management's 2024 guidance of \$3.7-3.85bn also falls slightly below its 30%+ long-term guidance, though, at \$3.5bn our forecast anticipates the company will fail to reach the 2024 guide.

Modest change in EPS outlook; PO to \$42

Our near-term EPS outlook (2024) falls on a more conservative outlook for contingent commissions, though our 2025-2026 EPS rises modestly, following high CPI for motor vehicle insurance numbers in January filtering into slightly higher multi-year premium volume. This causes our DCF valuation model for shares of Goosehead to rise by \$1 to \$42. With significant downside to our price objective, we rate shares as Underperform.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.55	1.23	1.67	2.46	2.46
GAAP EPS	0.03	0.58	0.93	1.66	1.60
EPS Change (YoY)	14.6%	123.6%	35.8%	47.3%	0%
Consensus EPS (Bloomberg)			1.73	2.37	3.05
DPS	0	0	0	1.30	2.58
Valuation (Dec)					
P/E	124.1x	55.5x	40.9x	27.8x	27.8x
GAAP P/E	2,276.0x	117.7x	73.4x	41.1x	42.7x
Dividend Yield	0%	0%	0%	1.9%	3.8%

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Timestamp: 22 February 2024 12:00PM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-8	C-3-9
Price Obj.	41.00	42.00
2024E EPS	1.72	1.67
2025E EPS	2.32	2.46
2026E EPS	2.29	2.46

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Stock Data

Price	68.28 USD
Price Objective	42.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-3-9
52-Week Range	37.25 USD - 92.76 USD
Mkt Val (mn) / Shares Out (mn)	2,562 USD / 37.5
Free Float	23.4%
Average Daily Value (mn)	13.28 USD
BofA Ticker / Exchange	GSHD / NAS
Bloomberg / Reuters	GSHD US / GSHD.OQ
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

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iQprofileSM Goosehead Insurance Inc.

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	188	233	268	286	296
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	209	261	301	346	363
Total Cost of Benefits and Claims	NA	NA	NA	NA	NA
S,G & A (Including Commissions)	(186)	(215)	(235)	(239)	(254)
Total Operating Expenses	(204)	(235)	(255)	(263)	(281)
Pre-Tax Operating Earnings	5	26	46	83	82
Income Tax Expense	(2)	(3)	(10)	(18)	(17)
Operating Earnings After Tax	12	30	46	77	86
Net Income (Reported)	1	14	26	52	56
Diluted Shares	22	24	28	31	35
Operating Earnings Per Share	0.55	1.23	1.67	2.46	2.46
Net Income (Reported) Per Share	0.03	0.58	0.93	1.66	1.60

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	29	42	103	196	240
Total Assets	321	355	419	513	559
Reserves	NA	NA	NA	NA	NA
LT Debt	87	68	68	118	168
Total Liabilities	355	338	339	390	440
Total Equity	(34)	17	80	124	119
Total Equity (Ex FAS 115)	(34)	17	80	124	119
Book Value per Share (Reported)	3/31/2022	3/31/2023	3/31/2024	3/31/2025	3/31/2026
	120000 AM	120000 AM	120000 AM	120000 AM	120000 AM
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	98.9%	92.1%	87.9%	83.9%	85.7%
Loss Ratio	0%	0%	0%	0%	0%
Combined Ratio	98.9%	92.1%	87.9%	83.9%	85.7%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NM	NM	8.0x	4.6x	4.4x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	41.1%	23.8%	14.9%	6.7%	3.8%
Net Investment Income	NM	NM	NM	NM	NM
Total Revenue	38.4%	24.8%	15.1%	15.2%	4.8%
Operating Earnings per Share	14.6%	123.6%	35.8%	47.3%	0%
Asset	20.0%	10.4%	18.0%	22.5%	8.9%
Reported Book Value per Share	0.8%	0.8%	0.8%	0.8%	0.8%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	4.1%	8.9%	12.0%	16.6%	16.1%
Operating Margin	5.7%	11.5%	15.4%	22.3%	23.8%
Long Term Debt to Cap Ratio (Ex FAS 115)	163.3%	80.1%	45.8%	48.7%	58.5%
Net Income % Operating Income	4.7%	46.9%	55.5%	67.3%	64.9%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Goosehead is attempting to build a large-scale personal lines insurance brokerage company using a unique sales and service model. The company operates through its own agents as well as franchise agents. Goosehead leads with homeowners business, which is typically stickier than auto insurance. Customer retention is high in this space and Goosehead keeps a larger percentage of renewal business.

Investment Rationale

Goosehead is a rapidly growing business, and we believe it is well-positioned for continued growth moving forward due to a strong pipeline of potential franchises and its unique business model of separating sales from client services. We estimate 15-20% revenue CAGR over 2025E-27E. That said, we believe that the current share price already reflects the strong growth outlook. At a 11% discount rate on future cash flows, we believe the stock is more than fully valued, risking downside.

Stock Data

Average Daily Volume 194,556

Quarterly Earnings Estimates

	2023	2024
Q1	0.17A	0.30E
Q2	0.41A	0.49E
Q3	0.46A	0.53E
Q4	0.28A	0.36E



Price objective basis & risk

Goosehead Insurance Inc. (GSHD)

Our \$42 price objective is based on discounted-cash-flow analysis using our earnings projections for a 15-20% revenue CAGR through 2028 and a residual growth rate of 10%. The 10% residual growth rate runs ahead of mature large-cap brokers, but smaller outfits have tended to grow more quickly. We select an 12% discount rate to reflect the surge in interest rates beginning last in 2021.

Downside risks are disintermediation of the agency sales model to captives and direct channels as well as declining interest from potential franchisees. Upside risks are acceleration in franchise growth and increased pace of homeownership.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	American International Group	AIG	AIG US	Joshua Shanker
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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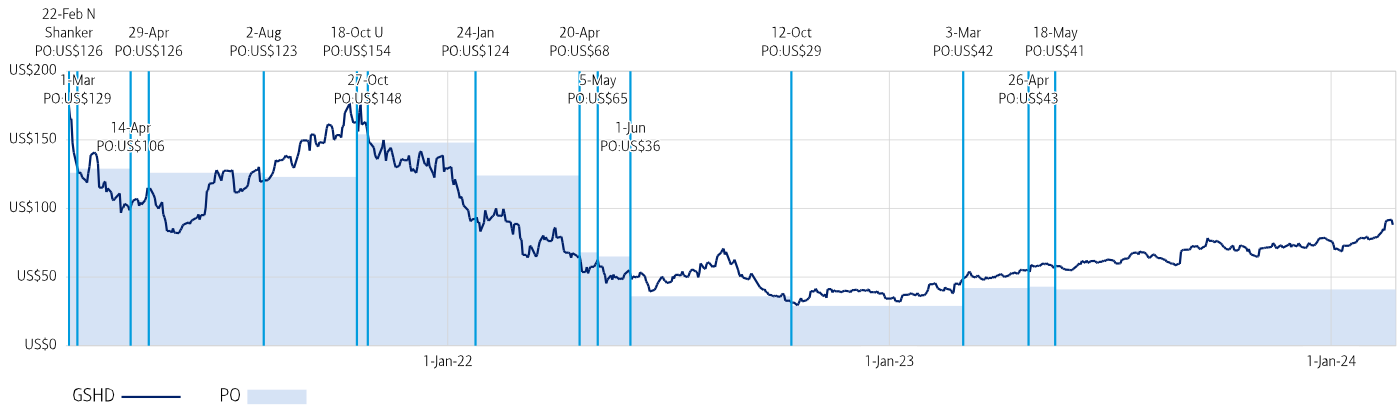
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Goosehead (GSHD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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