A Capital Idea

Hagerty going public continues the legitimization of the collector-car hobby

by Philip Richter

Images courtesy of Hagerty

Each year, Hagerty sponsors Cars at the Capital, which celebrates America's automotive heritage by showcasing the newest inductees of the National Historic Vehicle Register. Already a national player, Hagerty is seeking to expand its footprint by becoming a publicly traded company on the New York Stock Exchange

The collector-car world is experiencing a metamorphosis. Over the past six years, we have witnessed the maturation of the industry.

The transition began in earnest when RM Auctions announced a strategic partnership with publicly traded Sotheby's in 2015. Next, in 2020, media giant Hearst acquired Bring a Trailer for an undisclosed sum. Finally, now Hagerty is listing publicly on the New York Stock Exchange via a special-purpose acquisition corporation (SPAC) managed by Aldel Financial.

In aggregate, these three independent events represent a sea change in how businesses supporting the collector-car industry are owned, managed and operated. The future may involve other large capital providers getting more involved and partnering with various players in the industry.

What is a SPAC?

When a private company decides to go public, it generally has three ways it can be listed. It can go through a traditional initial public offering or it can file for a direct listing. It can also go public via a SPAC.

While they have been around for years, SPACs have recently become popular. A SPAC is a shell company that raises money in the public markets. Once public, management of the SPAC seeks out a target company to purchase.

SPACs generally have two years to find an operating company to buy. Once a target is found and meets shareholder approval, a reverse merger occurs whereby the operating company (in this case Hagerty) merges into the already publicly traded SPAC (Aldel Financial).

A SPAC's advantages over traditional listing processes are potentially more certainty in pricing and often more control over deal terms. SPACs can also be less expensive than a traditional IPO and often are a much faster path to listing.

Hagerty's transformation

A few years ago, Hagerty was known primarily as a specialty insurance provider serving the collector-car market niche. Today, Hagerty is rapidly emerging as a lifestyle brand with a suite of media services that are increasingly popular within the industry.

In addition, Hagerty's membership services have exploded with a panoply of offerings, including sophisticated valuation tools and data analytics. Hagerty has also become an aggressive acquirer of collector-car events like the Amelia Island Concours, the Greenwich Concours, the California Mille and, most recently, McCall's Motorworks Revival.

Although still focused on the primary insurance business, the company also firmly embraces the value of promoting car culture for future generations. As a result, Hagerty has emerged as a trusted, "go-to" source for much more than insurance.

Hagerty's CEO, McKeel Hagerty, is a sophisticated, energetic and savvy businessman. For this deal, he partnered with fellow Hagerty board member Robert Kauffman, chairman and CEO of Aldel Financial, which controls the SPAC that will take Hagerty public.

Kauffman's résumé is impressive. He was a co-founder of Fortress Investment Group. An avid car and racing enthusiast, he owns RK Motors, Speed Digital and is a co-owner of Chip Ganassi Racing. He serves on the advisory board of McLaren. Kauffman has also accumulated one of the finest car collections in the world.

For these reasons, he is a natural partner for Hagerty — he has a record of success with public companies and is a true car enthusiast.

Why go public? Why now?

A recent investor deck put a value on Hagerty of over $3 billion. As a public company, Hagerty will trade under the ticker HGTY on the New York Stock Exchange.

Today, Hagerty insures over 2 million vehicles and generates over $500 million in revenue. Hagerty is an attractive public company candidate because of its reccurring revenue model, soaring growth rate and brand equity.

Since 2018, Hagerty has enjoyed a 29% compound annual revenue growth. While the lion's share of its revenue comes from insurance, management has been methodically and carefully transforming Hagerty into a lifestyle brand. Its brand equity is well known and respected within the collector-car and automotive circles.

From a financial perspective, Hagerty is an attractive public-company candidate because it maintains low loss ratios and enjoys high customer retention — 90% of Hagerty's customers stay with Hagerty.

Finally, the transaction is attractive because it brings together experts in public markets, capital markets, insurance, finance and is all being architected by passionate automotive enthusiasts.

It's about growth

With a total addressable market of over 43 million collectible vehicles in the United States, Hagerty still has room to grow. It currently only serves 4% of the collector insurance market.

Hagerty has many other avenues for growth. It could grow organically, with strategic partners, or by acquisitions. Hagerty will seek to leverage its relationships with larger firms like State Farm and Markel Insurance to drive growth further. It is also targeting growth abroad and seeks to do more business in Canada, Germany and the United Kingdom.

Consider the following positive trends: Cars from the early 2000s are becoming collectible modern classics. Cars from the Brass and pre-war era seem to be catching the interest of younger collectors. In general, collector cars are emerging as a legitimate alternative asset class. There is an ongoing expansion of automotive subcultures such as Goodwood, RADwood and Concours d' Lemons. The car hobby is alive and well, and there are more options than ever to participate in it socially.

From left: Gordon and Molly McCall, organizers of McCall's Motorworks Revival, are pictured with Hagerty CEO McKeel Hagerty and Senior Vice President of Brand Soon Hagerty

What will define success?

The ultimate success of the Hagerty/Aldel deal will hinge on management being able to deliver the growth that Wall Street demands without compromising its reputation of service and quality. A key component of this potential success is the alignment of the interests of management and investors.

As a public Hagerty grows, it will need to maintain low loss ratios, attractive expense ratios, healthy underwriting profits and high service levels — not an easy feat. Perhaps most importantly, the leadership, management and culture that have brought Hagerty to this point must be maintained.

CEO McKeel Hagerty is putting $40 million of his own money into the deal. Such a substantial investment by the founder is a strong statement that historically favors a successful outcome. ♦