

West Palm Beach Police Pension Fund v. SelectQuote, Inc.

COURT: United States District Court for the Southern District of New York
CASE NUMBER: No. 1:21-cv-08279
CLASS PERIOD: 05/20/2020 - 08/25/2021
CASE LEADERS: Hannah Ross, James A. Harrod

On October 7, 2021, Bernstein Litowitz Berger & Grossmann LLP filed a class action lawsuit for violations of the federal securities laws in the U.S. District Court for the Southern District of New York against SelectQuote, Inc. ("SelectQuote" or the "Company"), certain of the Company's senior executives, members of the Company's Board of Directors, and underwriters of the Company's May 20, 2020 Initial Public Offering ("IPO") (collectively, "Defendants"). That complaint was brought on behalf of investors in SelectQuote common stock between May 20, 2020 and August 25, 2021, inclusive (the "Class Period"), as well as investors that purchased SelectQuote common stock in or traceable to the IPO.

SelectQuote is an insurance broker that provides an online, direct-to-consumer distribution platform and offers insurance policies from a curated panel of insurance carriers. SelectQuote offers a variety of insurance coverage options, including senior health, life, auto, and home insurance policies. The vast majority of the policies it sells, however, are Medicare Advantage and Medicare Supplement plans, which accounted for 78% of the Company's policies written in 2019.

Throughout the Class Period, Defendants made materially false and misleading statements about the "persistence" of the policies they sold. As an insurance broker, when SelectQuote sells a policy, accounting rules allow it to book the entire lifetime value (LTVs) of commissions at the time the policy is sold. The revenue includes not only the contracted commission rate for the one-year policy contract, but also an estimate of future renewal commissions. However, under generally accepted accounting principles ("GAAP"), the Company must write down the revenue from future commissions as soon as it becomes probable that the policy will not be renewed. In other words, lower policy persistency results in lower LTVs.

Starting with policies sold for 2019, the Company began experiencing increased "churn" as consumers switched policies and chose not to renew the policies offered by SelectQuote. SelectQuote was aware of these issues with policy persistency prior to the IPO and throughout the Class Period. Despite this knowledge, SelectQuote assured investors that they were not experiencing any persistency issues that would significantly affect the LTVs they had already disclosed.

The truth was revealed in a series of disclosures reflecting reduced persistency of renewals and a decline in financial performance. For example, on May 11, 2021, SelectQuote disclosed that its fourth quarter results would be impacted by a "negative cohort and tail adjustment" due to "lower second-term persistency for the 2019 cohort," which SelectQuote attributed to increased "switching activity." This disclosure caused the Company's share price to decline by \$5.50 per share, or 20%. Similarly, on August 25, 2021, SelectQuote disclosed that lack of policy renewals affected policies sold for both 2019 and 2020. As a result of this disclosure, SelectQuote's share price declined by an additional \$6.46 per share, or 45%.

On September 2, 2022, the Court appointed West Palm Beach Police Pension Fund and the City of Fort Lauderdale Police & Fire Retirement System as lead plaintiffs, and approved their selection of BLB&G as lead counsel. Lead Plaintiffs filed a consolidated complaint November 18, 2022. On January 27, 2023, Defendants filed their motions to dismiss the complaint. Lead Plaintiffs filed an opposition to the motions on April 5, 2023. Defendants filed their replies on May 10, 2023. The case is currently pending and awaiting the Court's opinion on Defendants' motion to dismiss.

On March 28, 2024, the court heard oral argument concerning defendants' motions to dismiss, and instructed lead plaintiffs to amend their complaint by May 31, 2024, to address issues discussed during that argument. Lead plaintiffs filed their second amended complaint on May 31, 2024. Defendants filed their motions to dismiss the second amended complaint on July 31, 2024, and Lead Plaintiffs filed an opposition on October 2, 2024, and Defendants filed a reply on November 1, 2024. The case is currently pending and awaiting the Court's opinion on Defendants' motion to dismiss the second amended complaint.

Case Documents

- May 31, 2024 - Second Amended Complaint
- November 19, 2022 - Consolidated Amended Class Action Complaint
- October 7, 2021 - Initial Complaint
- October 7, 2021 - PSLRA Notice