



# **FedNat Holding Company**

(NASDAQ: FNHC)

Investor Update  
August 27, 2018

# SAFE HARBOR STATEMENT

Safe harbor statement under the Private Securities Litigation Reform Act of 1995:

Statements that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein.

The risks and uncertainties include, without limitation, risks and uncertainties related to estimates, assumptions and projections generally; the nature of the Company's business; the adequacy of its reserves for losses and loss adjustment expense; claims experience; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail) and other catastrophic losses; reinsurance costs and the ability of reinsurers to indemnify the Company; raising additional capital and our potential failure to meet minimum capital and surplus requirements; potential assessments that support property and casualty insurance pools and associations; the effectiveness of internal financial controls; the effectiveness of our underwriting, pricing and related loss limitation methods; changes in loss trends, including as a result of insureds' assignment of benefits; court decisions and trends in litigation; our potential failure to pay claims accurately; ability to obtain regulatory approval applications for requested rate increases, or to underwrite in additional jurisdictions, and the timing thereof; inflation and other changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; legislative and regulatory developments; the outcome of litigation pending against the Company, and any settlement thereof; dependence on investment income and the composition of the Company's investment portfolio; insurance agents; ratings by industry services; the reliability and security of our information technology systems; reliance on key personnel; acts of war and terrorist activities; and other matters described from time to time by the Company in releases and publications, and in periodic reports and other documents filed with the United States Securities and Exchange Commission

In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including claims and litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a contingency. Reported results may therefore appear to be volatile in certain accounting periods.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake any obligation to update publicly or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

# FEDNAT CORPORATE PROFILE

## Overview:

- Leader in coastal Florida homeowners market
- High quality book of business with proven underwriting excellence
- Strong, large partner agent network and brand recognition
- Experienced leadership team

## Key Metrics\*:

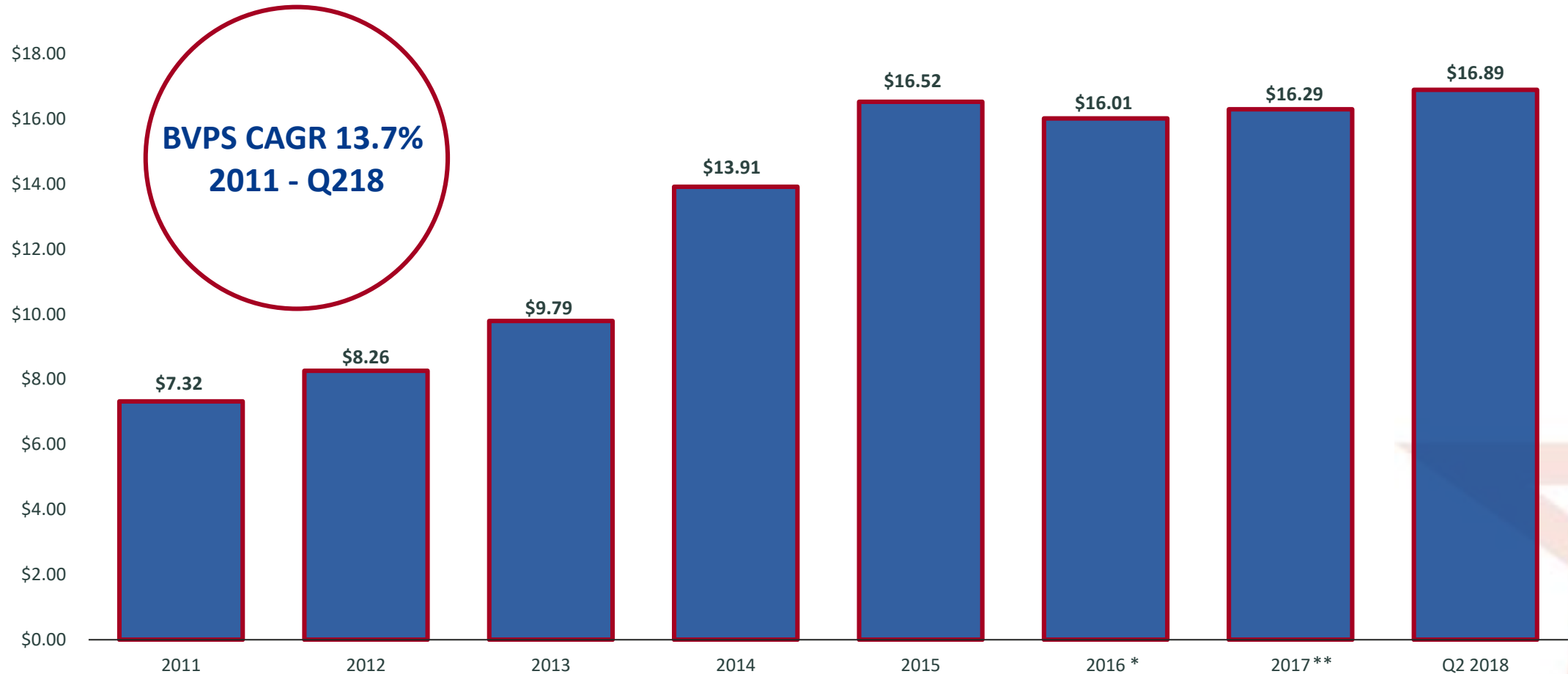
- Cash and Investments: \$500M+
- Book Value Per Common Share: \$16.89
- Agency Partnerships: 2,500+
- Gross Written Premiums for 1H18: \$300M+
- Florida OIR Market Share\*\* : 4.9%
- Demotech Financial Stability Rating: A



\* As of June 30, 2018, unless otherwise noted

\*\* Market data as of March 31, 2018 (Source: Florida OIR)

# LONG-TERM TRACK RECORD OF BOOK VALUE GROWTH



\* Impacted by Hurricane Matthew

\*\* Impacted by Hurricane Irma

Source: Company Filings and SNL Financial

Note: Based on GAAP financial information





# IMPACT OF HURRICANE IRMA

- **The strongest hurricane to make continental US landfall in over a decade**
  - Over \$20B of insurable property loss
  - FedNat losses estimated at \$630M
  - \$21M retention (recorded in 3Q17)
  - 36,000+ claims received, spanning 61 counties, over 93% of which have been closed
- **Storm-related income has substantially reduced our net retention**
  - Claims handling revenue of \$12M
  - Incremental reinsurance brokerage income from reinstated layers of \$3M
  - To date, have recovered over 70% of our net retention, resulting in a (\$4M) after-tax net impact from the storm

# EXIT FROM NON-CORE LINES OF BUSINESS

## **Automobile**

- All regulatory approvals received
- Largest remaining block transferred via novation agreement
- Immaterial amount of GWP after August 1
- Expect <\$2.5M of NEP through 1Q19 – no in-force premium projected thereafter

## **Commercial General Liability**

- All regulatory approvals received
- Slower run-off than Auto due to annual policies
- No projected GEP by end of 2019
- \$4M of Unearned Premium Reserves as of June 30
- Expect declining NEP through 2Q19 (was \$2.3M in 2Q18)

# SUCCESSFULLY MITIGATING AOB HEADWIND

**AOB has been a significant drag on FL HO providers, but FedNat's multi-pronged strategy has positioned the company for improved underwriting profitability.**

## **The Assignment of Benefits ("AOB") Challenge**

- Incurred loss ratios for FL homeowners increased by more than 5 points in 2016, primarily driven by AOB
- AOB unlikely to see legislative solution near-term but significant rate increases have been approved by OIR
- Combining 2016 storm activity and attritional loss pressure, the FL HO industry reported an aggregate combined ratio of 107% in 2016 vs. 90% in 2015
- 2016 upward trend has leveled off with higher frequency and lower severity
- Minimal additional rate needed to further mitigate effects of AOB

## **FedNat's AOB Strategy**

- Achieved aggregate 16+% compounded homeowners rate increase
- Proactive management, training and engagement
- Educating policyholders on reporting claims upon occurrence
- Analyze expected costs and work directly with AOB contractors and preferred FNHC vendors to arrive at a fair payment, else invoke policy appraisal clause
- Reducing litigation and mitigation expense risk
  - Aggressively pursuing Alternative Dispute Resolution practices
  - FNHC instituted FL OIR approved policy language changes that restrict emergency mitigation expenses

## SECOND QUARTER KEY FINANCIAL HIGHLIGHTS

- Strong year-over-year and sequential EPS growth to \$0.67, excluding investment gains
- Best combined ratio in 2 years – 99.0% compared with 110.6% in 2Q17 and 100.3% in 1Q18
- Homeowners net earned premiums increased 6% driven by strong non-Florida performance (up 50%)
- Significantly reduced Auto loss as business line winds down
- \$5 million capital investment in stock re-purchases, year-to-date
- Book value grew to \$17.31, excluding Accumulated Other Comprehensive Income
- Annualized ROE of 16.4%, excluding investment gains



# FORWARD FINANCIAL MOMENTUM

## Incremental drivers of earnings growth through 2H18 and into 2019:

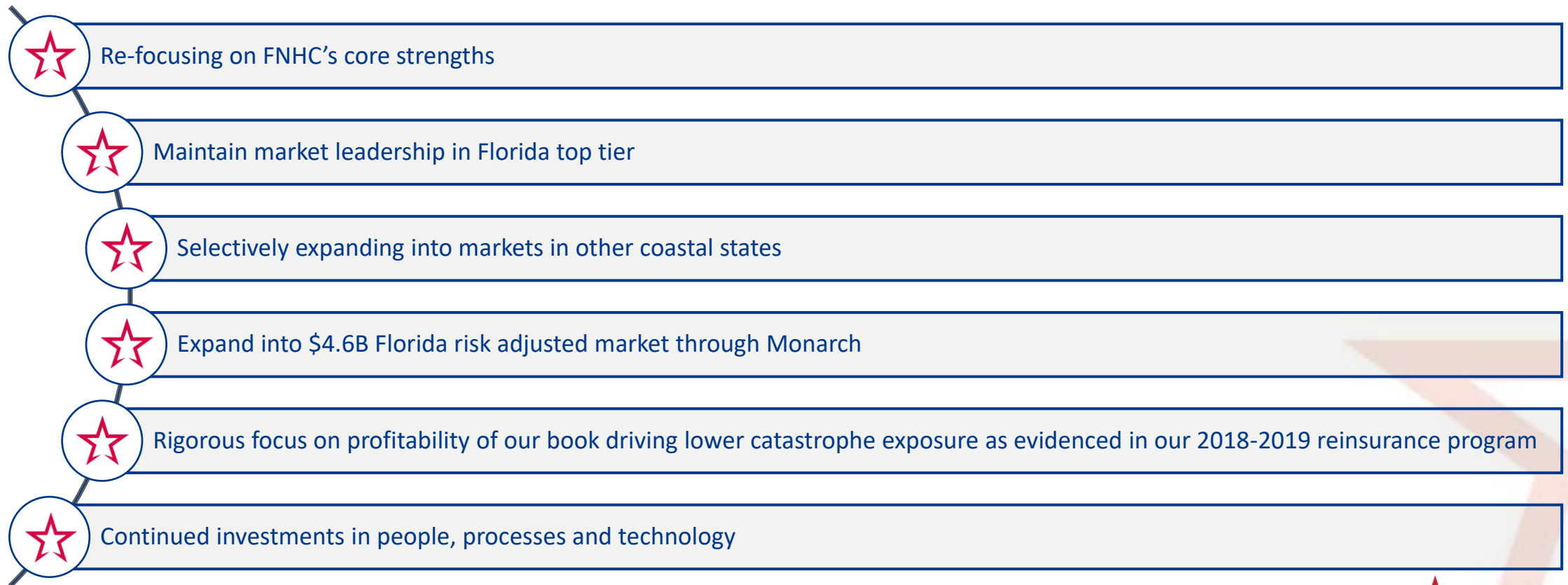
- Homeowners net earned premiums will benefit from two key factors:
  - Rate increase of 10% effective 8/1/17 now being fully earned
  - \$2 million of incremental Gross Earned Premium in 3Q18 vs. 2Q18
- Lower ceded premiums as a result of new re-insurance program
  - 10% less hurricane exposure
  - 5 points lower ceded premium ratio (34% down to 29%)
  - Represents \$30 million of catastrophe reinsurance costs savings over the coming treaty year\*
- Financial savings and benefits of operating efficiency initiatives
  - \$1M per quarter run-rate savings beginning with 3Q18
- Reduced losses from unprofitable Auto and CGL business lines

\* \$27M benefit, net of reduced brokerage income. Subject to adjustments for change in exposure over treaty year.

# VALUE CREATION STRATEGY

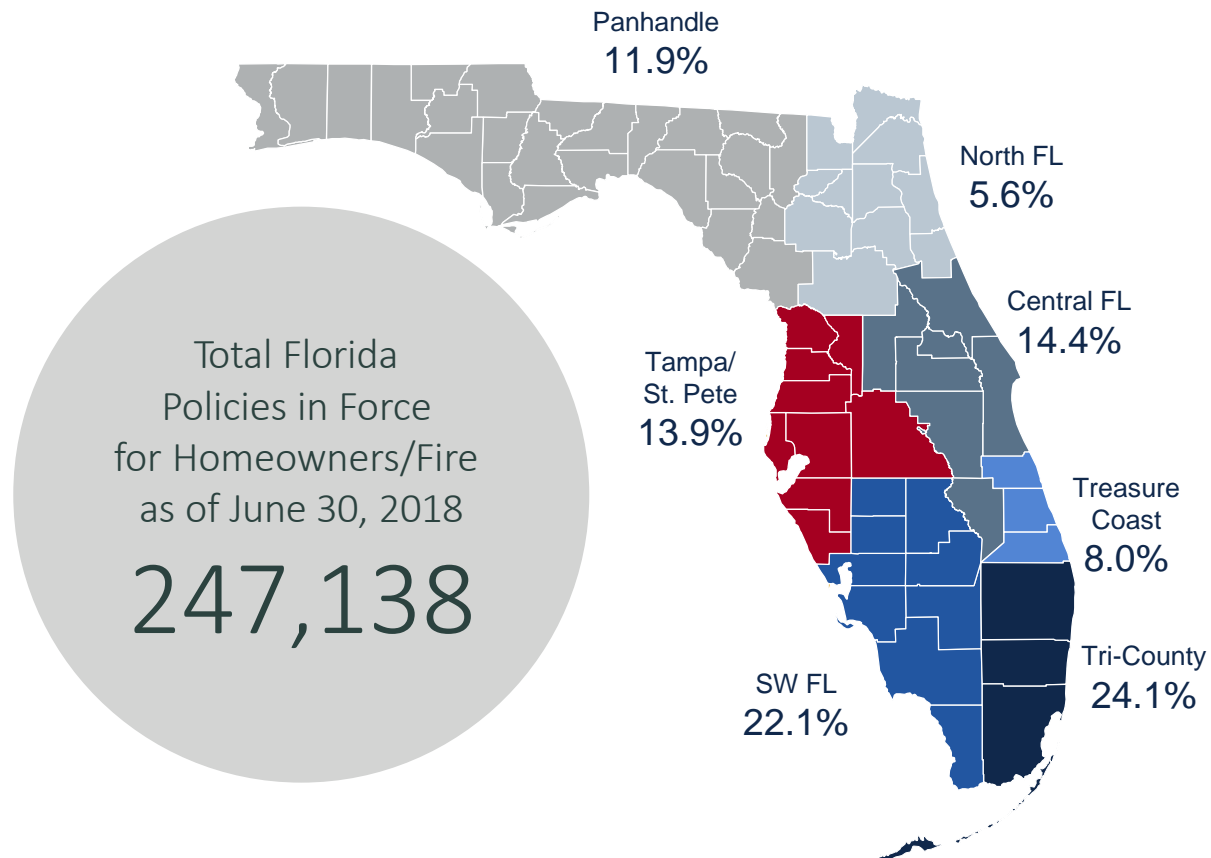
The image features a dark blue background with a large, stylized blue star graphic. The star is composed of several overlapping layers, creating a sense of depth. A bright red vertical stripe runs along the right edge of the image. The text "VALUE CREATION STRATEGY" is written in a bold, white, sans-serif font, centered horizontally across the middle of the image.

# 2018 & BEYOND: BUILDING FOUNDATION FOR LONG-TERM VALUE CREATION



# FLORIDA: BROADENING REGIONAL PENETRATION

## FedNat Insurance Company – Florida Market for Homeowners



- Statewide offering of HO3, HO6, HO4 and DP-3 Forms
- Risk Management through utilization of both analytics and geographic exposure management
- Distribute through independent retail partner agents and national carrier affinities
- Managed catastrophe exposure by ceding risk through reinsurance treaties

# DIVERSIFYING FLORIDA BOOK - MONARCH

## Full Ownership of Monarch offers path to large, untapped market segment

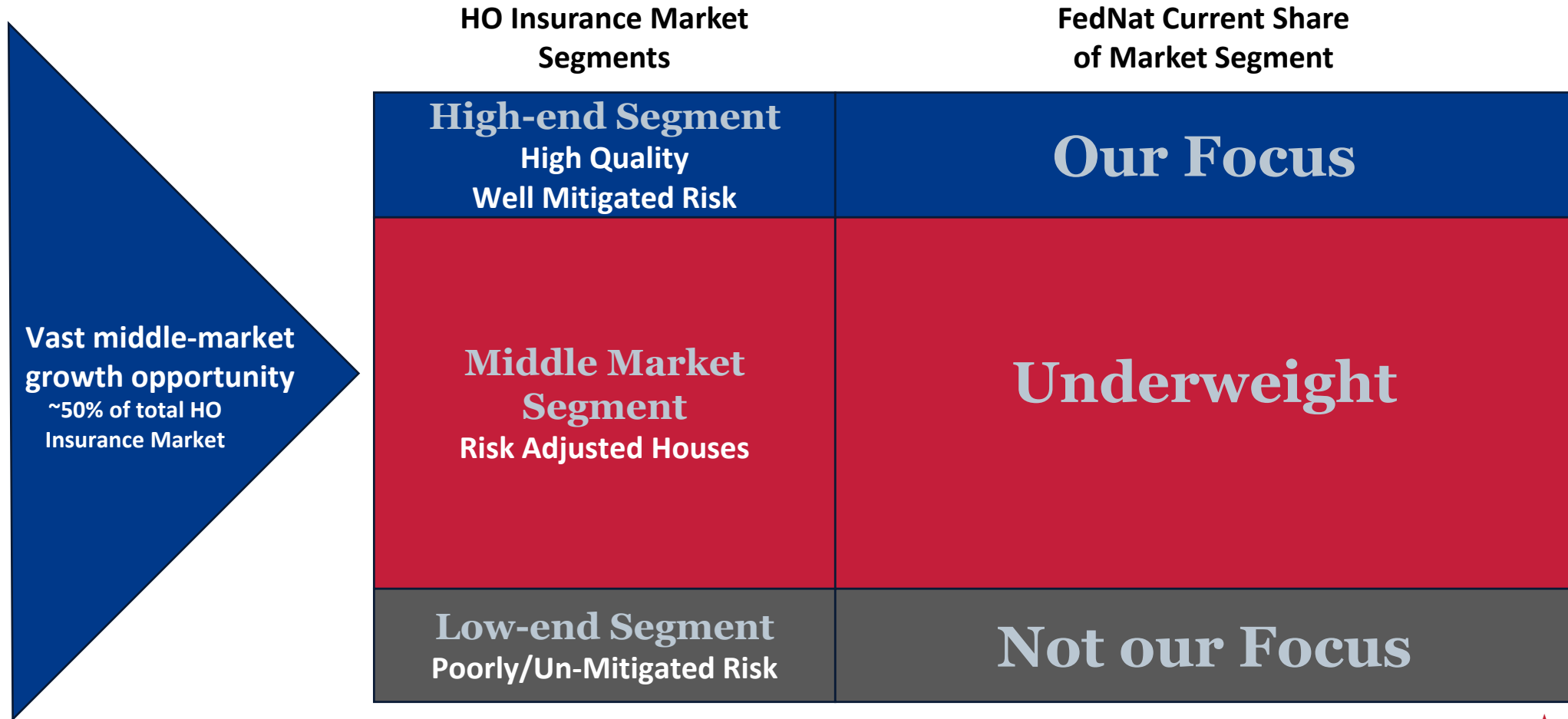
### Monarch National Insurance Overview

- Established in 2015 as joint venture (JV)
- Consolidated JV in February 2018 for \$16.7 million in cash and retired \$5 million note
- Strategy: Leverage FedNat's agent network to access risk-adjusted class of FL HO market
- Enhancing underwriting process and risk management by deploying sophisticated scoring and leveraging reinsurance partnerships

### Ownership Benefits

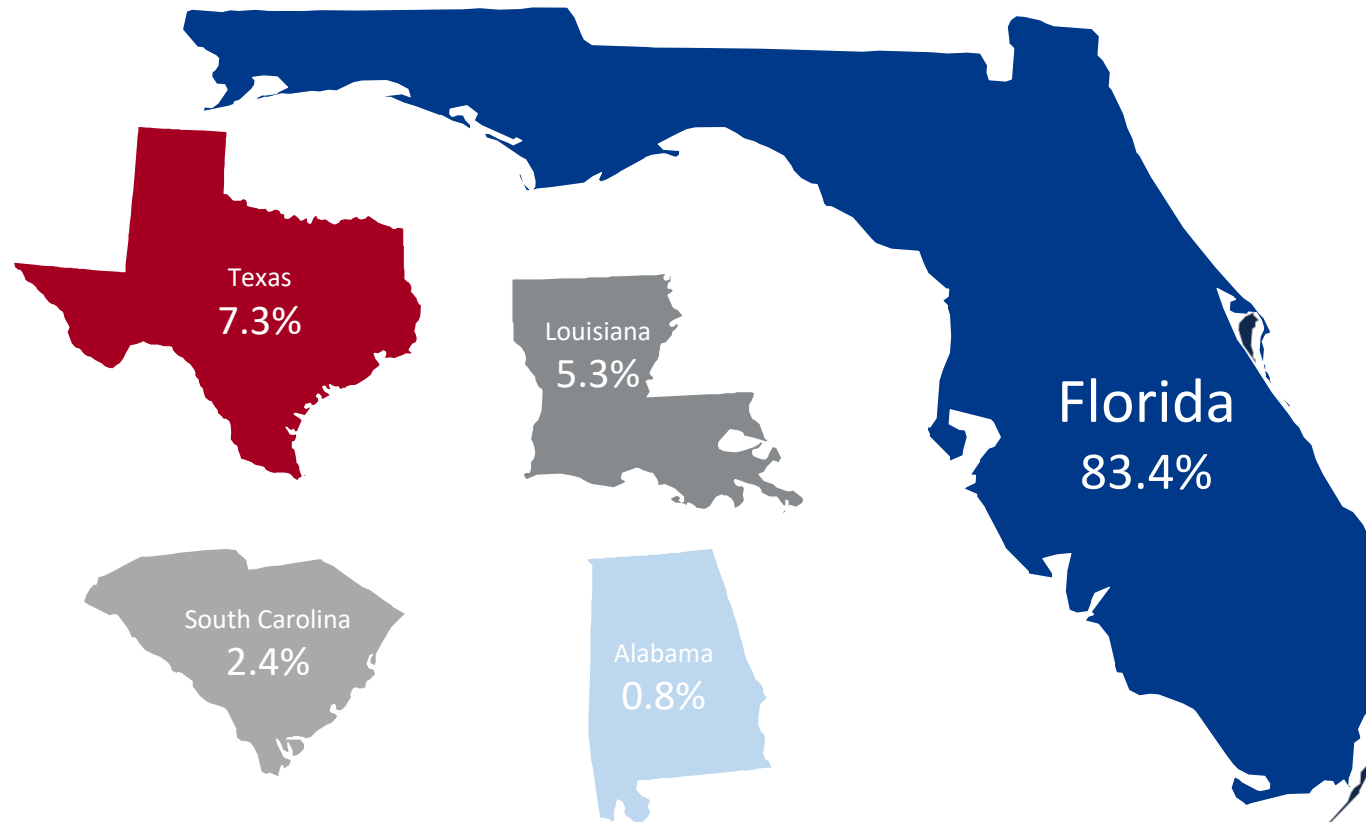
- Full control in executing on the Monarch opportunity
- Provides second prong to FL diversification strategy, expanding access to 50% of the FL HO market of which we are underweight
- Long term non-Florida expansion opportunities
- Opportunity to expand and deepen partner agent relationships
- Improved capital efficiency with Monarch National stacked under FedNat

# MIDDLE MARKET OPPORTUNITY



# COASTAL STATE DIVERSIFICATION

## FedNat In-Force Policy Counts - Regionally



- Limited to Gulf and Atlantic coastal states offering P&C policies
- Focus on hurricane zones 1 and 2 where need is greatest
- Leveraging best practices developed over our 20+ years of experience
- Distributed through partner general agent and national carrier affinities

Note: Based on homeowners/fire lines of business



# **MARKET POSITION & OPERATING APPROACH**



# LEADING POSITION IN FRAGMENTED FLORIDA MARKET

Market dominated by “specialists”, with limited national P&C carrier presence

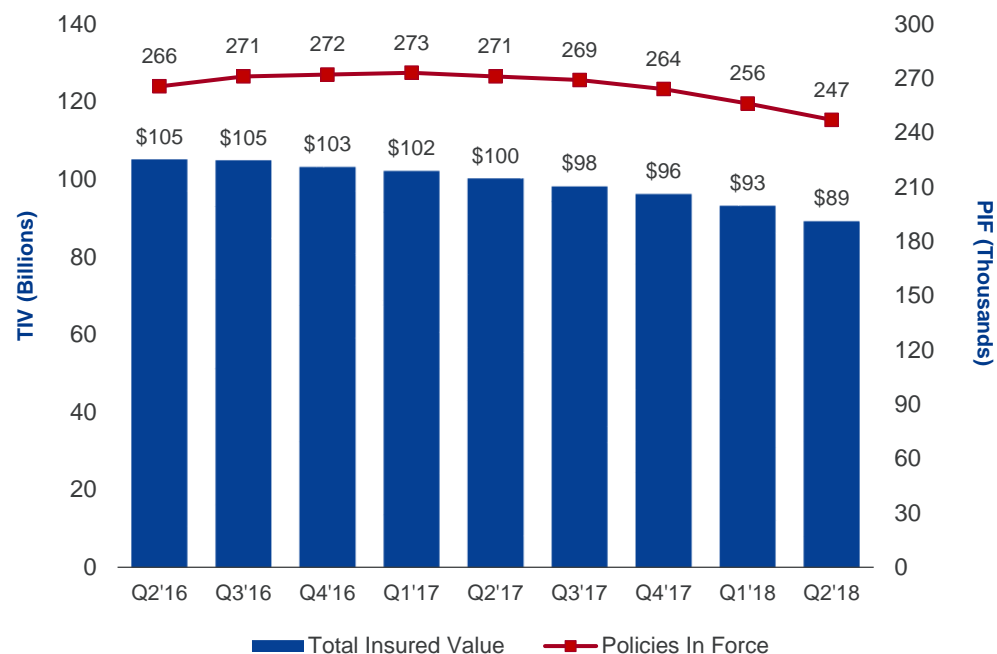
Rank	Insurer	2018 Q1 FL HO DWP (\$ mm)	FL HO Mkt Share (%)
1	Universal Insurance	950	9.9
2	Citizens Property Insurance	771	8.0
3	<b>FedNat Insurance</b>	<b>467</b>	<b>4.9</b>
4	Heritage Insurance	432	4.5
5	Security First Insurance	393	4.1
6	Homeowner's Choice Insurance	338	3.5
7	First Protective Insurance	312	3.2
8	American Integrity	296	3.1
9	United Property & Casualty	291	3.0
10	St. John's Insurance	269	2.8
11	United Services Auto	258	2.7
12	Florida Peninsula	239	2.5
13	Tower Hill Prime Insurance	238	2.5
14	People's Trust Insurance	232	2.4
15	Federal Insurance	207	2.2
16	ASI Preferred	173	1.8
17	AIG Property Casualty	172	1.8
18	Safepoint Insurance	147	1.5
19	Olympus Insurance	142	1.5
20	Tower Hill Signature	134	1.4
21	USAA Casualty	127	1.3
22	Tower Hill Preferred	107	1.1
23	Gulfstream P&C Insurance	104	1.1
24	Auto Club Insurance	104	1.1
25	Southern Fidelity P&C	104	1.1
	Others	2,609	26.2
	<b>Total</b>	<b>\$9,616</b>	<b>100.0</b>

- Nation's third largest state
- Population growth has averaged 1,000 people per day
- \$9.6 billion HO insurance market
- Highly fragmented market with national players comprising less than 20%, none with higher market share than FedNat
- FedNat's focus is on high quality, well-mitigated homes (built after 1994) – we have ~20% of homes in this class statewide
- With Citizens policies reduced by ~two-thirds since 2011, carriers pursuing geographic expansion and new products



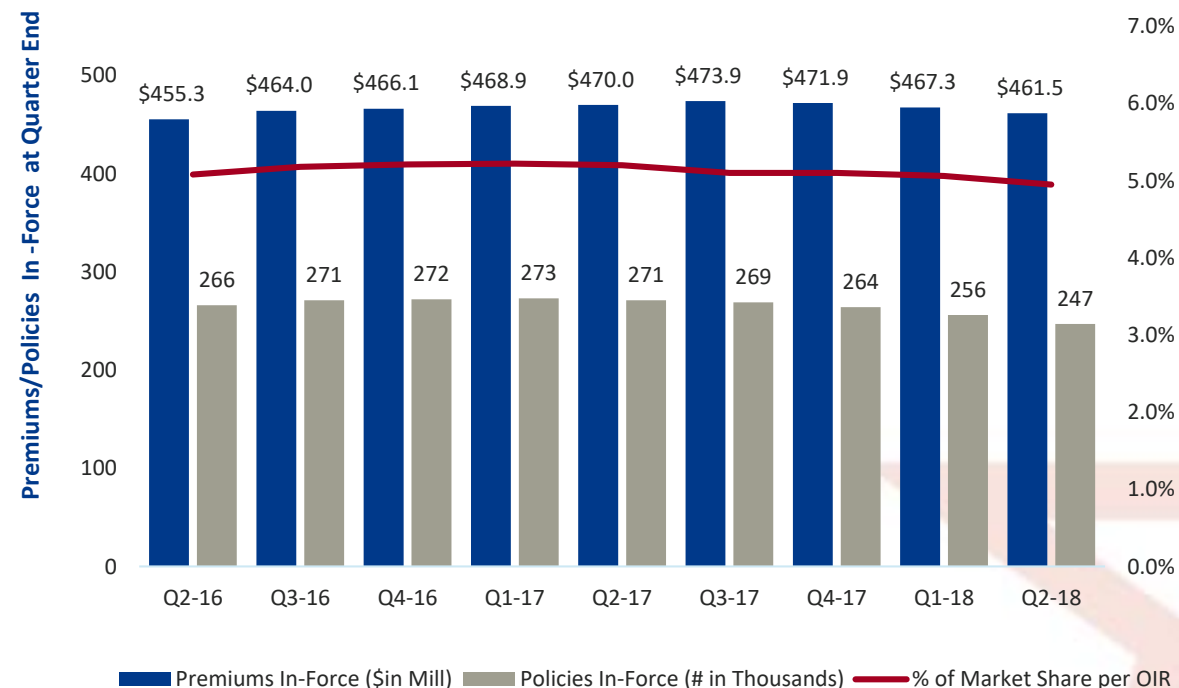
# STRONG, PROFITABLE FLORIDA BOOK

## FNIC Total Insured Value and Policies In-Force



## FNIC Homeowners Florida Market Share

Premiums in Force and % Market Share



**Disciplined underwriting driving increased profitability on flat premiums**

OIR = Florida Office of Insurance Regulation

% Market share per OIR for Q1 and Q2-17 unavailable as of 8/17/2017.

# DISCIPLINED UNDERWRITING APPROACH

**FedNat's meticulous underwriting approach allows the Company to manage its current exposures while profitably underwriting new risks.**

- Focus on properties with more advanced wind / hurricane mitigation features and lower All Other Peril (non-catastrophe) losses
- Generalized Linear Model ("GLM") used to derive pre-quote pass/fail position based on each risk's associated expenses, CAT and non-CAT exposure, cost of capital and risk concentration
  - Manual reviews of every bound risk to ensure accuracy of information
  - Regulatory approved use of our GLM-based analytics to provide a layer of pre-binding portfolio optimization management
- Rates on every policy a function of FNIC's historical loss experience, concentration of risk, expenses and current market conditions
  - All risks are subject to an annual review to ensure low performing risks are not offered a renewal
- Business written by MNIC utilizes a similar disciplined approach as its policies are also underwritten by FedNat Underwriters ("FNU"), the Company's wholly owned MGA

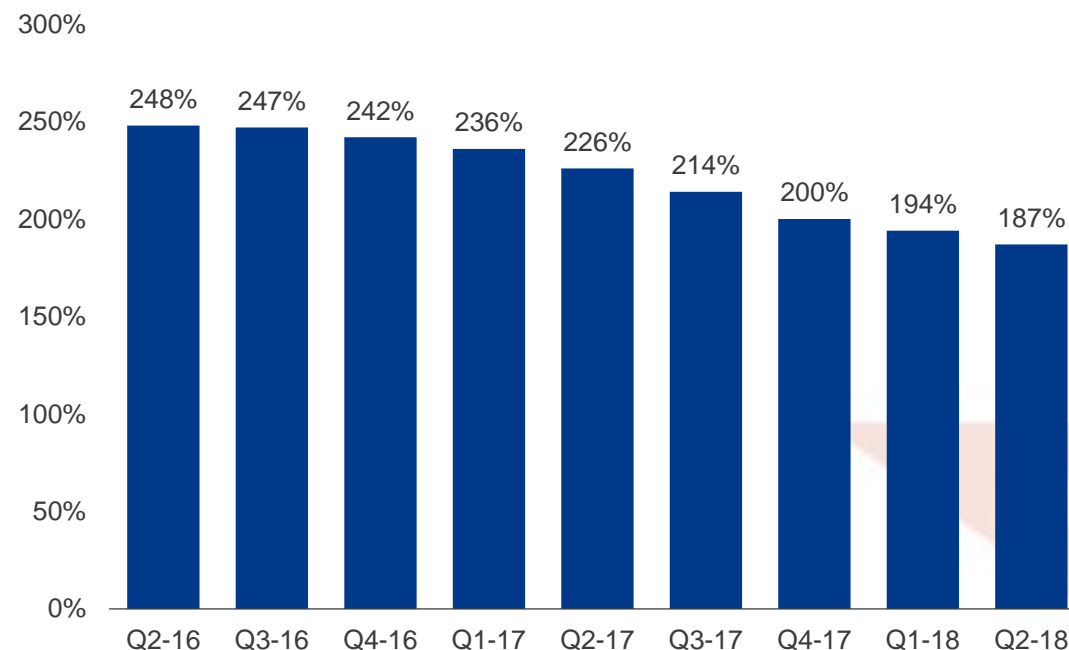
# BENEFITTING FROM RIGOROUS EXPOSURE MANAGEMENT

## Excess-of-Loss Cat Reinsurance

- \$30M\* lower spend for the treaty year ending 6/30/19 versus the preceding period
- Homeowners ceded premium ratio for catastrophe coverage will drop 5 points to 29%
- Same purchasing methodology and level of coverage as preceding years

\* \$27M benefit, net of reduced brokerage income.  
Subject to adjustments for change in exposure over treaty year.

All States 1-in-100 Year Probable Maximum Loss / In-Force Premium (“PML to Premium”)



Notes: PML modeled using average of AIR and RMS.  
Includes Monarch National from Q1-18 forward.  
Assumptions: LT, No LA, No SS

# 2018-2019 REINSURANCE STRUCTURE

Full indemnity reinsurance with highly rated reinsurers, many with multi-year relationships

Allianz

ASPEN  
INSURANCE

Endurance

NEON

SOMPO INTERNATIONAL

ALLIED  
WORLD  
A FAIRFAX Company

ascot

EVEREST

The Hanover  
Insurance Group

PartnerRe

TransRe

CHUBB

Arch

FIDELIS

LLOYD'S

RenaissanceRe

XL

## Program Highlights

~\$1.8 billion  
of aggregate coverage with  
maximum single event  
coverage of approximately  
\$1.3 billion

Per occurrence  
pretax  
retention of  
\$23 million

80+  
reinsurance partners, all of which  
are rated "A-" or higher  
by A.M. Best or fully  
collateralized

Program expected to drive 7 point improvement in HO combined ratio in 2H18

# FINANCIAL OVERVIEW

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# EARNINGS MOMENTUM DRIVERS

- Better rate environment in Florida Homeowners market mitigating AOB
- Steady improvement in underwriting profitability over the last three quarters
- Improved operating efficiency and reduced staff levels leading to meaningful expense reductions
- Exiting unprofitable non-core auto and commercial general liability lines
- Renewed focus on building core Florida and coastal states Homeowners book
- Significantly reduced our hurricane exposure, as evidenced by our reduced 2018/2019 reinsurance program costs
- Expanded Total Addressable Market longer-term with Monarch consolidation
- Effective capital management

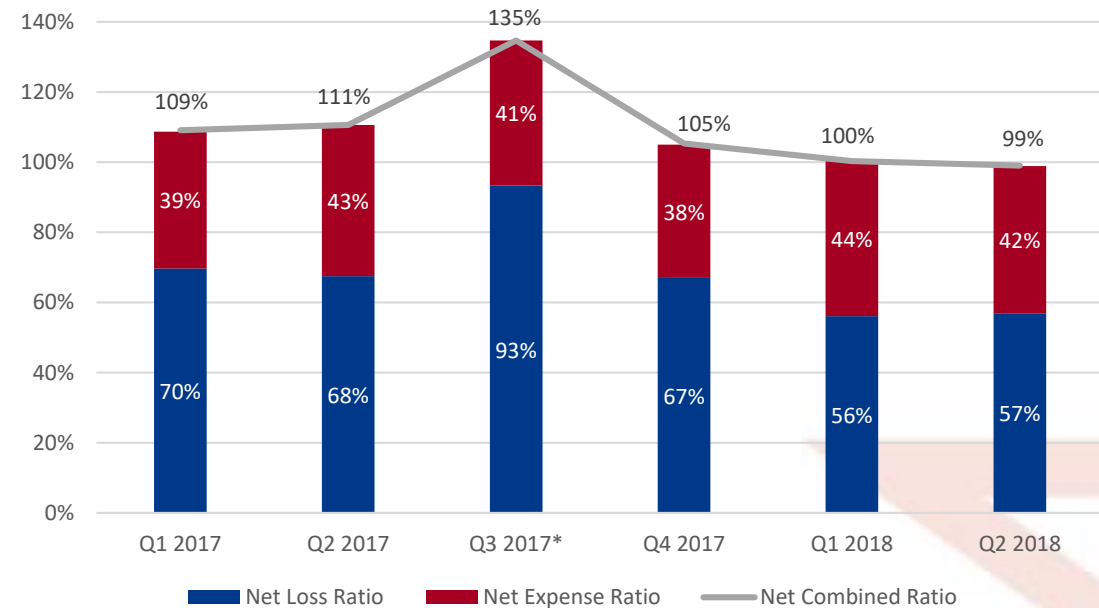
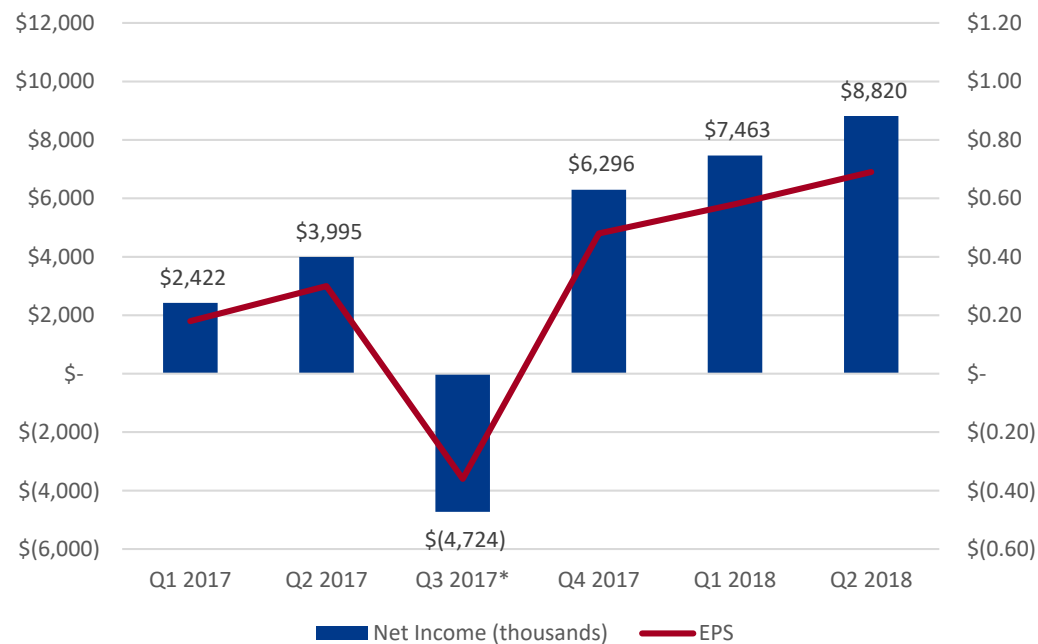
# FINANCIAL HIGHLIGHTS

(in thousands)	Q117	Q217	Q317*	Q417	Q118	Q218
<b>Income Statement Data:</b>						
Gross Premiums Written	\$146,051	\$168,692	\$154,782	\$133,892	\$134,395	\$166,734
Net Premiums Earned	81,660	83,554	80,764	87,503	82,109	83,557
Net Investment Income	2,318	2,560	2,603	2,773	2,943	2,978
Pre-Tax Income (Loss)	3,884	5,655	(10,179)	9,567	9,616	12,016
Net Income (Loss)	2,422	3,995	(4,724)	6,296	7,463	8,820
<b>Balance Sheet Data:</b>						
Cash and Investments	505,956	534,305	524,879	530,249	506,861	532,084
Shareholders Equity	218,770	217,492	208,576	211,637	208,080	215,028
Book Value per Share	\$16.23	\$16.65	\$15.98	\$16.29	\$16.36	\$16.89
<b>Financial Ratios:</b>						
Net Loss Ratio	69.7%	67.5%	93.3%	67.3%	56.1%	56.9%
Net Expense Ratio	39.4%	43.1%	41.4%	38.0%	44.2%	42.1%
Net Combined Ratio	109.1%	110.6%	134.7%	105.3%	100.3%	99.0%

\*Impacted by Hurricane Irma



# SIGNIFICANTLY IMPROVED UNDERWRITING PROFITABILITY



**Steady improvement in net combined ratio for the last three quarters; Stable net loss and expense ratio**

\*Impacted by Hurricane Irma

# EXIT FROM NON-CORE LINES DRIVING RAPID EARNINGS IMPROVEMENT

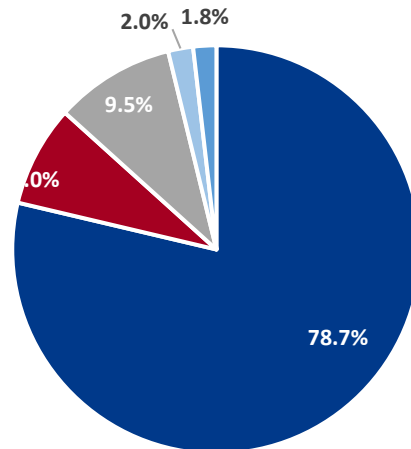
	Q2 2017				Q1 2018				Q2 2018			
	HO	Auto	Other	Consolidated	HO	Auto	Other	Consolidated	HO	Auto	Other	Consolidated
<b>Total Revenue</b>	\$79,862	\$8,949	\$9,348	\$98,159	\$83,305	\$4,166	\$5,606	\$93,077	\$85,474	\$3,341	\$6,927	\$95,742
<b>Costs and expenses:</b>												
Losses and loss adjustment expenses	49,095	8,547	(1,225)	56,417	41,955	2,236	1,880	46,071	42,617	1,932	3,021	47,570
All other expenses	29,808	4,022	2,257	36,087	32,345	1,985	3,060	37,390	31,566	1,691	2,899	36,156
<b>Total costs and expenses</b>	78,903	12,569	1,032	92,504	74,300	4,221	4,940	83,461	74,183	3,623	5,920	83,726
<b>Income before income taxes</b>	959	(3,620)	8,316	5,655	9,005	(55)	666	9,616	11,291	(282)	1,007	12,016
Income taxes	371	(1,396)	3,013	1,988	2,282	(14)	103	2,371	2,861	(71)	406	3,196
<b>Net income</b>	588	(2,224)	5,303	3,667	6,723	(41)	563	7,245	8,430	(211)	601	8,820
Net loss attributable to noncontrolling interest	(328)	-	-	(328)	(218)	-	-	(218)	-	-	-	-
<b>Net income attributable to FNHC shareholders</b>	\$916	(\$2,224)	\$5,303	\$3,995	\$6,941	(\$41)	\$563	\$7,463	\$8,430	(\$211)	\$601	\$8,820

**Q2 earnings from Homeowners up \$7.5M YoY and \$1.5M sequentially**

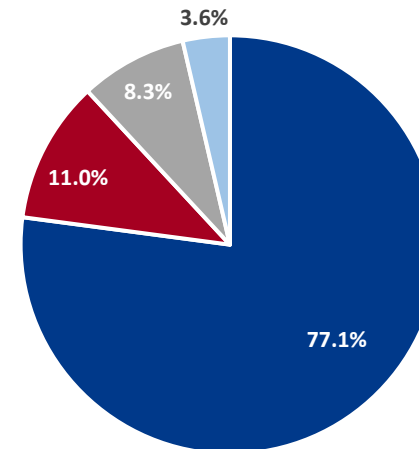
# FAVORABLE PREMIUM COMPOSITION

1H 2017

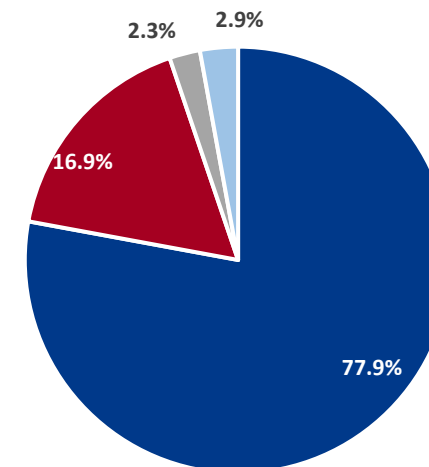
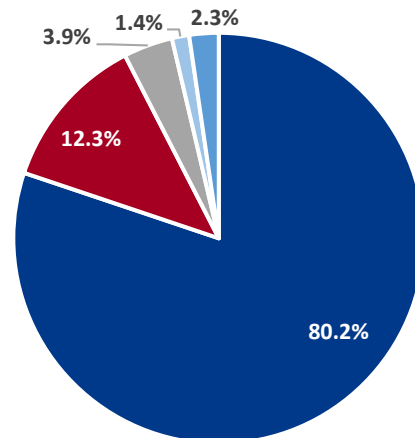
Gross Premiums Written



Net Premiums Earned

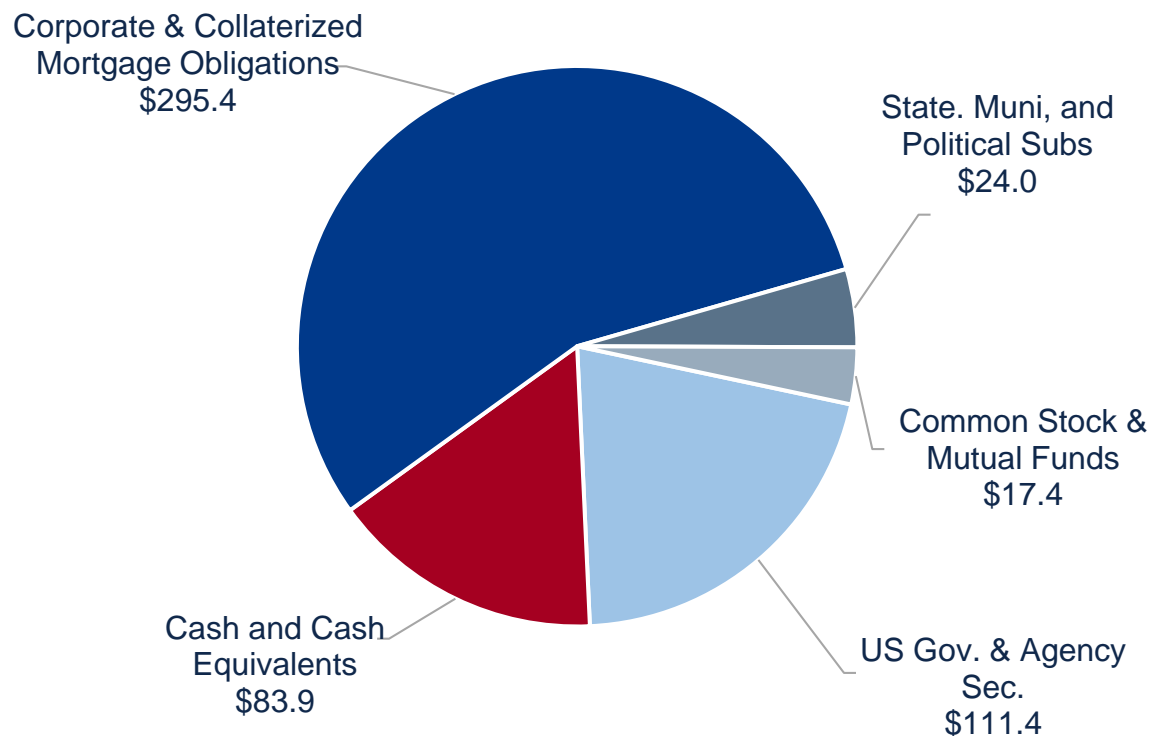


1H 2018



- Florida Homeowners
- Non-Florida Homeowners
- Auto
- CGL
- Other

# INVESTMENT PORTFOLIO COMPOSITION

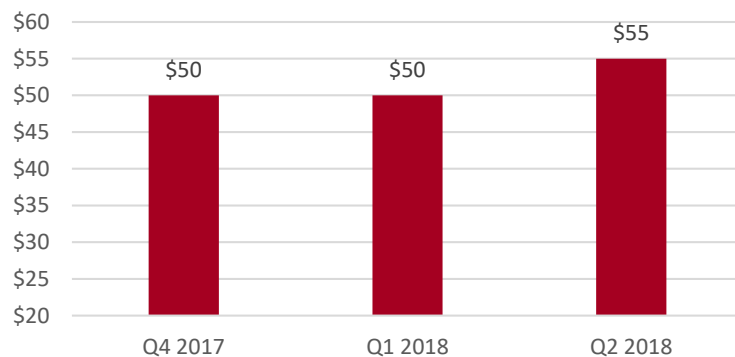


as of June 30, 2018  
(in millions)

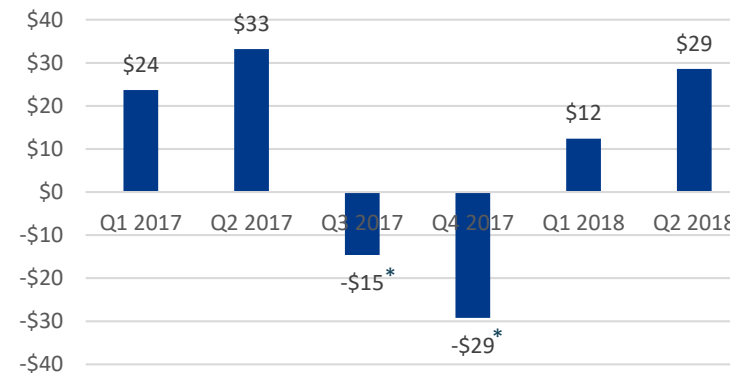
- Designed to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk
- As of 6/30/2018, 97.8% of the Company's fixed income portfolio was rated investment grade
  - Average duration: 3.976 years
  - Composite rating: A- (S&P Composite)
  - YTM: 3.40%
  - Book yield: 2.90%
- Historical total returns on cash and investments as of 6/30/2018
  - 1 Year: 0.48%
  - 2 Years: 0.96%

# LIQUIDITY & LEVERAGE

**Non-insurance Liquidity**  
\$ in millions

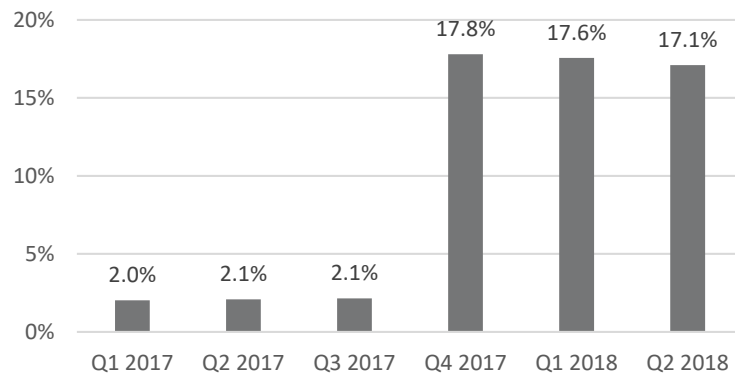


**Cash Flow from Operations**  
\$ in millions

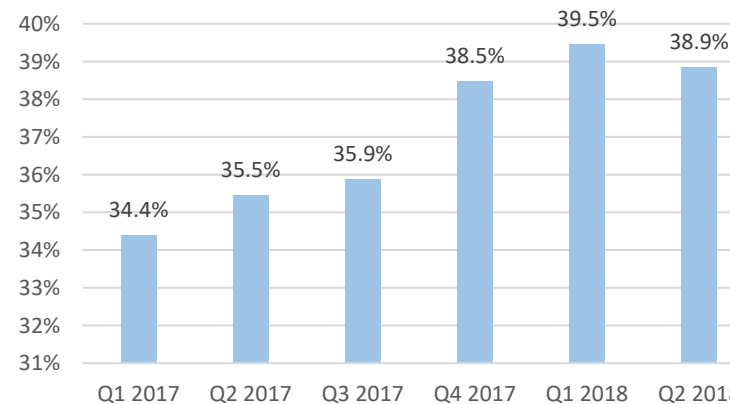


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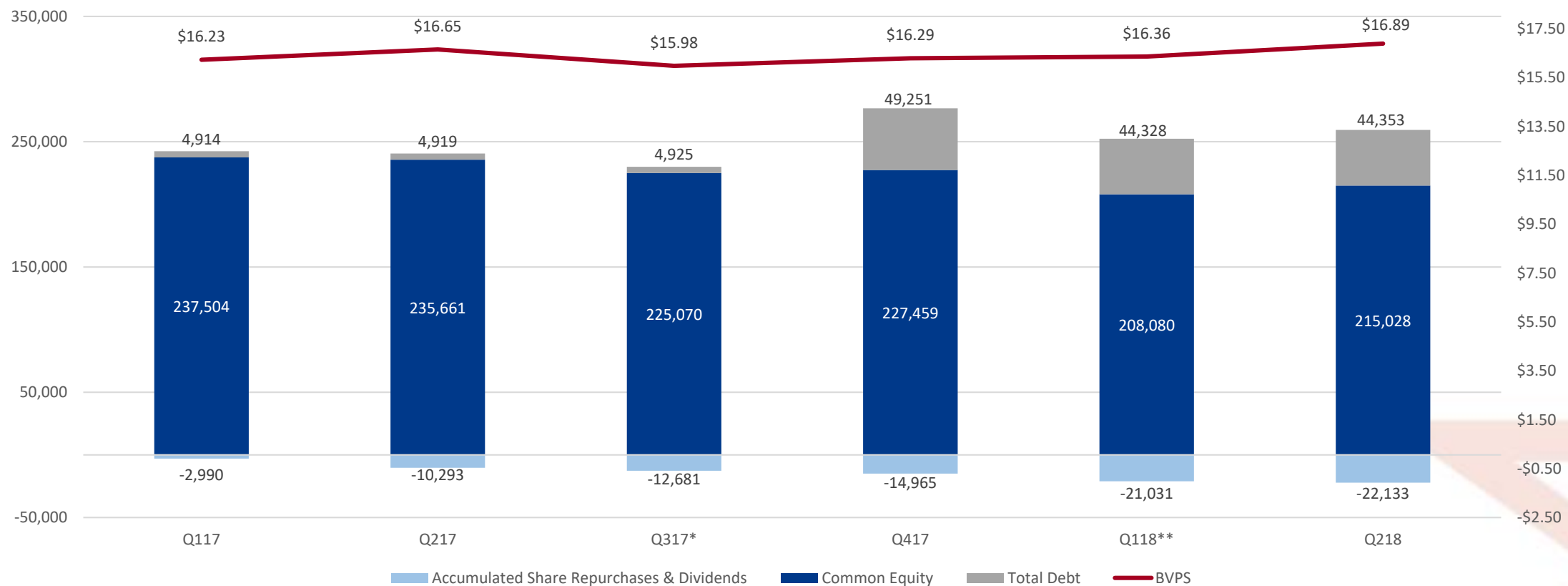
**Financial Leverage**  
Debt/Capital



**Underwriting Leverage**  
NPE/Equity



# EFFECTIVE CAPITAL MANAGEMENT



**\$10M share repurchase program authorized March 2017; Additional \$10M program authorized December 2017**

# Questions?

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