



# FedNat Holding Company

(NASDAQ: FNHC)

- FedNat Insurance Company
- Maison Insurance Company
- Monarch National Insurance Company

## Fourth Quarter 2019

INVESTOR PRESENTATION

# 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 and its ability to integrate operations proposed to be acquired; 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 compliance with 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; the timing and ability to obtain regulatory approval of applications for transactions and requested rate increases, or to underwrite in additional jurisdictions, and the timing thereof; the impact that the results of our subsidiaries' operations may have on our results of operations; 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 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

## Key Metrics\*:

2019 Gross Written Premiums

**\$611M**

Book Value Per Common Share

**\$17.25**

Florida OIR Market Share

**~4.5%**

Agency Partnerships

**4,500+**

Cash and Investments

**\$680M+**

Demotech Financial  
Stability Rating

**A**







**A regional insurance holding company that writes homeowners insurance in the southeast United States with business in FL, TX, LA, SC, AL & MS**

## Corporate Overview

- Leader in Florida homeowners market
- Expanding presence in neighboring states organically and recent acquisition
- High quality book of business with proven underwriting excellence
- Strong, large partner agent network and brand recognition
- Allstate and GEICO agency relationships
- Experienced leadership team

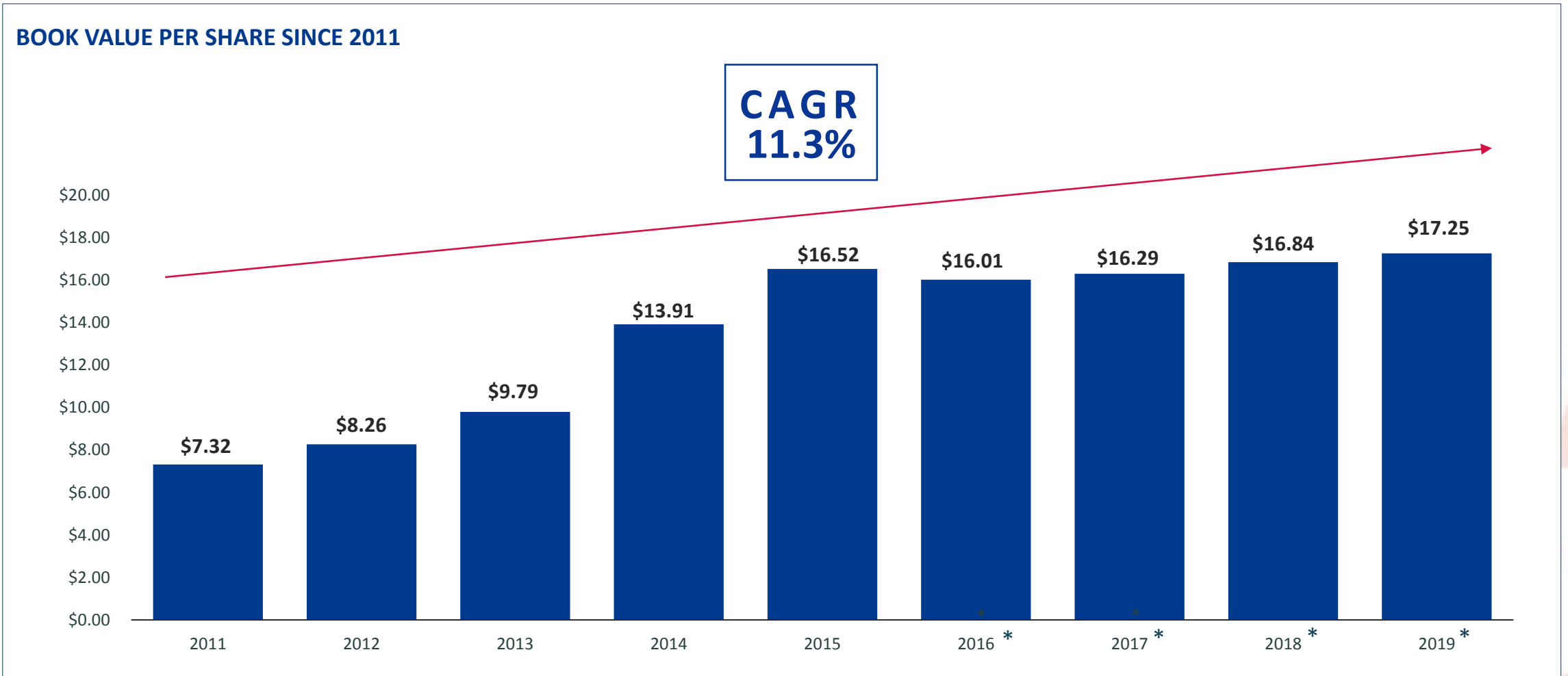
\* As of December 31, 2019, unless otherwise noted

# 2019 SETS UP POSITIVE 2020 OUTLOOK

	<b>GROWTH OF CORE HOMEOWNERS BUSINESS</b>	<ul style="list-style-type: none"><li>✓ Florida: strong brand and agent distribution with underwriting discipline and multiple rounds of recent rate increases</li><li>✓ Non-Florida: successful organic business via partnership with MGU plus recent acquisition of Maison</li></ul>
	<b>EXIT FROM NON-CORE BUSINESSES SUBSTANTIALLY COMPLETED</b>	<ul style="list-style-type: none"><li>✓ Auto: No policies in force and shorter tail largely complete</li><li>✓ CGL: No policies in force and runoff of claims underway</li></ul>
	<b>BENEFITS FROM MAISON SYNERGIES</b>	<ul style="list-style-type: none"><li>✓ \$8 million annual reinsurance savings in current treaty year</li><li>✓ \$3 million annual ongoing operational synergies</li></ul>
	<b>STRONG BALANCE SHEET SUPPORTS GROWTH OPPORTUNITIES</b>	<ul style="list-style-type: none"><li>✓ Announced \$10M share repurchase program for current calendar year</li><li>✓ Recently increased quarterly dividend by ~13% — dividend yield 2%+</li><li>✓ Non-insurance company liquidity is \$65M+</li></ul>

*Long-term target ROE of 15% in years with normalized CAT activity*

# LONG-TERM TRACK RECORD OF BOOK VALUE GROWTH



\* Impacted by full catastrophe reinsurance retention events  
Note: Based on GAAP financial information



**LEADING POSITION IN  
FLORIDA HOMEOWNERS MARKET**

# LEADING POSITION IN FRAGMENTED FLORIDA MARKET

Market dominated by “specialists,” of which FedNat is among the *top four*, with limited national P&C carrier presence

## OPERATING ENVIRONMENT SUMMARY

~\$10B

Total Addressable Florida  
Homeowners Market



Focus on Quality,  
Well-mitigated Homes

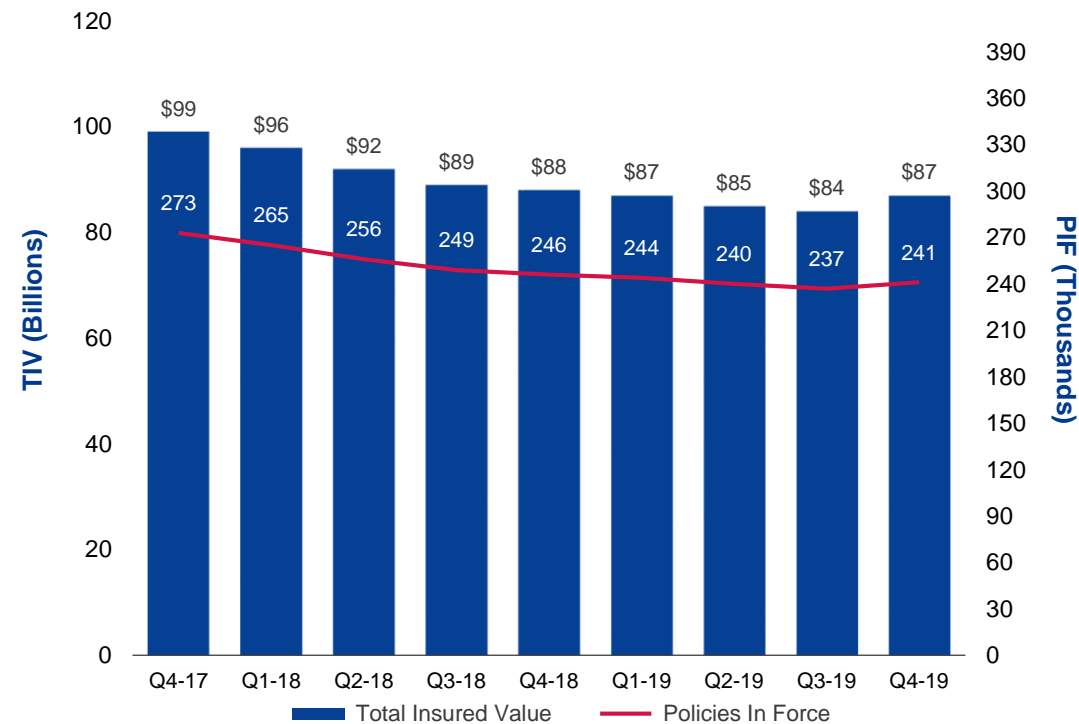


AOB Reform Improves  
Long-Term Environment

- Nation’s third largest state with 21 million people—projected at 26 million by 2030
- \$10 billion homeowners insurance market with strong home construction and growing housing inventory throughout the state
- Highly fragmented market with national players comprising less than 20%, none with higher market share than FedNat
- FedNat’s focus is on quality, well-mitigated homes, built after 1994
- With Citizens policies reduced by ~two-thirds since 2011, FedNat has opportunity for incremental organic growth
- AOB reform is a positive development

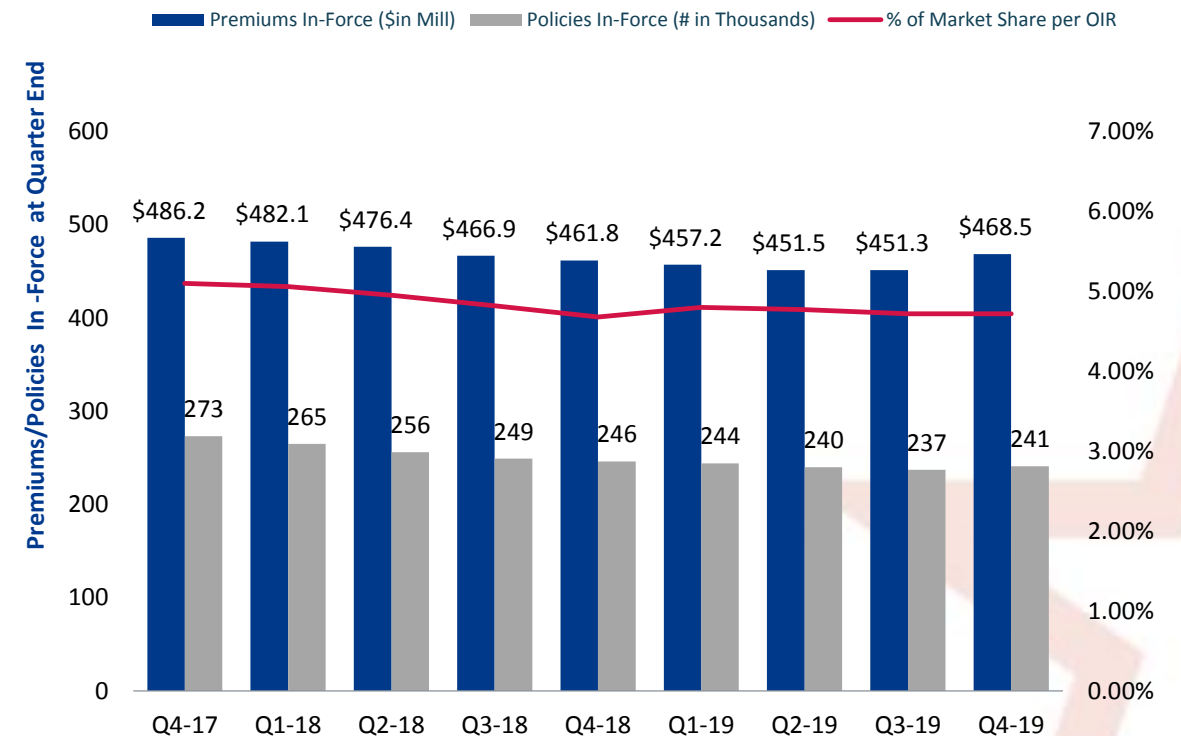
# DISCIPLINED UNDERWRITING DRIVES IMPROVED ECONOMICS

## HOMEOWNERS FLORIDA TOTAL INSURED VALUE AND POLICIES IN-FORCE



## HOMEOWNERS FLORIDA MARKET SHARE

Premiums in Force and % Market Share



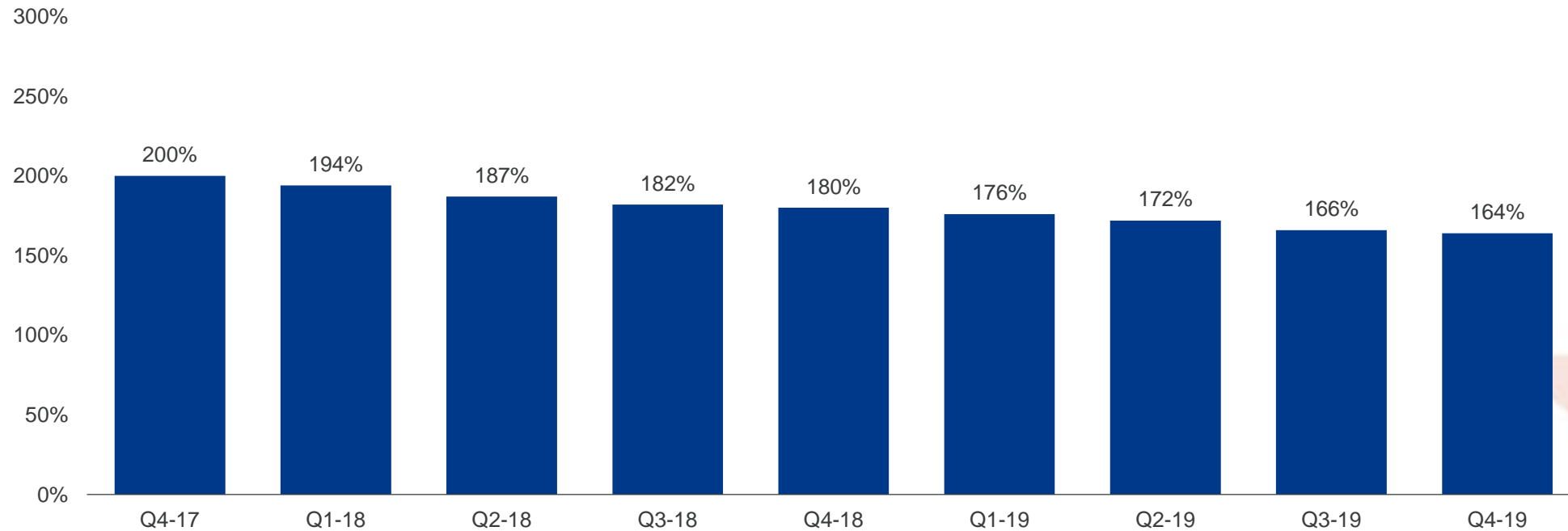
*Flat premiums on decreased exposure drives improved profitability profile*

Note: Q4-19 includes Maison of \$2.6B of TIV; 7k of Policies In-Force and \$15M of Premiums In-Force.



# RIGOROUS EXPOSURE MANAGEMENT

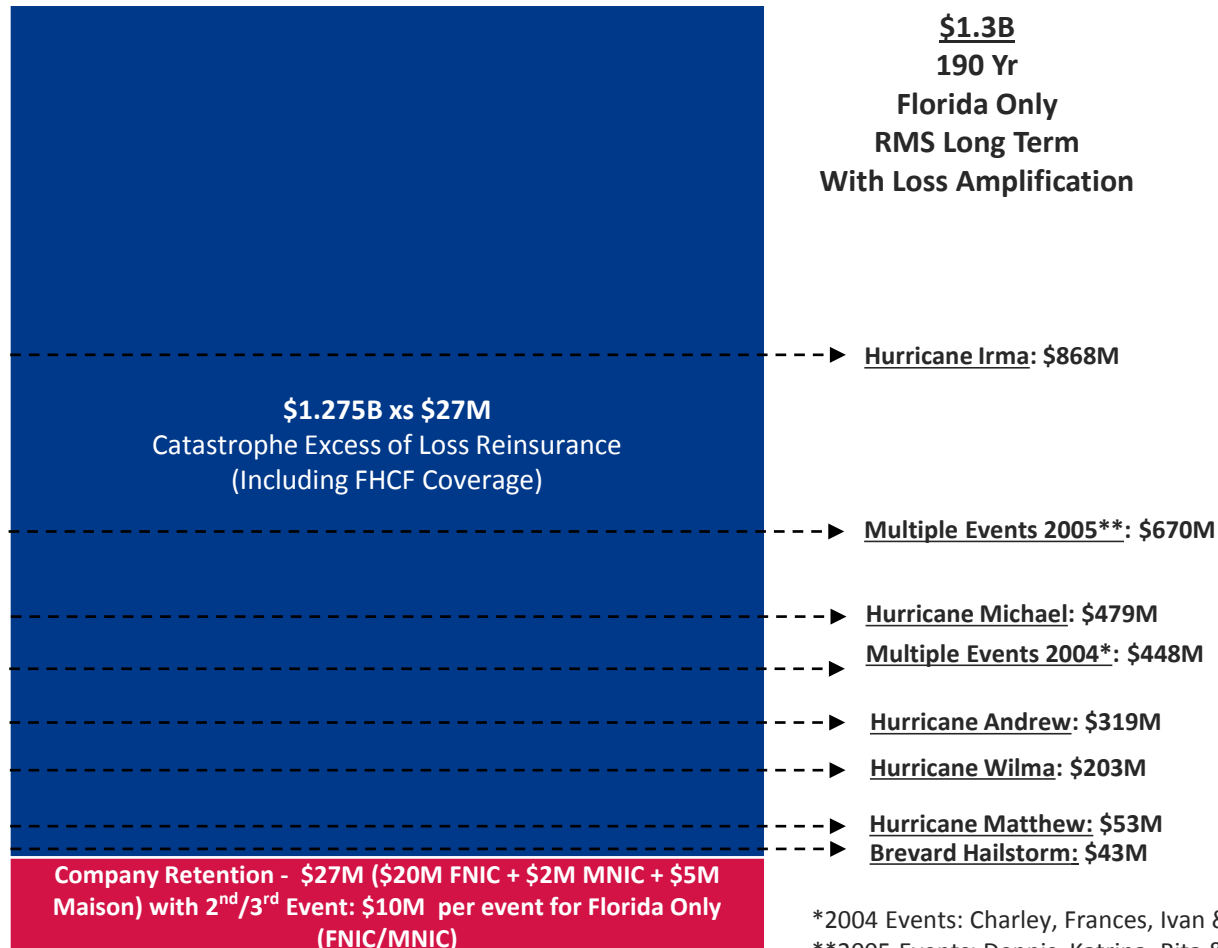
All States 1-in-100 Year Probable Maximum Loss / In-Force Premium (“PML to Premium”)



Notes: PML modeled using average of AIR and RMS.  
Includes Monarch National from Q1-18 forward & Maison in Q4-19.  
Assumptions: LT, No LA, No SS

# 2019-2020 REINSURANCE STRUCTURE

FNIC / MNIC / MAISON COMBINED



1<sup>st</sup> Event Florida (\$926M, 9/30/19P  
100 year RMS LT+DS RP)

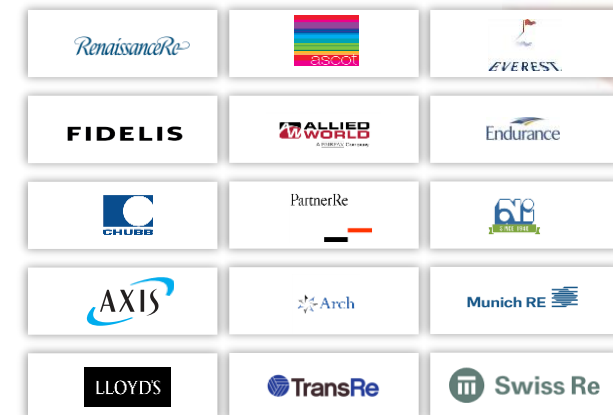
\*2004 Events: Charley, Frances, Ivan & Jeanne  
\*\*2005 Events: Dennis, Katrina, Rita & Wilma  
Structure based on FHCF limit at time of purchase  
Event losses are combined FNIC + MNIC + Maison totals

## MAISON REINSURANCE SYNERGIES

More efficient spread of risk across a larger and increased non-Florida presence resulted in:

- Smaller more efficient reinsurance program
- \$8M of savings as compared to the sum of towers under two separate programs

## REINSURANCE PARTNERS



# DISCIPLINED UNDERWRITING APPROACH

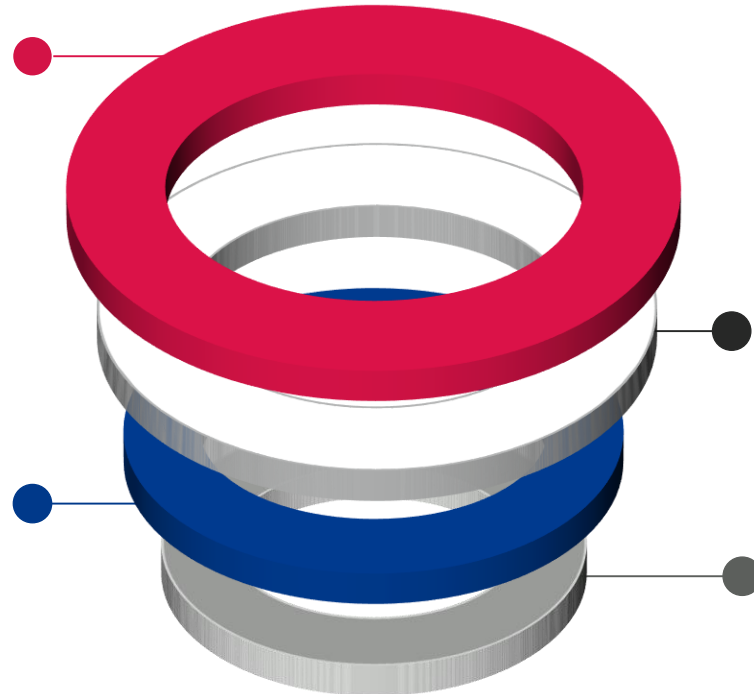
FedNat's meticulous underwriting approach allows it to manage current exposures while profitably underwriting new risks

## HIGH-QUALITY BOOK

Properties with more advanced wind/hurricane mitigation features and lower All Other Peril (non-catastrophe) losses

## RATE DISCIPLINE

Rates on every policy are a function of FNIC's historical loss experience, concentration of risk, expenses and current market conditions



## PROVEN MODEL

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

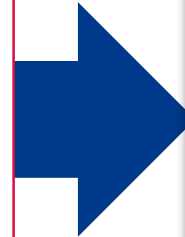
## PRUDENT EXPANSION

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

# POSITIVE AOB CLAIMS TRENDS IN FEDNAT FLORIDA BOOK

## 2019 AOB IMPACT AND REFORM

1. AOB Reform was enacted on July 1, 2019
2. AOB reform is expected to mitigate average severity of claims
3. Claims pre-AOB reform, with dates of loss before 7/1/19, are more severe though the impact is expected to lessen in recent months
4. Claims post-AOB reform, with dates of loss after 7/1/19, are less severe

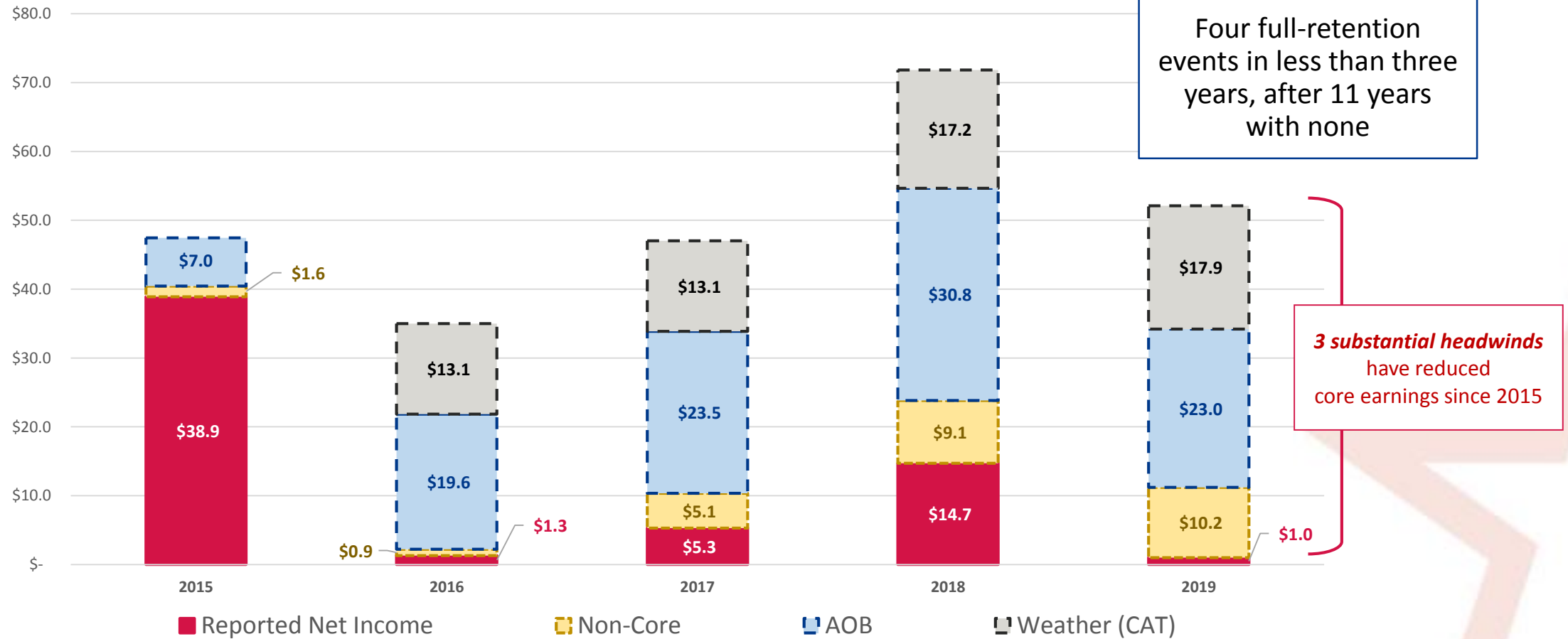


## CLAIMS CONTINUE, BUT LAWSUITS ON THE DECLINE

- ☒ **AOB LITIGATION \***  
Since AOB reform passed, FNHC has received 6 suits, compared to **70+ during 2H18—a 90%+ reduction.**
- ☒ **LAWSUITS ARE COSTLIER \*\***  
Claims with lawsuits tend to average \$15,000 more in costs. Savings will drive substantial severity benefit on dates of loss from July 1, 2019 forward.

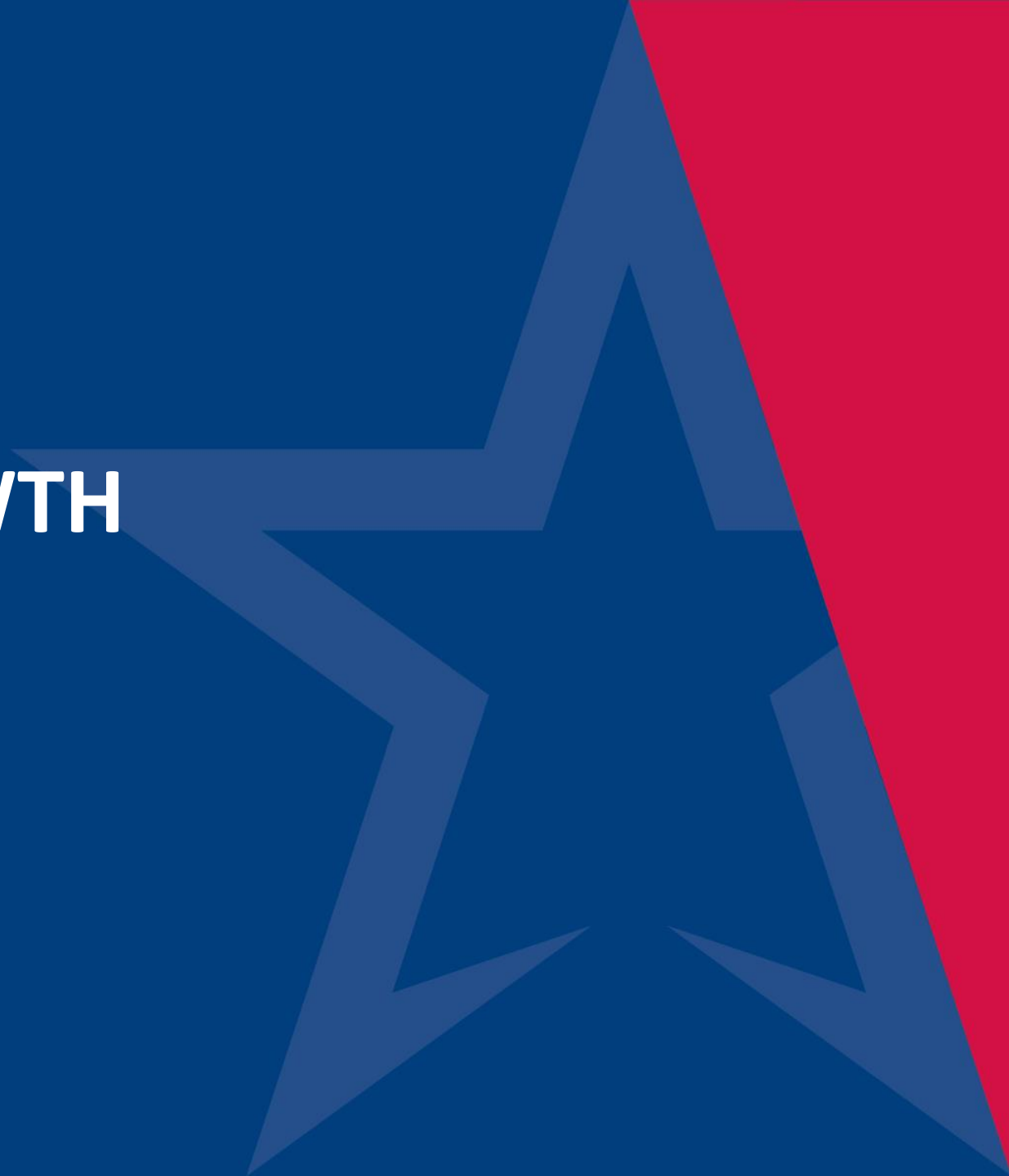
# CORE EARNINGS POWER...MASKED BY HEADWINDS

(In millions)



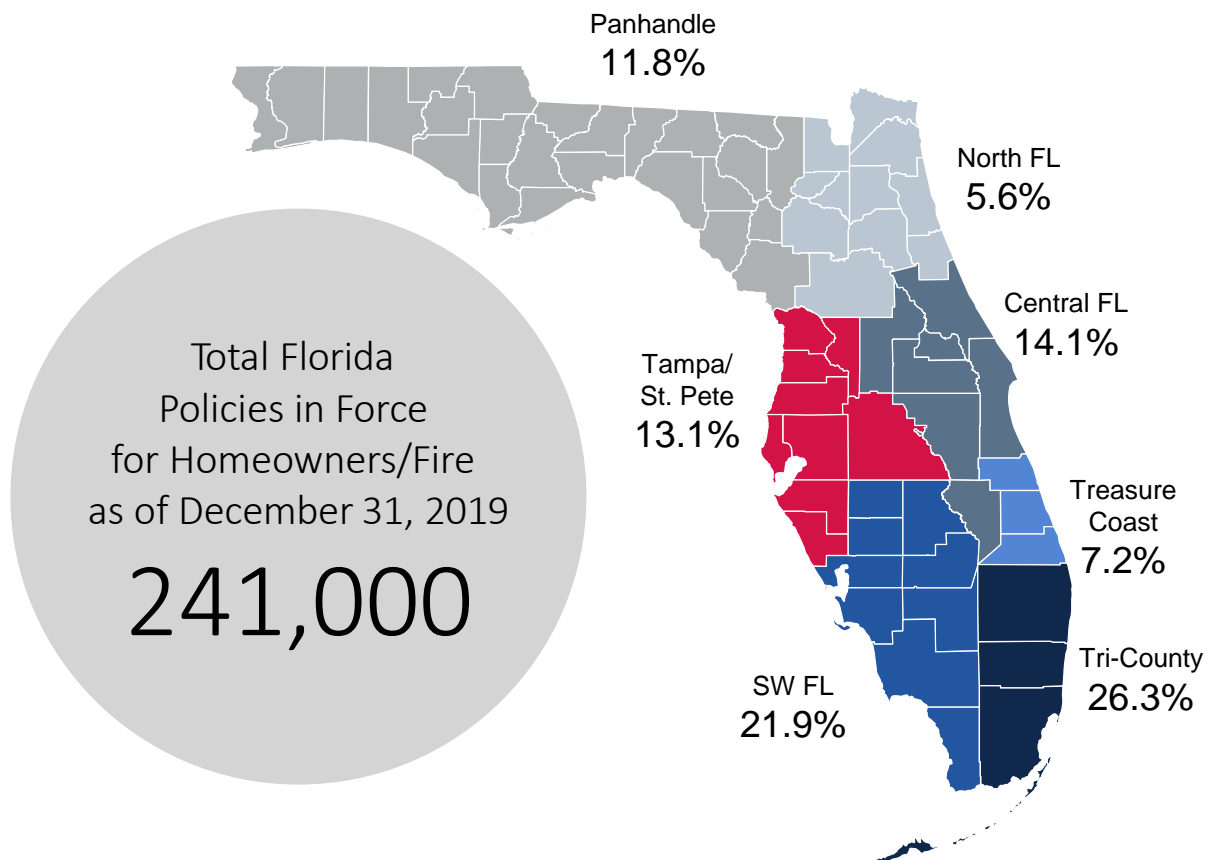
**AOB alone has reduced net income by over \$100 million since 2015**

**POSITIONED FOR  
EARNINGS GROWTH**



# PRUDENT UNDERWRITING IN FLORIDA

## FEDNAT – FLORIDA MARKET FOR HOMEOWNERS

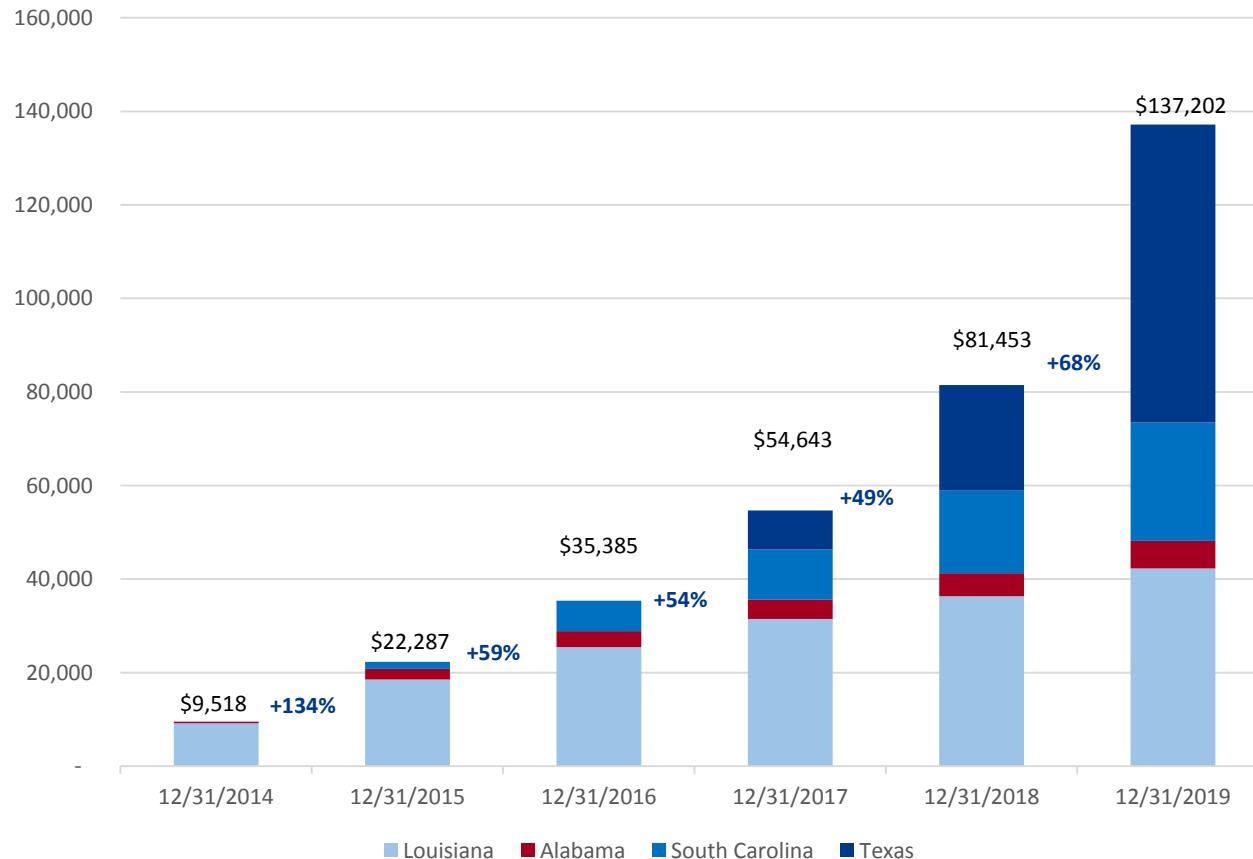


- Statewide offering of HO3, HO6, HO4 and DP3 Forms
- Risk management through utilization of both analytics and geographic exposure management
- Distribute through independent retail partner agents and national carrier affinities
- Managed catastrophe exposure by ceding risk through reinsurance treaties

# EXECUTING ON NON-FLORIDA MARKET OPPORTUNITY

## FNIC NON-FLORIDA IN-FORCE PREMIUM – STRONG ORGANIC GROWTH

\$ in thousands

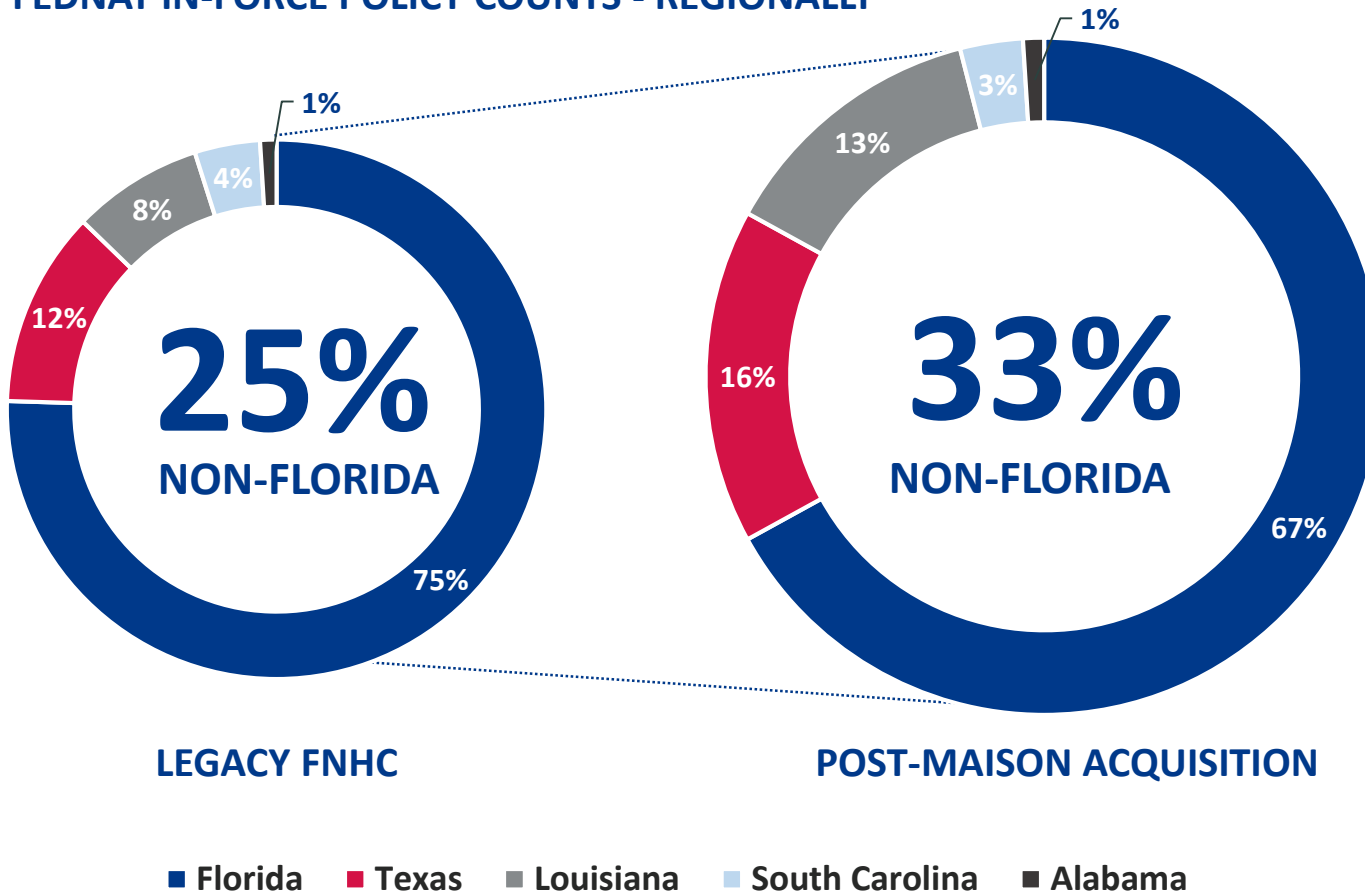


- FedNat's non-Florida book has increased by \$127.7M of premium since 12/31/2014 with the help of MGU Partner and Maison acquisition
- Gaining market share in Texas, Louisiana, South Carolina and Alabama
- 78,000 policies in-force



# MAISON ACCELERATES NON-FLORIDA EXPANSION

## FEDNAT IN-FORCE POLICY COUNTS - REGIONALLY



## PROFITABLE GROWTH FUNDAMENTALS & STRATEGY

- Limited to Gulf and Atlantic coastal states
- Staying narrow—no new lines of business
- Focus on coastal zones 1 and 2 where need is greatest
- Leveraging best practices developed over our 25+ years of experience
- Organic non-Florida growth via voluntary business distributed through partner managing general underwriter and national carrier affiliations

**EXPECTED TO GROW TO ~40%  
OF TOTAL POLICY COUNT  
OVER NEXT 3 YEARS**

# PROFITABLY GROWING NON-FLORIDA BOOK

## NEAR-TERM NON-FLORIDA EXPANSION

- Our incremental non-Florida growth over the past 7+ years has been with our partner, SageSure, and has been recently supplemented with our acquisition of Maison in December 2019
  - Implementing 5% TX and 4% LA rate increases in 4Q19
  - Additional 5% TX rate increase anticipated into 2Q20
- Maison – Improved pricing with underwriting discipline
  - Earning in 31% TX rate increase (40% in Dallas/Ft. Worth) from August 2019
  - Numerous rate filings in process
  - Non-renewals of unprofitable Maison policies
- \$3M of annual expense ratio benefits in Maison synergies
  - Mostly from insourcing to occur over the next 12 months
- Recently entered the Mississippi market

---

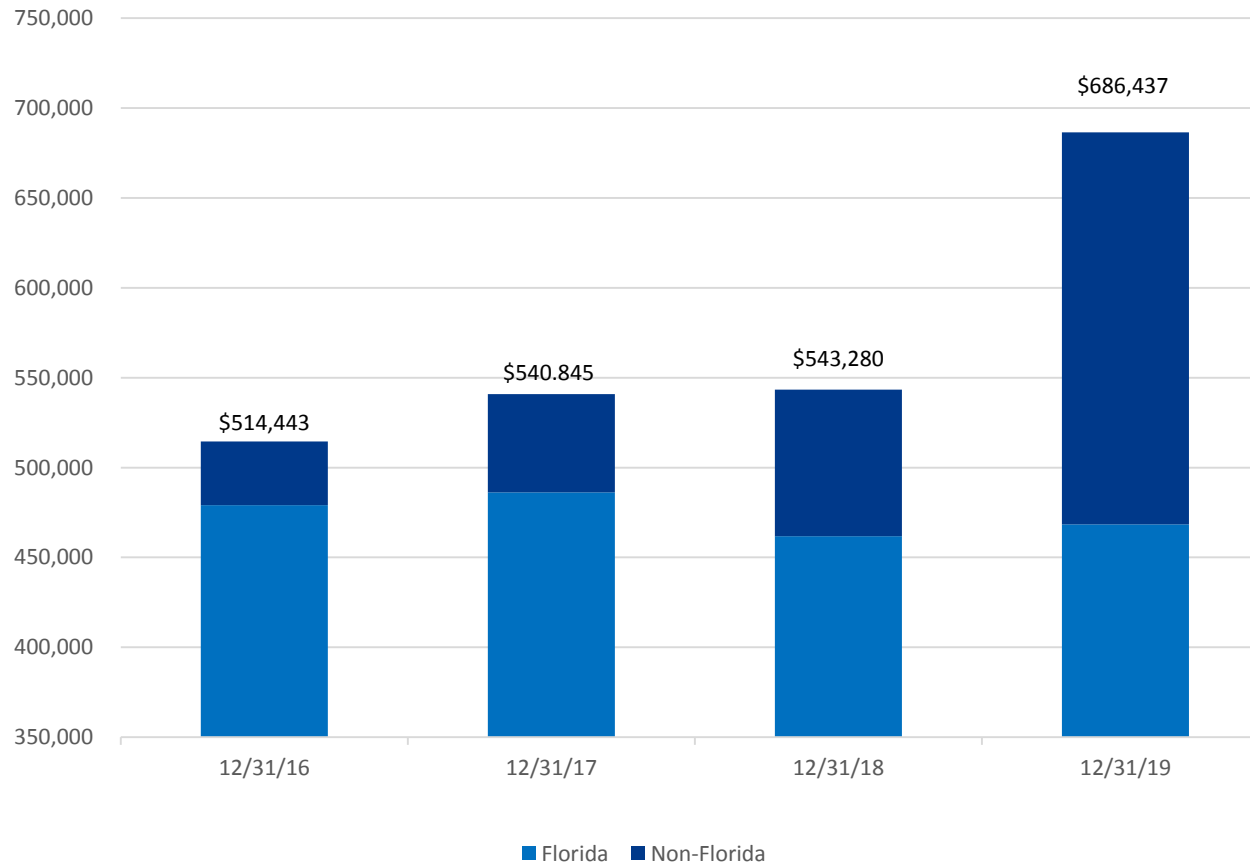
***Greater combined ratio flexibility outside of Florida — targeted combined ratio at or under 90%***

---

# FLORIDA & NON-FLORIDA PREMIUM TRENDS

## FEDNAT IN-FORCE PREMIUM

\$ in thousands



- Premium mix shifting to non-Florida
- Non-Florida growth initiatives have supplemented intentional contraction of Florida book of business over prior four years
- Avg. Premium in the Florida book of business has grown over the past 2 years, with policy count beginning to stabilize
- Acquisition of Maison adds \$96.2M of premium, including \$81.1M of non-Florida premium

# MITIGATION FROM REINSURANCE PRICE HIKE

Rate increases and FHCF participation lever can mitigate reinsurance rate increases



Reinsurance is factored into every policy written and represents ~30% of the gross premium

- Reinsurance cost is one of the key factors in our underwriting and renewal assessment process

3.5% ↑<sup>1</sup>  
FNHC Net Rate

FNHC rate filings that are ~30% of any reinsurance pricing increase will maintain FedNat's profitability

- e.g. 10% reinsurance price increase requires a 3.5%<sup>1</sup> net overall FedNat rate increase to maintain current profitability levels



FedNat has a clear track record of market leadership in proactively taking rate when costs rise

- AOB disruption
- Reinsurance pricing increases
- Weather experience



FNIC/MNIC participation in the Florida Hurricane Catastrophe Fund at 90% for the '20-'21 treaty year

- The increase in participation level from 75% in the '19 - '20 treaty year reduces exposures to private market price increases

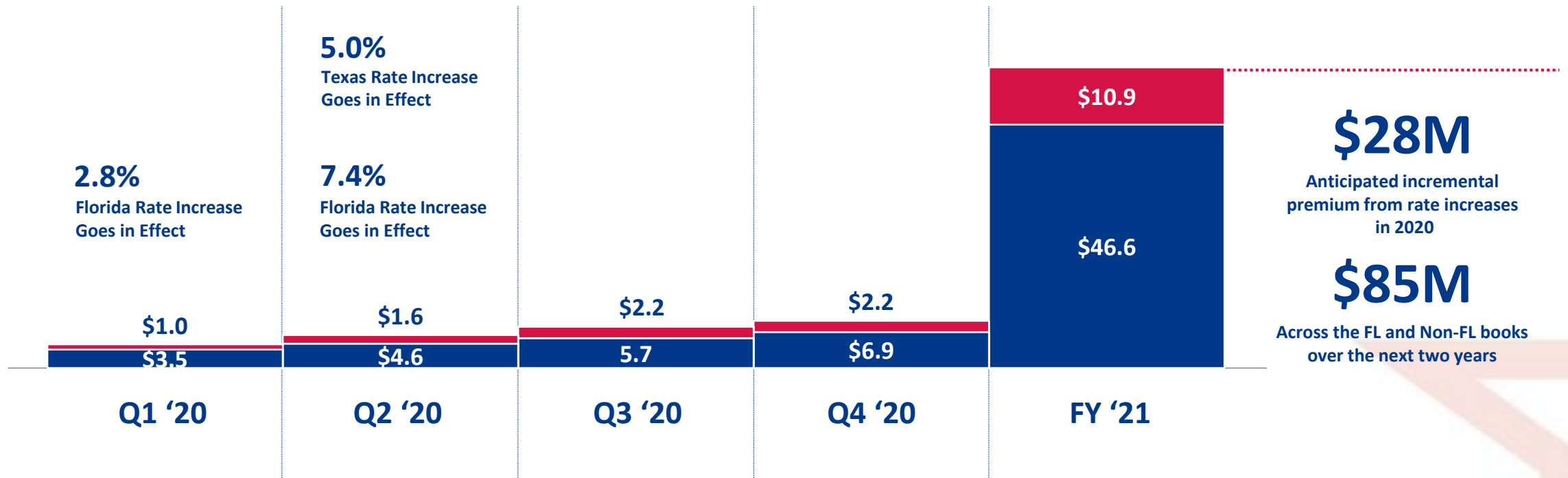
**2.8% FNIC Florida rate increase from limited reinsurance filing takes effect in March 2020**

1. 3% grossed up to provide for related acquisition costs of 15%.

# PROACTIVE HOMEOWNERS RATE INCREASES IN 2020 <sup>1</sup>

## INCREMENTAL PREMIUM IN 2020-2021

(In millions)



- Florida Homeowners
- Non-Florida Homeowners

1. Reflects actual and anticipated rate increases from April 2019 forward.

# FINANCIAL OVERVIEW

A large, stylized blue star graphic is positioned on the right side of the slide, partially overlapping a red triangle that points towards the right edge. The star is composed of several concentric, slightly offset shapes, creating a layered effect. The background is a solid dark blue, and the text 'FINANCIAL OVERVIEW' is written in a bold, white, sans-serif font on the left side.

# RECENT FINANCIAL & OPERATING HIGHLIGHTS

(in thousands)	4Q18 *	1Q19**	2Q19	3Q19	4Q19***
<b>Income Statement Data:</b>					
Gross Premiums Written	\$127,613	\$132,233	\$169,170	\$159,131	\$150,074
Net Premiums Earned	91,098	88,784	92,306	87,374	95,188
Net Investment Income	3,402	3,710	4,259	4,068	3,865
Net Income (Loss)	(9,305)	(3,865)	7,110	4,659	(6,893)
Diluted Earnings Per Share	(0.73)	(0.30)	0.55	0.36	0.51
Adjusted Operating Income	(4,937)	(2,394)	5,666	4,292	(7,925)
Adjusted Operating Income Per Share	(\$0.39)	(\$0.19)	\$0.44	\$0.33	(\$0.59)
<b>Balance Sheet Data:</b>					
Cash and Investments	515,948	569,423	611,522	612,931	684,002
Shareholders Equity	215,259	217,916	230,785	237,389	248,693
Book Value per Share	\$16.84	\$16.98	\$17.96	\$18.45	\$17.25
<b>Financial Ratios:</b>					
Net Loss Ratio	79.4%	75.3%	70.8%	71.1%	82.8%
Net Expense Ratio	38.9%	38.9%	30.7%	34.4%	39.3%
Net Combined Ratio	118.3%	114.2%	101.5%	105.5%	122.1%

## Q4 NOTES/HIGHLIGHTS

- Adjusted operating loss result of \$0.59 per share driven by higher losses from weather events of \$3.4M and PYD of \$9M as well as HO-FL reserve strengthening of \$3.8M
- Gross premiums written increased 17.6% over 4Q18 driven by growth in homeowners Florida FNIC (up 2%), non-Florida (up 67%) and Maison \$6.6M
- Maison's December results were \$1.2M pre-tax income as a result of good loss experience
- Ongoing annual savings from \$6 million in staff reductions that occurred primarily in 2018
- Holding company liquidity of \$65+ million as of December 31, 2019

\* Impact from Hurricane Michael was \$23 million, pre-tax, and approximately \$17.2 million, after-tax.

\*\* Impact from the Brevard County hail storm was \$18.7 million, pre-tax, and approximately \$14.0 million, after-tax.

\*\*\* Impact from CAT weather, prior year adverse development & AY19 reserve strengthening was \$21.5 million, pre-tax and approximately \$16.2 million, after-tax.

# RESULTS BY LINE OF BUSINESS

(In thousands)

	Q4 2018 *				Q3 2019**				Q4 2019***			
	HO	Auto	Other	Consolidated	HO	Auto	Other	Consolidated	HO	Auto	Other	Consolidated
<b>Total Revenue</b>	\$95,357	\$289	\$796	\$96,442	\$93,735	\$4	\$5,737	\$99,476	\$102,615	\$1	\$6,371	\$108,987
<b>Costs and expenses:</b>												
Losses and loss adjustment expenses	64,634	4,840	2,844	72,318	60,708	742	655	62,105	70,777	2,334	5,688	78,799
All other expenses	32,537	780	3,201	36,518	28,593	50	3,351	31,994	35,297	50	3,972	39,319
<b>Total costs and expenses</b>	97,171	5,620	6,045	108,836	89,301	792	4,006	94,099	106,074	2,384	9,660	118,118
<b>Income before income taxes</b>	(1,814)	(5,331)	(5,249)	(12,394)	4,434	(788)	1,731	5,377	(3,459)	(2,383)	(3,289)	(9,131)
Income taxes	(460)	(1,351)	(1,278)	(3,089)	1,036	(175)	(143)	718	(1,143)	(584)	(511)	(2,238)
<b>Net income</b>	(1,354)	(3,980)	(3,971)	(9,305)	3,398	(613)	1,874	4,659	(2,316)	(1,799)	(2,778)	(6,893)
Net loss attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income attributable to FNHC shareholders</b>	(1,354)	(3,980)	(3,971)	(9,305)	3,398*	(613)	1,874	4,659	(2,316)	(1,799)	(2,778)	(6,893)
<b>Adjusted operating income</b>	(\$1,049)	(\$3,979)	\$91	(\$4,937)	\$3,585	(\$608)	\$1,315	\$4,292	(\$2,306)	(\$1,799)	(\$3,820)	(\$7,925)

**Excluding incremental losses from CAT & reserve strengthening, FNHC would have earned \$8.3M in 4Q19**

Note: The "Other" line of business primarily consists of our commercial general liability and federal flood businesses, along with corporate and investment operations.

\* Impact from Hurricane Michael was \$23 million, pre-tax, and approximately \$17.2 million, after-tax.

\*\* Impact from Hurricane Dorian, Hurricane Barry and TS Imelda was \$7.0 million, pre-tax, and approximately \$5.3 million, after-tax.

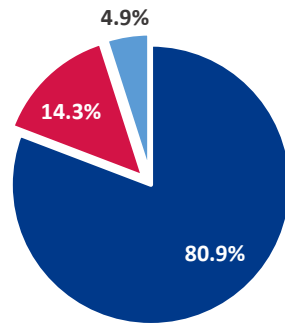
\*\*\* Impact from CAT weather, prior year adverse development & AY19 reserve strengthening was \$21.5 million, pre-tax and approximately \$16.2 million, after-tax.



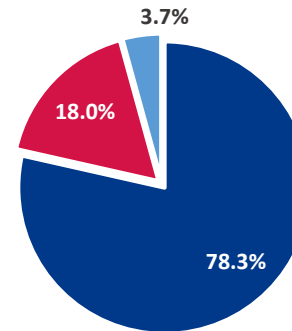
# FAVORABLE PREMIUM COMPOSITION

GROSS PREMIUMS WRITTEN

2018 Full Year

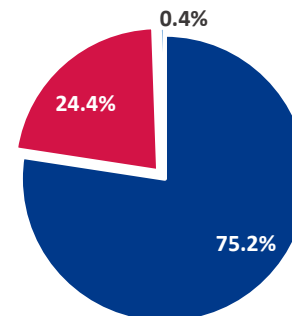
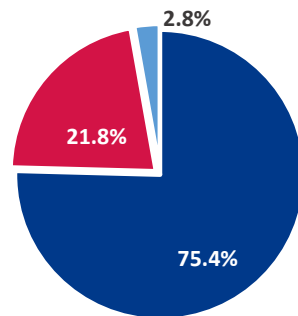


NET PREMIUMS EARNED

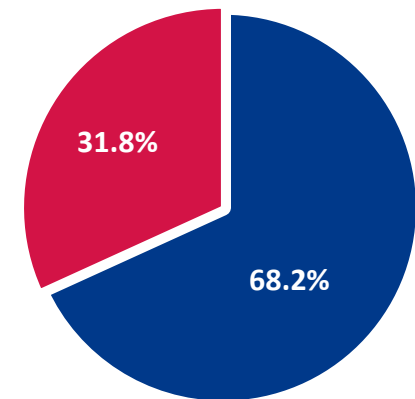


- Florida Homeowners
- Non-Florida Homeowners
- Non-Core

2019 Full Year



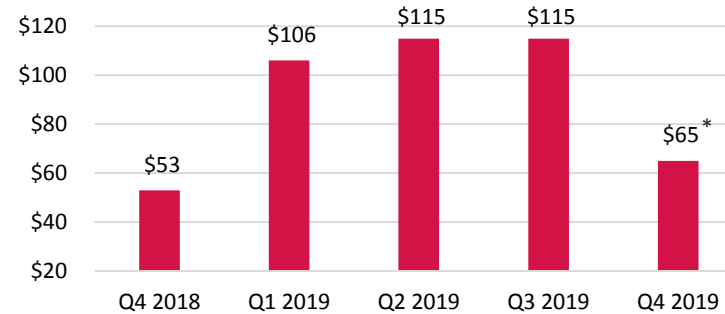
2020 IN-FORCE



# STRONG CAPITAL STRUCTURE

## NON-INSURANCE LIQUIDITY

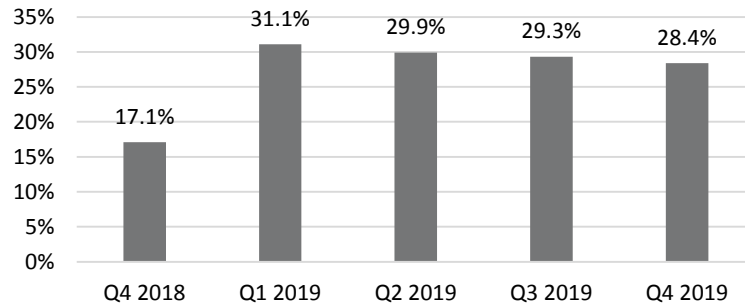
\$ in millions



\* Q4-19 decrease due to closing of Maison transaction in Dec 2019.

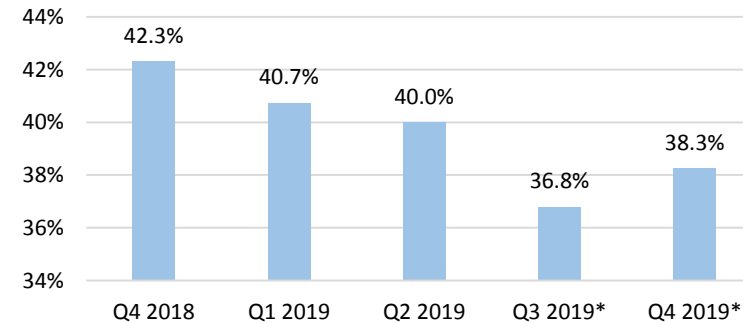
## FINANCIAL LEVERAGE

Debt/Capital



## UNDERWRITING LEVERAGE

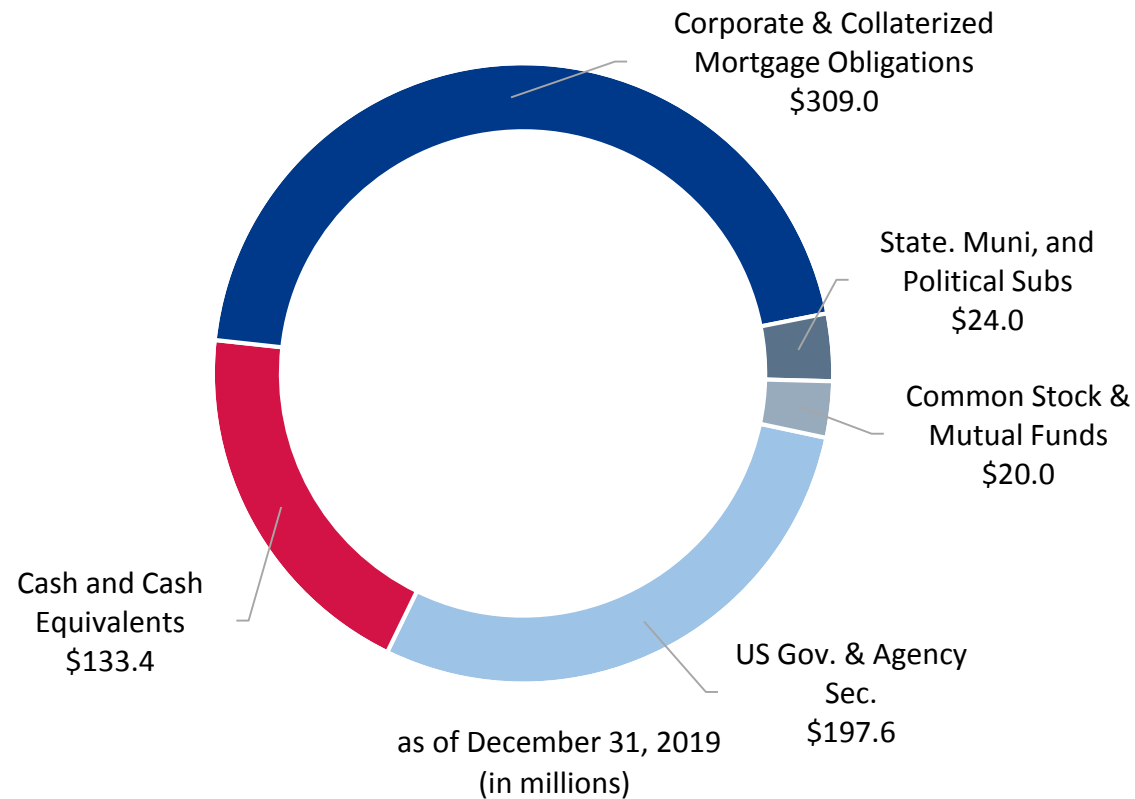
NPE/Equity



\* Driven by higher ceded catastrophe reinsurance premiums.

# CONSERVATIVE INVESTMENT PORTFOLIO

## PORTFOLIO COMPOSITION



## INVESTMENT CRITERIA

- Designed to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk, across a range of economic scenarios
- As of 12/31/2019, 98.6% of the Company's fixed income portfolio was rated investment grade
  - Average duration: 3.459 years
  - Composite rating: A- (S&P Composite)
  - YTM: 2.247%
  - Book yield: 2.947%
- Historical total returns on cash and investments as of 12/31/2019
  - 1 Year: 7.14%
  - 2 Years: 3.815%

## RETURNING VALUE | REPURCHASES & DIVIDENDS

### SINCE CLOSE OF MAISON



**~\$7M**

Shares repurchased

**~\$34M**

Returned to shareholders  
since 2017

### ONGOING VALUE CREATION



**13%**

Quarterly Dividend Increase  
Effective 4Q19 (2.2% yield)

**~\$7M**

Remaining Authorization in  
Share Repurchase Program in  
CY2020

*Committed to maximizing shareholder value through disciplined capital allocation*

## POSITIVE OUTLOOK FOR 2020 AND BEYOND

- Focused on profitable growth opportunities in core homeowners business
  - Rate adequacy is paramount
  - \$28M incremental premium in 2020 & over \$50M annually when fully earned, as compared to 2019, from rate increases
    - 2.8% FNIC FL and 5% FNIC TX rate increases effective 1H20
    - 7.4% FNIC annual rate filing, subject to regulatory approval, expected to be effective 2Q20
    - Multiple Maison rate filings in process
  - Opportunity for further catastrophe reinsurance “fast-track” rate increases, if needed
- Greater scale in non-Florida business from Maison book
- Strong capital structure supports returning value to shareholders
- Long-term targeted combined ratio of 95% for Florida and 90% for non-Florida
- Long-term target ROE of 15% in years with normalized CAT activity

# Questions?

**Michael Braun**

Chief Executive Officer

**Ron Jordan**

Chief Financial Officer

**Bernie Kilkelly**

Investor Relations, Ellipsis

[investorrelations@FedNat.com](mailto:investorrelations@FedNat.com)