

STONYBROOK

Stonybrook Update on Today's Florida Market Conditions (5/29/22)

This week sees the sharpest reinsurance disruption for some carriers since at least 2006, and likely ever in their existence. As Stonybrook advised clients in April, reinsurance and capital levels are extraordinarily stressed for many coastally-focused property carriers. We expect to see downgrades in the first two weeks of June.

Coastal insurers have long held higher relative market shares, and generally in more storm-prone states. Rating agencies and regulators have been increasing their scrutiny of these carrier's Cat exposure. At the same time, the major reinsurers have been consciously (and publicly, viz Q1 earnings calls) de-risking their Catastrophe portfolios. Major incumbent reinsurers, such as Axa, Renaissance, Everest and SCOR have made statements about reducing their Cat appetites generally, and at times, Florida specifically. Capital providers have also been advised to expect a more active than normal 2022 US storm season. The official start of the 2022 hurricane season this Wednesday brings these issues to a sharp crux in Florida. Because of its geography, the state has the highest historical and prospective hurricane exposure in the US. Its market is uniquely reliant on domestic companies. Florida's litigation and fraud trends are notably higher than in other states. In early June all carriers report to the state's Office of Insurance Regulation and their chosen rating agency updating on their preparedness. Several of these reports shall not support their carrier's current rating and statutory authority. Alternative reinsurance structures that might have been accepted in 2006 to blur these issues, would be rejected under more recent accounting standards. And through Covid, Florida has had a sharp increase in both resident population and insured home values.

The worldwide reinsurance market with about \$800B of total resources (including ILS) has traditionally provided between \$80B and \$100B of Catastrophe-exposed reinsurance protection to carriers with Florida exposures, including nationals and globals, as well as, critically, the domestics. The domestic carriers have a large majority of the Florida Homeowners market and tend to rely on reinsurance rather than equity capital or parent group surplus. Stonybrook estimates that these domestic Homeowners writers had placed well over \$40B of Catastrophe limit for the 2021 storm season. Market reports are that most domestic carriers have placed less than 80% of their required external placements prior to the Memorial Day weekend, and many far less than that. In one case, as of early Friday: zero. The current shortfall is well over \$10B of unplaced limit. Their brokers are hard pressed for solutions. Media reports of a "very late" renewal actually mean a lack of alternatives. We understand that at least one large reinsurer and one large Cat fund are still actively quoting new limits, but at unacceptable terms. Many, although not all, incumbent global reinsurers are cutting back their Florida capacity and have now totally filled their 2022 appetites. Statements on their Q1 earnings calls are stronger promises to their owners than their general intentions of providing continuity to their clients.

The market psychology is also adverse for buyers. Reinsurers have lost money on global Catastrophe protections every year since 2017. Depending on how they count war claims in Ukraine and the Black Sea, some reinsurers may have already baked in a loss for 2022. Experienced market participants remember the January 1, 2006 renewal season following the seven major US landfalls in 2004 - 2005: Charlie, Frances, Jeanne, Ivan, Katrina, Rita and Wilma. Unlike in 2006, reinsurers now have confidence in their general climate modeling. More important now, they have deep skepticism about the Florida tort environment. They are also candidly concerned about the long term viability of their trading partners in the event of another active season this year.

The brokers' next recourse is the ILS market. Cat bonds and collateralized reinsurance have been an important safety valve for many years. But that market has also been challenged recently, by the lack of finality on losses arising out of Asian typhoons and California wildfires in 2017 - 2019, and more recently on cost uncertainty on TPA expenses and Florida AOB claims. Stonybrook's discussions with Cat funds show that they saw this opportunity for a 2022 crunch early, raised additional capital during Q1 in response, and have already deployed that capital. They are now also done for this season. Despite the dedicated efforts of the local carriers, their brokers, reinsurers and ILS funds, the domestic industry is still \$10B+ short of meeting their capital standards. In session this past week, the Florida legislature approved several measure to reduce the stress. The state approved well-applauded restrictions on claim legal fees and coverage for older roofs. The state is also providing carriers with \$2B of additional underlying reinsurance limit at no cost. Observers note that this limit is one time, split over the 2022 and 2023 seasons. Seasoned market players have described the legislation as "trying to tackle silk," and as a "patchwork on a dam that is about to burst". This presents a tough challenge to the regulators and legislators: "You may now have the legal grounds to shut down several important domestic companies, right at the beginning of the wind season. If that is not politically or financially acceptable, do you waive state standard for 2022. And if you do that for 2022, can you not do it again next year?" Of course, we all would like an occasional Mulligan.

Stonybrook sees this season as an especially challenging market, but perhaps a unique opportunity for the intrepid. We are all available to discuss your options on both defense and offense.

Company	Price		Mkt. Cap	% of 52 Week High	Div Yld	ESTIMATE SUMMARY				VALUATION METRICS			
						NPW Growth	Comb. Ratio	ROE		Price-to-Book		P/E	
								2021	2021	2021	2022E	TBV	Rpt.
HCI Group, Inc. "HCI"	\$67.61	\$684.2	48.4%	2.3%	35.3%	105.1%	2.9%	2.8%	2.24x	2.14x	NA	71.2x	
Universal Insurance Holdings, Inc. "UVE"	12.75	394.6	64.9%	5.1%	8.0%	105.5%	4.4%	12.2%	1.00x	1.00x	34.6x	7.7x	
Heritage Insurance Holdings, Inc. "HRTG"	3.48	89.8	37.8%	6.1%	0.9%	104.6%	(18.1%)	(5.6%)	0.68x	0.33x	NM	NM	
United Insurance Holdings Corp. "UIHC"	1.74	75.4	27.4%	10.3%	(33.7%)	120.3%	(16.4%)	(5.0%)	0.45x	0.29x	NM	NM	
Kingstone Companies, Inc. "KINS"	4.53	48.2	54.0%	3.3%	1.3%	111.5%	(8.7%)	(7.9%)	0.83x	0.82x	NM	NM	
FedNat Holding Company "FNHC"	0.37	6.5	7.0%	0.0%	(22.4%)	184.6%	(96.9%)	NA	0.11x	0.46x	NM	NM	
Average		\$216.4	39.9%	4.5%			(22.1%)	(0.7%)	0.89x	0.84x	34.6x	39.4x	
Median		\$82.6	43.1%	4.2%			(12.6%)	(5.0%)	0.76x	0.64x	34.6x	39.4x	
High		\$684.2	64.9%	10.3%			4.4%	12.2%	2.24x	2.14x	34.6x	71.2x	
Low		\$6.5	7.0%	0.0%			(96.9%)	(7.9%)	0.11x	0.29x	34.6x	7.7x	

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Coastal focused insurers are facing deep challenges for the upcoming 2022 wind season. These companies are particularly prevalent along the Gulf Coast and in Florida and New England, where the larger national carriers tend to have lower than average market shares, and where historical Cat losses have been more frequent. Recently, Hurricane Ida exhausted the reinsurance programs of several carriers, requiring them to raise capital. Coastal carriers are expecting a third straight year of reduced reinsurance capacity as several global reinsurers have de-risked their portfolios. They have also received more attention from rating agencies. There have been several mergers, book rolls and run-offs in recent years as a result.

Recent Coastal M&A and Transfers of Business

Announcement Date	Buyer / Target	Transaction Value (\$Millions)	Target's Primary State
03/01/22	Slide Insurance / St. Johns (receivership)	n.a.	Florida
11/12/21	Safepoint / Access Home (receivership)	n.a.	Louisiana
01/14/21	Porch / Homeowners of America	\$108	Texas
12/17/20	HCI / UPC's Northeast Personal Lines Business	n.a.	n.a.
11/03/20	Hudson Structured / Southern Fidelity	n.a.	Florida
06/23/20	Hudson Structured / Weston	n.a.	Florida
04/03/20	Applied Underwriters / Centauri	n.a.	Florida
01/14/20	Weston / Anchor Specialty	5	Texas
11/05/19	FedNat / Maison	52	Louisiana
08/08/17	Lighthouse / Excalibur	20	Louisiana
08/17/16	Heritage / NBIC	250	New York
05/07/16	UPC / American Coastal	334	Florida
09/29/15	Florida Specialty / Mount Beacon	17	Florida

Recent Headlines:

- Demotech prepared to downgrade up to 20 FL carriers as legislative relief hopes fade (03/29/22)**
 - the rating agency's president Joe Petrelli described an "impossible situation" facing carriers in the short run, and with no long-term relief in sight for the state's beleaguered homeowners insurance sector.
 - Petrelli and Demotech management wrote to Florida governor Ron DeSantis, asking to call a special legislative session to address the crisis in the state's property insurance market.
- Availability of reinsurance for Florida carriers is a "major concern" for FLOIR (03/14/22)**
 - Florida's insurance commissioner David Altmaier has highlighted the availability of reinsurance for the Sunshine State's carriers under the attachment point of the Florida Hurricane Catastrophe Fund as a big concern, while stating he would like increased dialogue with reinsurers about what is driving the availability capacity and price increases.
 - Reinsurers are having widespread concern about insurance to value in coastal states.
- State courts confirm receivership of several coastal carriers**
 - Avatar Property & Casualty Insurance Company (Florida – 03/08/22)
 - Americas Insurance Company (Louisiana – 01/14/22)
 - State National Fire Insurance Company (Louisiana – 11/12/21)
- Bermuda Risk Summit: Reinsurers warn of "most difficult" Florida renewal in 15 years (03/14/22)**
 - The upcoming mid-year renewals will be the "most difficult" and "most fascinating" in the past 15 years, as Florida carriers face higher prices, greater client selection and a focus on payment terms.
- Florida property insurance reform fails to pass (03/13/22)**
 - No progress was made on insurance reform on the last day of Florida's legislative session on March 11. The Florida Senate had passed SB 1728 in March, a property insurance reform bill including provisions aimed at tackling roof litigation and reducing Citizens' policy count.
 - Lack of legislative reform is on the back of a year when the 47 Florida Domestic lost \$936m.

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Major storm losses going back to 1960 have disproportionately impacted Florida (10 of 29 storms = 34%), Texas (24%) and Louisiana (17%). Louisiana also saw a record of five named storm landfalls in 2020, as well as devastating losses from Hurricane Ida. The Florida carriers are particularly challenged as regulators and rating agencies have tightened their standards following several years of poor results. Another notable trend that we have observed is as low-tax states such as FL, TX, and NH continue to grow in both population and home prices, their demand for reinsurance will increase.

Major US Hurricanes Since 1960 (Events over 1% of US DWP)

Year	Event	Direct Loss/ US Direct Premium	State with the Highest Loss
1960	Donna	2.6%	NY
1961	Carla	2.2%	TX
1965	Betsy	7.2%	LA
1972	Agnes	5.1%	PA
1979	Frederic	2.2%	AL
1983	Alicia	1.3%	TX
1985	Elena	1.1%	MS
1988	Gilbert	2.8%	TX
1992	Andrew	6.4%	FL
1995	Opal	1.1%	FL
1996	Fran	1.2%	FL
1998	Georges	1.4%	FL
1999	Floyd	1.6%	NC
2001	Allison	1.0%	TX

Year	Event	Direct Loss/ US Direct Premium	State with the Highest Loss
2004	Charley	2.7%	FL
2004	Frances	1.5%	FL
2004	Jeanne	1.1%	FL
2005	Katrina	13.5%	LA
2005	Rita	1.9%	LA
2005	Wilma	3.8%	FL
2008	Gustav	1.4%	TX
2008	Ike	4.1%	TX
2011	Irene	1.3%	NY
2012	Sandy	5.0%	NJ
2016	Harvey	4.6%	TX
2018	Irma	4.6%	FL
2018	Michael	1.3%	FL
2020	Laura	1.1%	LA
2021	Ida	4.7%	LA

Source: SNL Financial, Industry White Papers, Press Releases

How Stonybrook Can Help

Holdco Capital

- Stonybrook has completed five capital raises over the last two years

Carrier to MGA or Reciprocal Conversion

- Many carriers would benefit from converting to a reciprocal format or finding 3rd party capacity for a piece of their book
- MGAs of reciprocal and hybrid structures reduce underwriting risk while benefiting from material valuation arbitrage

Market Finding

- Stonybrook Risk Management has deep industry relationships with carriers specializing in a range of sectors
- Particular focus on homeowners, personal auto, general liability and worker's compensation.

Stonybrook Services | Global presence – HQ in NYC and offices in London

Stonybrook Advisory Services | Investment Banking

- **Middle market insurance specialist with a focus on:**
 - M&A, raising capital, mutual insurers, coastal state carriers, MGAs, divesting non-core assets, and valuation analyses

Stonybrook Alternative Investments

- **Placement agent for a variety of insurance related Funds:**
 - Insurtech Funds, Lloyd's Capacity, and a Surplus Note Fund

Stonybrook Risk Management | Reinsurance Broking

- **Services provided include:**
 - Prospective carrier/MGA identification, product development, alternative risk, captive services, strategic advisory, and reinsurance placement
 - Fronting expertise

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Notable Stonybrook Capital Transactions

May 2022	April 2022	March 2022	November 2021
 <p>Series A Financing</p>	 <p>Acquired by  AF Group</p> <p>Exclusive Buy-Side Financial Advisor</p>	 <p>\$7,500,000 Capital Raise</p>	 <p>Loss Portfolio Transfer</p> 
September 2021	June 2021	May 2021	December 2020
 <p>Acquired by  Porch Group</p> <p>Exclusive Advisor to CSE's Management</p>	 <p>\$20,000,000 Capital Raise</p>	 <p>European Operations</p> <p>Acquired by  RESOLUTION UNDERWRITING</p> <p>Exclusive Buy-Side Financial Advisor</p>	 <p>Acquired by  MILESTONE PARTNERS</p> <p>Exclusive Sell-Side Financial Advisor</p>
December 2020	November 2020	October 2020	May 2020
 <p>Acquired by  Ambac</p> <p>Exclusive Sell-Side Financial Advisor</p>	 <p>Program Agreement</p> 	 <p>Acquired by  NORTHEAST COVERAGES</p> <p>Exclusive Buy-Side Financial Advisor</p>	 <p>Acquired by  Weston INSURANCE</p> <p>Exclusive Sell-Side Financial Advisor</p>

Stonybrook Risk Management 2021 Placements

<p>Market Finding Assignment</p> <p>Multi-State Surety</p>	<p>US and EU Retro Protection</p> <p>\$25M Excess of Loss Limit</p>	<p>Start-Up Coastal Homeowner Carrier</p> <p>Gross Account Quota Share</p>	<p>Northeast Regional Carrier</p> <p>Multiple Line, Catastrophe and Clash Excess of Loss</p>	<p>Dental and Medical Malpractice Insurer</p> <p>Excess of Loss and Quota Share</p>
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