American Coastal Insurance Corp. (NASDAQ: ACIC)

Structurally Advantaged Commercial Lines Insurer Well-Positioned to Grow in Florida's Hard Market

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Price Target: $20.42 – 182% Upside

November 9th, 2023

Company Summary:

American Costal is a small-cap property and casualty insurer based in St Petersburg, Florida. They're exclusively focused on garden-style condominiums that have above-average risk characteristics and sell windstorm insurance policies to the HOAs that represent them. AmCo's underwriting superiority is derived from its exclusive relationship with AmRisc. AmCo is now de-consolidated from UPC, a lower-quality personal lines insurer, whose losses in the past have been subsidized by AmCo's underwriting profits.

What is Insurance:

Insurance provides economic protection from identified risks occurring or discovered within a specified period. Insurance is a unique product in that the ultimate cost is often unknown long after the coverage period, while the revenue – premium payments by policyholders – are received before or during the coverage period.

Property and casualty insurance specifically provides protection against:

a) Damage to or loss of property caused by various perils, such as fire, damage, or theft
b) Legal liability resulting from injuries to other persons or damage to their property
c) Losses resulting from various sources of business interruption
d) Losses due to accident

Figure 1 demonstrates the flow of premiums from the insurance purchaser to the insurance carrier. In return for premiums, carriers agree to pay claims in the event qualifying future loss events occur.

Industry Dynamics: P&C Cycle – Hard & Soft Markets

The P&C underwriting business is inherently cyclical. Figure 5 demonstrates the average premium changes for the P&C insurance industry.

There are long periods of price declines lasting 5-10+ years which are punctuated by sharp spikes in pricing power that last 2-4 years.

Periods of concentrated pricing power are referred to as "hard markers" as it is during these dislocated periods that insurance capacity is difficult to obtain for insurance buyers. Periods where pricing is declining are referred to as a "soft market", and typically proceed after there has been no major catastrophic loss. This is also very strongly driven by reinsurance capacity.

Characteristics of a soft market: lower insurance premiums, broader coverage, relaxed underwriting criteria, increased capacity, increased competition between carriers

Characteristics of a hard market: higher insurance premiums, more stringent underwriting criteria, reduced capacity, less competition between carriers

Key Ratios and Statistics ($M):

Total Assets	**$1,440**
Total Equity	**$112.0**
Annualized Revenue	$339.2
Market Cap	$317.3
Enterprise Value	$402.52
52-Week Low	$0.29
52-Week High	$9.29

Figure 1 – Historical Share Price

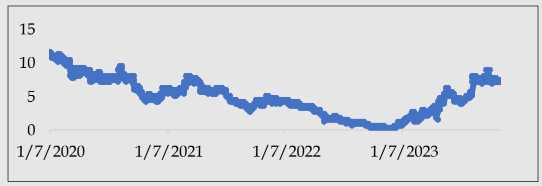


Figure 2 – Insurance Industry Supply Chain

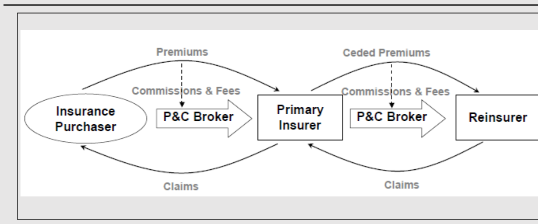


Figure 3 – Average Premium Changes, 1999-2020

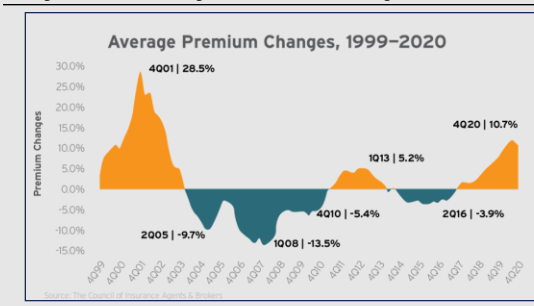
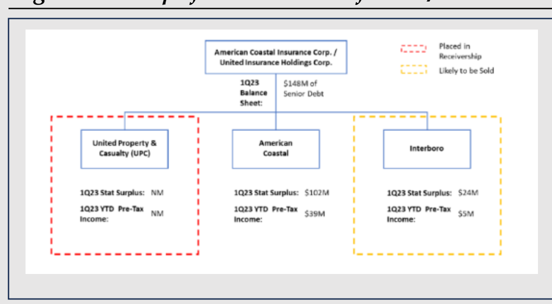


Figure 4 – Simplified Structure of ACIC/UIHC



AmCo's Niche in Insurance:

When AmCo was founded, Dan Peed, AmCo's CEO at the time as well as now, saw a void developing in the Florida commercial-residential property insurance sector, there was a large gap forming in the property insurance marker for 1-to-6-story, garden-style condominium and homeowner association properties. While demand for high-rise commercial policies with large premiums was being better met by major carriers, garden-style premiums of $50,000/year were not large enough to attract new entrants.

Post 2004-2005 many of the major insurance carriers and smaller carriers were either no longer comfortable underwriting hurricane risk or realized that they did not have the proper underwriting skills to underwrite hurricane risk under state-admitted guidelines and as a result stopped offering policies to certain segments of the market. Most property owners thus were forced to resort to purchasing P&C insurance from state-owned insurer Citizen's, whose policies offer less than desirable coverage and whose government-led customer service is at best subpar.

AmRisc:

AmRisc is a Managing General Agent (MGA) that was founded by the current CEO of AmCo, Dan Peed. An MGA sits between the broker and the primary carriers and serves both functions. An MGA is a unique type of broker that borrows underwriting authority from a special type of primary carrier called a "front". MGAs offload the risk to Primary Carriers or work directly with reinsurers. MGAs usually charge a commission fee based on the number of premiums collected. In other cases, they pay a flat rate per policy sold. AmRisc is effectively a broker that also has vested underwriting authority.

In practice, the relationship between AmRisc and AmCo is so strong that, for all intents and purposes, the two operate as one vertically integrated entity for this particular insurance segment. AmCo and AmRisc work together closely to determine the parameters desired for policies and accordingly adjust the prices it quotes to the insureds accordingly.

Why does AmRisc work with AmCo?

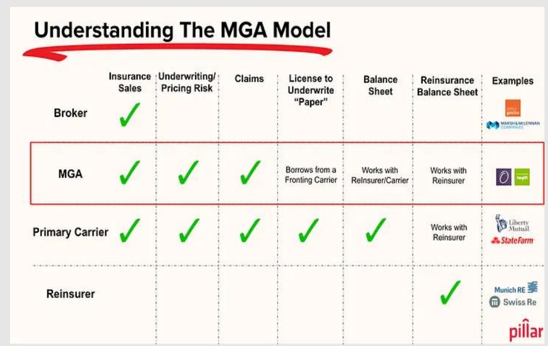
a) Longstanding Relationship: There is a very close relationship between all the staff and senior executives at both companies. They also have an exclusivity agreement which is up for renewal every 5 years, with the current one expiring in 2027.

b) Truist Ownership: AmRisc is a subsidiary of Truist Insurance Holdings. Truist's portfolio consists of seven insurance businesses, all of which are focused on brokerage-related services, and which have commanded far higher premiums than insurance carriers. Therefore, there are no strong incentives for Truist to enter the business of taking on policy risk for an incremental $100m net profit opportunity when their annual net profit for the last fiscal year was $5.8 billion.

c) MAD: Were AmRisc to choose to end their relationship, which is a rather unique and fringe case, AmCo could threaten to create their own captive MGA within the same segment to compete directly with AmRisc. Given that Dan was AmRisc's founder and CEO for 19 years, he is one of the very few people in the industry who is credible when making this threat. Why would AmRisc want to invite AmCo as a competitor when they can continually to work with them and capture a larger share of the market.

Figure 5 – Garden-Style Condominium in Florida

Figure 6 – MGA Diagram



AmCo's Competitive Advantage:

a) **AmRisc's Best-In-Class Underwriting:** The underwriting edge that AmRisc offers is its enormous proprietary data history that it has accumulated from its 23 years of specializing in coastal catastrophe-focused windstorm policies which includes $10bn+ in premiums written over that span. AmRisc has also underwritten these $10bn+ in premiums at a cumulative combined ratio of under 70% which provides compelling evidence that AmRisc has also been highly successful in its underwriting. Since AmCo's founding in 2007, the company has seen only three private competitors enter the space, all three of which have relied on their own in-house underwriting with zero proprietary data. Two have since exited the space, and the only one remaining has a mixed reputation among its customers.

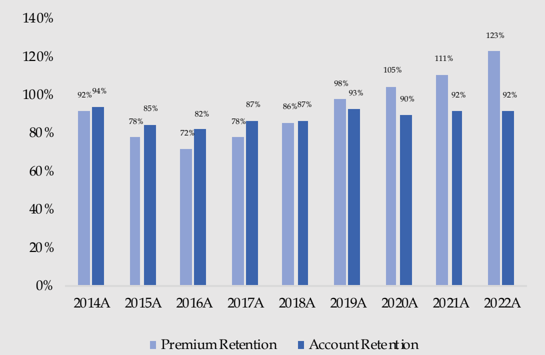
b) **Stability and Customer Loyalty:** AmCo and AmRisc are jointly the only stable providers in the minds of customers over the past 23 years. This is driven by their best-in-class underwriting ability. Policyholders value an insurer who can provide good coverage, reasonable prices, assurance they won't dramatically change their policy terms or prices year-to-year, assurance that they won't disappear overnight as so many other underwriters have, a history of paying claims fairly and not fighting the insureds over tiny claims, and a positive longstanding reputation by doing all of the above over a number of years. We further confirmed this via Tegus call with a competitor's President. Inherently insurance is commoditized, so a lot of firms use the 'me too' approach. A competing insurance company will submit the exact same forms as AmCo and copy their rates. As American Platinum entered the market, they saw how much of a stronghold AmCo has on the market. The President of American Platinum said if they quoted a premium of $40,000 and AmCo came in at $55,000 for the same coverage and policy, the insured party would go with AmCo just because they like those guys, they know they are very smart and underwrite well. In the midst of dealing with all of these fly-by-night insurers, customers have seen the AmRisc and AmCo brands as the only positive constant through all of this change, which in turn has all been possible by AmRisc's high-caliber underwriting policy.

c) **AmRisc's Dominance Over the Distribution Channel:** The same value propositions that apply to the end insured party also apply to the broker. If brokers recommend underwriters that end up vanishing, jacking up prices, or treating them unfairly they risk souring their own reputation with their clients and with future prospective clients. Brokers generally tend to rely heavily on word-of-mouth referrals.

All these advantages are demonstrated in ACIC's retention rates which are visible in Figure 7. AmCo has enjoyed strong customer retention rates over the years across both hard and soft market cycles. AmCo has consistently averaged retention rates above the insurance industry average of 84%. We expect these retention rates to stay similarly strong going forward in the future, with the caveat of being correlated with whether the insurance market as a whole is in a soft market or hard market.

Figure 7 – ACIC Historical Retention Rates

	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A
Premium Retention	92%	78%	72%	78%	86%	98%	105%	111%	123%
Account Retention	94%	85%	82%	87%	87%	93%	90%	92%	92%



Why AmCo Chose Its Niche:

1. **Windstorm Policies Required by Law:** Florida law requires property insurance policies to include coverage for damage caused by windstorms that the National Hurricane Center declares to be a hurricane. Thus, making demand for windstorm policies both inelastic and noncyclical.

2. **Pricing Exemption for Admitted Carriers:** Unlike the homeowner's insurance market, Florida Law allows admitted carriers like AmCo to deviate from their rate (pricing) schedule when the properties they are insuring are worth more than $5m. This means AmCo can charge whatever the market is willing to pay instead of being tethered to a regulated rate schedule like most residential insurers are. They can do this while being an admitted carrier, which for all intents are purposes means that they are backstopped by Florida's insurance department (this is required by many condo & HOA boards)

3. **Low TIV-at-Risk:** Total insured value (TIV) is the maximum amount of property insurance written under a policy. The CEO has indicated that he would only want to write policies that account for 40% of the market on the upper end. The main risk consideration in a building's construction, and specifically AmCo seeks properties with joisted masonry construction, which is where the exterior walls are constructed of masonry materials such as brick, concrete, and adobe. This is shown in Figure 9. This is why policies AmCo underwrites are at much lower risk than homeowners' policies. On a homeowner's policy, a house can get completely destroyed during a bad hurricane and the maximum TIV-at-risk can be 100%, whereas the maximum TIV-at-risk on a garden-style condo with joisted masonry is only 25-30%. The majority of American Coastal's claim payouts are for damaged roofs.

AmCo's Competitive Advantage Demonstrated in Numbers:

We have talked at length about the qualitative drivers of why we think AmCo has an underwriting edge over other insurers in Florida.

To assess that we can look at an insurance companies' historical combined ratio. Combined ratio is the summation of the expense ratio (policy acquisition costs/premiums), claim ratio (claims, inclusive of loss adjustment expenses/premiums). A combined ratio of >1 translates into no underwriting profitability.

In figures 9-12, we can see that ACIC is the only company that has historically had a combined ratio of less than 1. On average their combined ratio has been approx. 69% which means that for every dollar than ACIC collects in premiums, they only pay out 69 cents. This level of underwriting is starkly different from the comps who average 94%.

Recently, due to the amount of volume underwritten in the soft market from 2013 to 2017 combined with the large hurricanes, undisciplined underwriters have seen combined ratios far above 1.

ACIC has historically and will continue to only underwrite insurance that they feel has a very low risk of generating a combined ratio of below 1.

Figure 8 – Joisted Masonry Construction

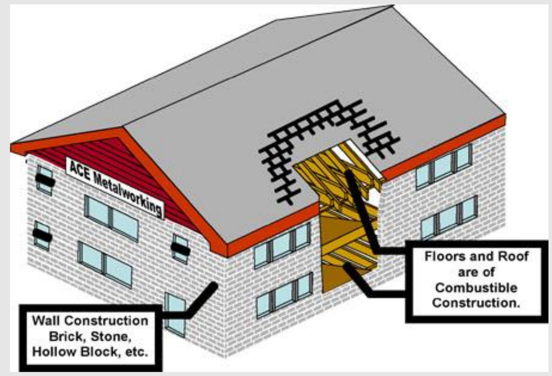


Figure 9 – ACIC

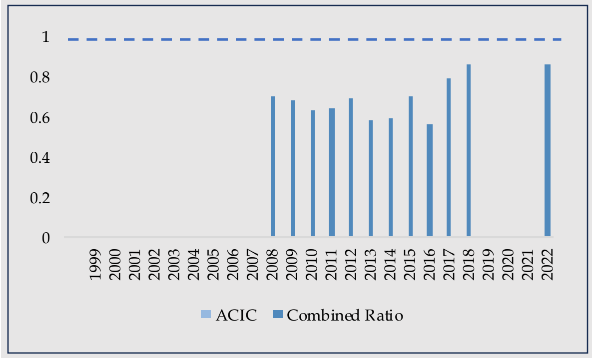


Figure 10 – HCI

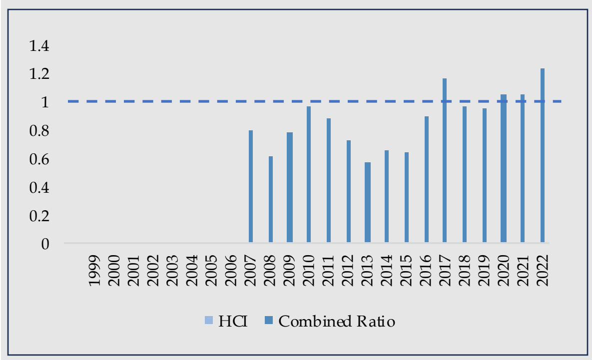
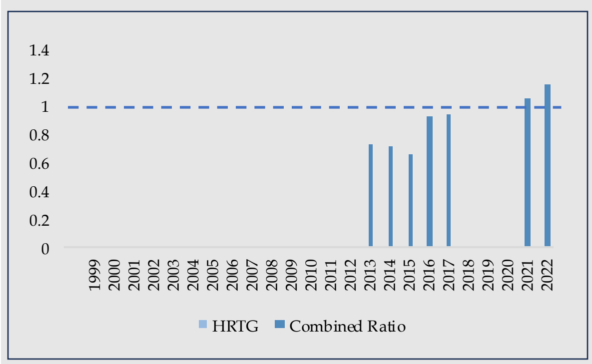


Figure 11 – Heritage



Underwriting Discipline:

Underwriting discipline refers to an insurers understanding that some underwriting is more attractive than others and that this attractiveness is largely a result of market conditions (soft versus hard market). A hard market occurs when there are "unusually high insurance and reinsurance premiums, limited reinsurance capacity, stricter underwriting terms, and reduced competition among insurance carriers". A soft market is the opposite.

Most insurance companies have little to no underwriting discipline and instead feel the imperative to underwrite the same volume of insurance as their competitors regardless of the attractiveness of the insurance. This "institutional imperative" as we will call it occurs because of two reasons: a time difference between when premiums are collected versus paid out and a follow the herd mentality.

1. Regarding the time difference, an insurance company could underwrite a consumer today (collecting an upfront payment plus period payments) but only pay out losses on damaged properties in 5 or 10 years. Because of the number of years that it takes to see whether your underwriting was successful, CEOs do not have the strongest incentive to underwrite well. Oftentimes, 1 or 2 different CEOs could take tenure in between those 10 years which creates further misaligned incentives. In addition, Wall Street is highly focused on short term increases in premiums written (can think of this as a proxy for revenue) as they assume these insurance policies will be profitable down the line. This dynamic is similar to the CEO of a tech company who has strong incentives to increase revenue and then achieve profitability at some later undefined point.

2. The other factor is that insurance managers feel that it is ok to be wrong as long as your competitors are also wrong. Buffett argues that "They simply can't turn their back on business that their competitors are eagerly writing. That old line, 'The other guy is doing it so we must as well,' spells trouble in any business, but in none more so than insurance. Indeed, a good underwriter needs an independent mindset akin to that of the senior citizen who received a call from his wife while driving home. 'Albert, be careful,' she warned, 'I just heard on the radio that there's a car going the wrong way down the Interstate.' 'Mabel, they don't know the half of it,' replied Albert, 'It's not just one car, there are hundreds of them.'"

To further analyze ACIC underwriting discipline we compared their gross premiums written and net premiums earned to their comps. Gross premiums written is a measure of how much insurance the underwriters were willing to give. Net premiums earned is simply the gross premiums earned less reinsurance expenses. Looking at figures 13-16, ACIC has done very well. This is indicated by a noticeable decrease in premiums written during the soft market of 2013 to 2017 and a rapid increase in premiums written from then onwards. Figure 3 does a good job of showing when the soft and hard markets occurred.

AmCo's superior underwriting have partially been enabled by underwriting discipline and speak toward Dan's competence as trustworthy and diligent management.

Figure 12 – UVE

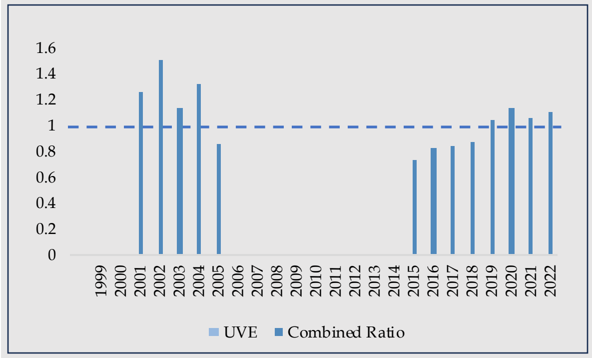


Figure 13 – ACIC GPW & NPE

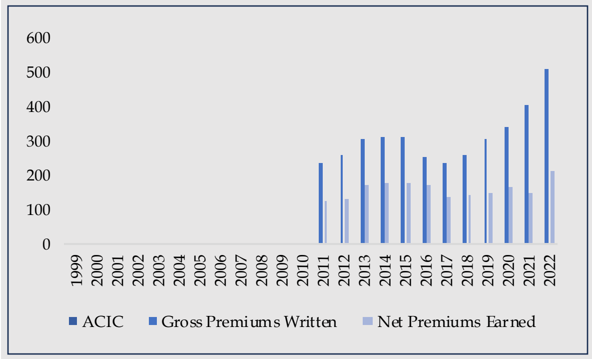


Figure 14 – HCI GPW & NPE

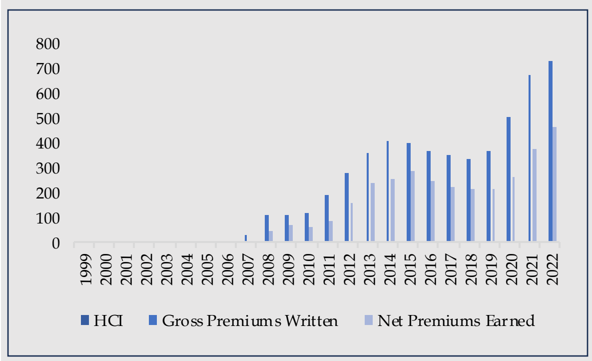
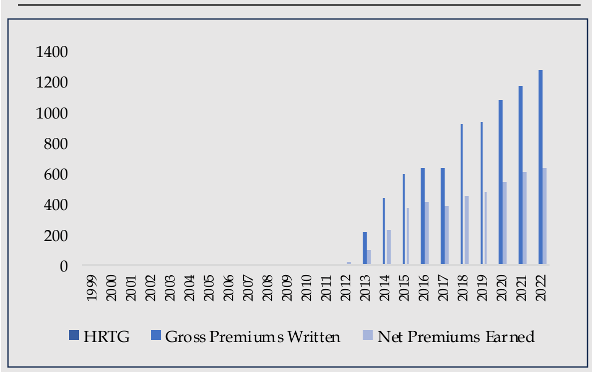


Figure 15 – Heritage GPW & NPE



Why This Opportunity Exists:

UIHC was a consolidated entity with two subsidiaries, AmCo and UPC. UIHC acquired AmCo in April 2017. UPC is now deconsolidated from UIHC. It was placed into runoff after approval from the Florida Office of Insurance Regulation (FLOIR). UPC was a low-quality business that focused on personal lines. Personal lines are inherently not as attractive of a place to be as commercial lines, but issues were only further compounded by UPC's then-CEO's decision to shift towards InsureTech. To cut costs UPC ended its traditional inspection process and started asking policyholders to climb up their house and take detailed pictures of his or her own roof. This significantly worsened UPC's ability to underwrite risk. UPC was somewhat saved by their loss-pooling agreement with AmCo. This meant that effectively all of AmCo's underwriting profit was going towards subsidizing UPC's poor underwriting of risk.

AmCo's true business quality has been overshadowed by the fact that financial statements have been consolidated and therefore are overshadowed by UPC's poor performance. AmCo has not yet had a full year of deconsolidated/independent financial results. This creates a tremendous opportunity that the market is underappreciating and not recognizing.

What is Reinsurance:

Reinsurers provide insurance for insurance companies looking to lay off (cede) a portion of their assumed risk. Reinsurers may also buy reinsurance protection, which is called retrocession.

There are two different types of reinsurance contracts:

- Obligatory: Primary insurer and reinsurer enter into an agreement for an entire portfolio of risks. The primary insurer is obligated to cede all business under the terms and conditions of the treaty. The reinsurer is obligated to accept all risks ceded by the reinsured.
- Facultative: The primary insurer has the option of ceding a risk. The reinsurer has the option to accept or to decline. Each risk is considered individually.

In proportional reinsurance contracts liability, premiums, and losses are split proportionally. There are two possible proportional reinsurance contracts: Quota Share & Surplus Quota Share.

Reinsurance in the Context of AmCo:

We earlier talked about reinsurance, but now we look at it specifically in the context of AmCo.

Figure 10 shows AmCo's reinsurance tower which is comprised of many layers of coverage, with each layer covered by multiple reinsurance companies like ArchRe, Berkshire etc.

AmCo also gets reinsurance from FORA, a program introduced by the state of Florida to help provide carriers with accessible reinsurance.

In the reinsurance tower, the two most important numbers are $1.1 billion and 167 years. 0.6% chance that a $1.1 billion loss occurs or can also be interpreted as a storm that occurs once every 1-in-167 years. AmCo would thus be covered for any losses in excess of $10m up to $1.1bn. What we hope to figure more out on is the pricing that AmCo pays for their reinsurance.

Figure 16 – UVE GPW & NPE

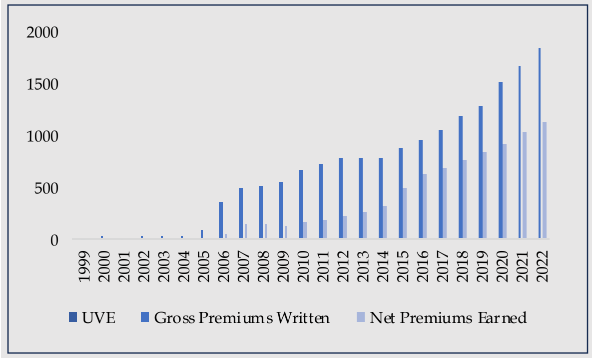


Figure 17 – Facultative Reinsurance

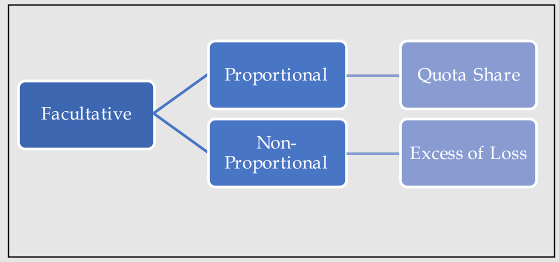


Figure 18 – Obligatory (Treaty) Reinsurance

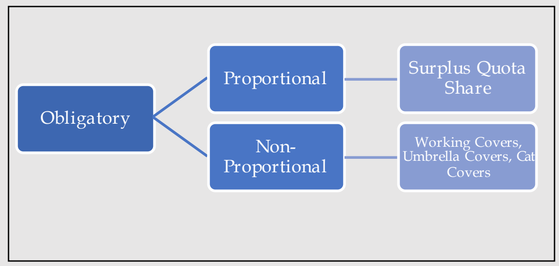


Figure 19 – AmCo Reinsurance Stack

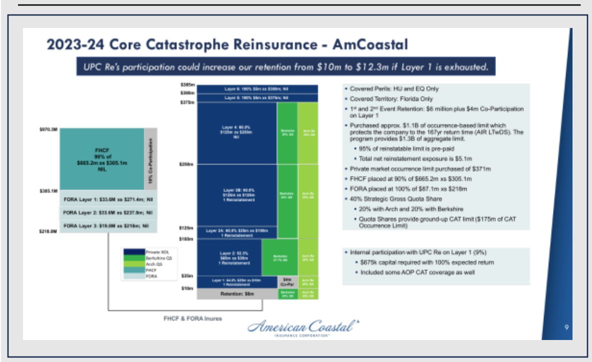
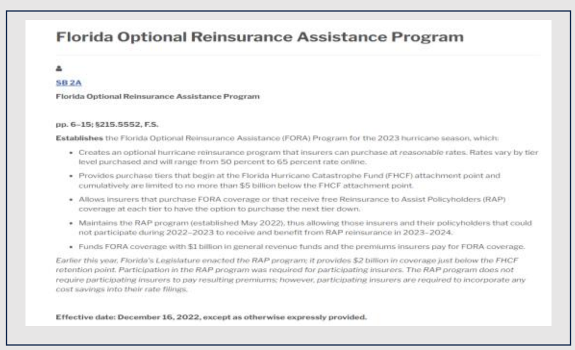


Figure 20 – FORA Reinsurance



Florida Optional Reinsurance Assistance Program

SB 2A

Florida Optional Reinsurance Assistance Program

pp. 6–15; §215.5552, F.S.

Establishes the Florida Optional Reinsurance Assistance (FORA) Program for the 2023 hurricane season, which:

- Creates an optional hurricane reinsurance program that insurers can purchase at *reasonable* rates. Rates vary by tier level purchased and will range from 50 percent to 65 percent rate online.
- Provides purchase tiers that begin at the Florida Hurricane Catastrophe Fund (FHCF) attachment point and cumulatively are limited to no more than $5 billion below the FHCF attachment point.
- Allows insurers that purchase FORA coverage or that receive free Reinsurance to Assist Policyholders (RAP) coverage at each tier to have the option to purchase the next tier down.
- Maintains the RAP program (established May 2022), thus allowing those insurers and their policyholders that could not participate during 2022–2023 to receive and benefit from RAP reinsurance in 2023–2024.
- Funds FORA coverage with $1 billion in general revenue funds and the premiums insurers pay for FORA coverage.

Earlier this year, Florida's Legislature enacted the RAP program; it provides $2 billion in coverage just below the FHCF retention point. Participation in the RAP program was required for participating insurers. The RAP program does not require participating insurers to pay resulting premiums; however, participating insurers are required to incorporate any cost savings into their rate filings.

Effective date: December 16, 2022, except as otherwise expressly provided.

ACIC Reinsurers Overview:

Professor Finch emphasized that we look at what reinsurance risk looks like for AmCo.

FHCH (Florida Hurricane Catastrophe Fund): AA Rating, | Fitch Munich Reinsurance: A+ (superior), AM Best | Allianz Global Risks US: A+ (superior), AM Best | Transatlantic Reinsurance: A++, AM Best | Hannover Reuck Se: A+, AM Best

ACIC Rating Overview:

We also looked at ACIC's rating and their direct competitors. American Coastal has gotten an A (exceptional) rating from Demotech. AmCo's direct competitors HRTG and UVE are rated B+ and B++ respectively by AM Best.

ACIC Growth Runway:

New clients are obtained by either (1) poaching competitors' clients (2) obtaining new entrants.

Poaching Competitor Clients (original strategy, TAM: ~13,000)

- Coming into the space, American Coastal targeted Citizen's clients who were getting bad rates. With increased competition and less upside, Citizen's market share fell 57% to 15% from 2009-2022
- High switching costs deter poaching abilities but due to hard market smaller providers are forced to charge very high premiums or not take on as much capacity leaving significant market share gaining capabilities for AmCo

New entrants/Burned condos (ie failed claims)

- AmCo has significant upside here because of their relationship with AmRisc and because of their brand equity
- AmRisc/AmCo combo brand is well-known as reliant and preferred by buyers

In the near term, market share growth is definitely likely because of the hard market which allows AmCo to thrive. Considering high retention rates and strong brand loyalty, coming out of the hard market AmCo will be able to continue collecting premiums from clients gained during this time.

Catalysts:

Hard Market in Florida:

Florida is currently experiencing a hard market, and this is characterized by high insurance and reinsurance premiums, limited reinsurance capacity, stricter underwriting terms, and reduced competition between carriers. This hard market was created from a destructive string of hurricanes from 2017 to 2022 (Irma in 2017, Michael in 2018, and Ian in 2022).

After major cat events insurers and reinsures incur above-average losses and their capital surplus levels fall below expectations. This forces insurance companies to curtail their reinsurance capacity which lowers supply of insurance in the market. This forces insurance prices higher.

For those who have exited the market, it is bad. But for those who still have surplus equity and an ability to underwrite because of favorable reinsurance stacks, they are able to benefit by taking market share and increase gross premiums written.

Insurance experts as well as individuals we talked feel very convicted that the hard market will last for the next 2 to 4 years.

Figure 21 – ACIC Reinsurers

Federal ID #	NAIC #	Name of Reinsurer	Amount
95-3187355	35300	Allianz Global Risks US INS	10,810,675
22-2005057	26921	Everest Reins Co	6,861,684
AA-9991310	00000	Florida Hurricane Catastrophe Fund	417,561,590
AA-1340125	00000	Hannover Reuck SE	23,030,992
AA-3190871	00000	Lancashire Ins Co LTD	3,012,425
AA-1120083	00000	Llyod's Syndicate 1910	6,201,837
AA-112897	00000	Llloyd's Syndicate 2987	2,592,373
AA-3190829	00000	Markel Bermuda Ltd	9,167,151
13-4924125	10227	Munich Reins Amer Inc	62,065,033
13-1675535	25364	Swiss Reins Amer Corp	3,811,425
13-5616275	19453	Transatlantic Reins Co	12,204,211

Valuation:

Item 1: Net Income Projection

Operating Build (Fiscal Year Beginning June)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Stub	0.67	1.67	2.67	3.67	4.67	5.67	6.67	7.67
Gross Premium Written	699,235,700	727,205,128	639,940,513	559,947,949	543,149,510	581,169,976	621,851,874	665,381,505
% Change Attribution to Δ in Property Valuations		*-5.00%*	*-3.50%*	*4.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
% Change Attribution to Δ in Market Share		*9.00%*	*6.50%*	*3.50%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
% Change Attribution to Δ in Hard/Soft Market Pricing		*0.00%*	*-15.00%*	*-20.00%*	*-10.00%*	*0.00%*	*0.00%*	*0.00%*
% Change YoY in Gross Premiums Written	*51%*	*4.00%*	*-12.00%*	*-12.50%*	*-3.00%*	*7.00%*	*7.00%*	*7.00%*
Gross Premium Earned	699,235,700	727,205,128	639,940,513	559,947,949	543,149,510	581,169,976	621,851,874	665,381,505
% Change YoY								
Private XOL Reinsurance Expense	(127,000,000)	(135,100,000)	(124,739,733)	(115,567,694)	(124,556,293)	(133,275,233)	(142,604,499)	(153,037,746)
% of GPE	*-18%*	*-19%*	*-19%*	*-21%*	*-23%*	*-23%*	*-23%*	*-23%*
One-Time FORA Price Negotiation			10,000,000					
YoY Change in TIV								
FORA/FHCF Reinsurance Expense	(100,000,000)	(94,000,000)	(96,820,000)	(104,081,500)	(111,367,205)	(119,162,909)	(127,504,313)	(136,429,615)
		-6%	*3%*	*8%*	*7%*	*7%*	*7%*	*7%*
Total XOL Reinsurance Expense	(227,000,000)	(229,100,000)	(221,559,733)	(219,649,194)	(235,923,498)	(252,438,142)	(270,108,812)	(289,467,361)
Quota Share Reinsurance Expense	(279,694,280)	(181,801,282)	(79,992,564)	(27,997,397)	0	0	0	0
% of Gross Premium Earned	*40.00%*	*25.00%*	*12.50%*	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Net Premiums Earned	192,541,420	316,303,846	348,388,216	312,301,357	307,226,012	328,731,834	351,743,062	375,914,144
Reinsurance % (Insurance Ceded)	*72%*	*57%*	*46%*	*44%*	*43%*	*43%*	*43%*	*44%*
Less: Commission and Brokerage Costs to AmRisc	174,808,925	181,801,282	159,985,128	139,986,987	135,787,378	145,292,494	155,462,969	166,345,376
%Commission & Brokerage Paid	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*
Add: Ceding Commissions from QS	95,096,055	61,812,436	27,197,472	9,519,115	0			
% of QS	*34.00%*	*34.00%*	*34.00%*	*34.00%*	*34.00%*	*34.00%*	*34.00%*	*34.00%*
Net Policy Acquisition Costs	79,712,870	119,988,846	132,787,656	130,467,872	135,787,378	145,292,494	155,462,969	166,345,376
Attritional Losses, Gross before Quota Share	(58,837,209)	(54,540,385)	(47,995,538)	(41,996,096)	(40,736,213)	(43,587,748)	(46,638,891)	(49,903,613)
% of GPE	*-8.4%*	*-7.5%*	*-7.5%*	*-7.5%*	*-7.5%*	*-7.5%*	*-7.5%*	*-7.5%*
Attritional Losses, Losses Borne by QS Reinsurers	21,372,850	10,483,734	6,070,082	4,208,590	0	0	0	0
% of GPE	*3.1%*	*1.4%*	*0.9%*	*0.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Less: Attritional Losses	(37,464,359)	(44,056,651)	(41,925,456)	(37,787,506)	(40,736,213)	(43,587,748)	(46,638,891)	(49,903,613)
CAT Lossess								
Number of Named Events	1	1	1	1	1	1	1	1
(1) CAT Losses, Direct	(50,000,000)	(52,000,000)	(53,560,000)	(57,577,000)	(61,607,390)	(65,919,907)	(70,534,301)	(75,471,702)
(2) American Coastal per-event Retention	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
(3) American Coastal per-event LAE	(20,000,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)
(4) CAT Losses, Losses Borne by Reinsurance, XOL	20,000,000	27,000,000	28,560,000	32,577,000	36,607,390	40,919,907	45,534,301	45,534,301
(5) CAT Losses, Losses Borne by Reinsurance, Quota Share	12,000,000	6,250,000	3,750,000	2,500,000				
Less: Net CAT Losses Borne by American Coastal (2 + 3 + 5	(18,000,000)	(18,750,000)	(21,250,000)	(22,500,000)	(25,000,000)	(25,000,000)	(25,000,000)	(25,000,000)
Investmet Income	10,705,303	16,985,517	17,245,217	14,865,545	14,347,455	15,614,762	16,707,795	17,855,922
interest rate%	*5.6%*	*5.4%*	*5.0%*	*4.8%*	*4.7%*	*4.8%*	*4.8%*	*4.8%*
Interest Expense	11,250,000	11,250,000	11,250,000	11,250,000	11,250,000	11,250,000	11,250,000	11,250,000
Pre-Tax Income	56,819,494	139,243,866	158,420,319	125,161,524	108,799,876	119,216,354	130,098,998	141,271,077
Federal & Foreign Income Taxes Incurred	11,932,094	29,241,212	33,268,267	26,283,920	22,847,974	25,035,434	27,320,790	29,666,926
Net Income	44,887,400	110,002,654	125,152,052	68,877,604	85,951,902	94,180,919	102,778,209	111,604,151

- According to a variety of experts and Sohra Peak capital, we are currently in one of the hardest markets in Florida's recent history due to a string of large hurricanes. This hard market is expected to last 2 to 4 years according to these individuals. To be on the more conservative side, we forecasted gross premiums written increasing for the next 2 years (FY 2023 and 2024).

- American Coastal had a loss sharing agreement with UPC from FY 2019 to 2021 that led their equity base to reach low levels. Because of this, American Coastal was forced to enter into a 40% quota share agreement with their reinsurers (an agreement where AmCo sells off some of their business temporarily). The cost of this quota share agreement can be seen in the valuation above right above ne t premiums earned. As AmCo slowly builds their equity base back up, they should be able to decrease this quota share agreement from 40% to 0% by 2027. With the recent $80,000,000 equity issuance, AmCo could have sufficient capital to decrease this quota share more quickly than we are forecasting.

Valuation:

Item 2: Net Income Valuation

ACIC Net Income Valuation								
As of 11/7/2023								
Year	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**
Period	*0.67*	*1.67*	*2.67*	*3.67*	*4.67*	*5.67*	*6.67*	*7.67*
Net Income	29,924,934	110,002,654	125,152,052	68,877,604	85,951,902	94,180,919	102,778,209	111,604,151
PV Of Net Income	28,162,830	94,517,210	98,177,133	49,330,445	56,202,695	56,224,967	56,018,563	55,536,168
PV of Stage 1	**494,170,010**							
Final-Year Net Income	111,604,151							
Exit Multiple	10x							
Terminal Value	1,116,041,507							
PV of TV	**555,361,676**							

ACIC Value	
Equity Value	1,049,531,687
DSO	51,406,486
Equity Value per Share	**20.42**
Current Share Price	7.24
Upside	**181.99%**

- We utilized a discounted net income valuation as converting from net income to cash flow is very difficult to accurately do.
- We utilized an exit PE multiple of 10x, in line with UVE. However, ACIC could reasonably deserve a slightly higher multiple than UVE due to better management and stickier customer relationships.

Item 3: Historical Financials

	2013A	2014A	2015A	2016A	2017A (Irma)	2018A (Michael)	2019A (Loss Sharing Period with UPC)	2020A (Loss Sharing Period with UPC)	2021A (Loss Sharing Period with UPC)	2022A (Ian)
Gross Premiums Written	285,547,000	308,170,000	312,964,000	275,322,000	235,202,000	249,187,000				463,070,000
Ceded Premiums Earned	(117,714,000)	(133,410,000)	(140,843,000)	(135,138,000)	(107,241,000)	(108,892,000)				(253,088,000)
Net Premiums Earned	167,833,000	174,760,000	172,121,000	140,184,000	127,961,000	140,295,000				209,982,000
Losses Incurred										
(1) Direct Business	12,924,610	8,373,018	22,783,711	36,104,050	51,173,258	136,944,805				109,279,695
(2) Reinsurance Assumed	0	0		0	0	0				81,232,464
(3) Resinsurance Recovered	8,138,869	329,950	14,327,388	12,296,744	11,207,303	105,644,684				132,172,659
(4) Net Payments (1 + 2 - 3)	**4,785,741**	**8,043,068**	**8,456,323**	23,807,306	39,965,955	31,300,121				58,339,500
(5) Net Losses Unpaid Current Year	9,446,345	11,941,166	19,904,323	26,714,000	31,429,773	36,861,991				77,254,739
(6) Net Losses Unpaid Prior Year	11,611,071	9,446,345	6,182,179	19,904,323	26,713,980	31,429,773				87,308,025
(7) Losses Incurred Current Year (4 + 5 - 6)	**2,621,015**	**10,537,889**	**22,178,467**	30,616,983	44,681,748	36,732,339				48,286,214
Claims Ratio	*1.56%*	*6.03%*	*12.89%*	*21.84%*	*34.92%*	*26.18%*				*23.00%*
Loss Adjustment Expenses										
Direct										79,540,873
Reinsurance Ceded										52,346,528
Net LAE	16,594,727	17,106,772	20,412,400	17,303,602	2,251,309	15,032,244				27,194,345
Other Underwriting Expenses										
Comission and Brokerage	42,167,715	42,751,047	45,531,807	17,018,840	32,318,969	44,924,539				51,184,513
SG&A	26,710,070	31,690,103	27,674,473	20,976,024	22,092,890	19,337,446				45,943,892
Taxes, Licenses & Fees	9,153,730	2,037,185	6,670,908	7,802,818	4,913,229	3,307,110				11,652,406
Miscellaneous Expenses				174,768	1,298,974	1,802,414				58,146
Total Expenses	**78,031,515**	**76,478,335**	**79,877,188**	**63,276,052**	**62,875,371**	**84,403,753**				**136,033,302**
Expense Ratio	46.49%	43.76%	46.41%	*45.14%*	*49.14%*	*60.16%*				*64.78%*
Underwriting Result	**70,585,743**	**70,637,004**	**49,652,945**	**46,290,965**	**20,403,881**	**19,158,908**				**25,662,484**
Combined Ratio	48.06%	49.79%	59.29%	*66.98%*	*84.05%*	*86.34%*				*87.78%*
Investment Income										
Net Investment Income Earned	2,013,563	1,948,180	2,667,062	4,333,372	5,649,424	7,259,924				5,199,171
Net Realized Capital Gains (Losses) Less Capital Gains	0	0	2,233	9,082	65,053	(173,214)				(5,156,927)
Net Investment Gain (Loss)	**2,013,563**	**1,948,180**	**2,669,295**	**4,342,454**	**5,714,477**	**7,086,710**				**42,244**
Other Income										
Net Gain (Loss) From Agents' or Premium Balances Cha	0	0	0	0	(5,926)	1,000				(9,943)
Finance and Service Charges Not Included in Premiums	0	0	0	0	0	0				0
Aggregate Write-Ins for Miscellaneous Income	0	0	0	0	0	2,295				1,179,531
Total Other Incomes	**0**	**0**	**0**	**0**	**(5,926)**	**3,295**				1,169,588
Net Income Before Dividends, After Cap Gains Tax &	**72,599,306**	**72,585,184**	**52,322,240**	**50,633,419**	**26,112,432**	**26,248,913**				**26,874,316**
Federal & Foreign Income Taxes Incurred	25,739,335	24,385,078	18,156,037	15,031,945	8,430,796	5,345,921				10,358,775
Net Income	**46,859,971**	**48,200,106**	**34,166,203**	**35,601,474**	**17,681,636**	**20,902,992**				**16,515,541**

NB: **2019-2021 Financials Excluded Due to UPC Loss Sharing Agreement*

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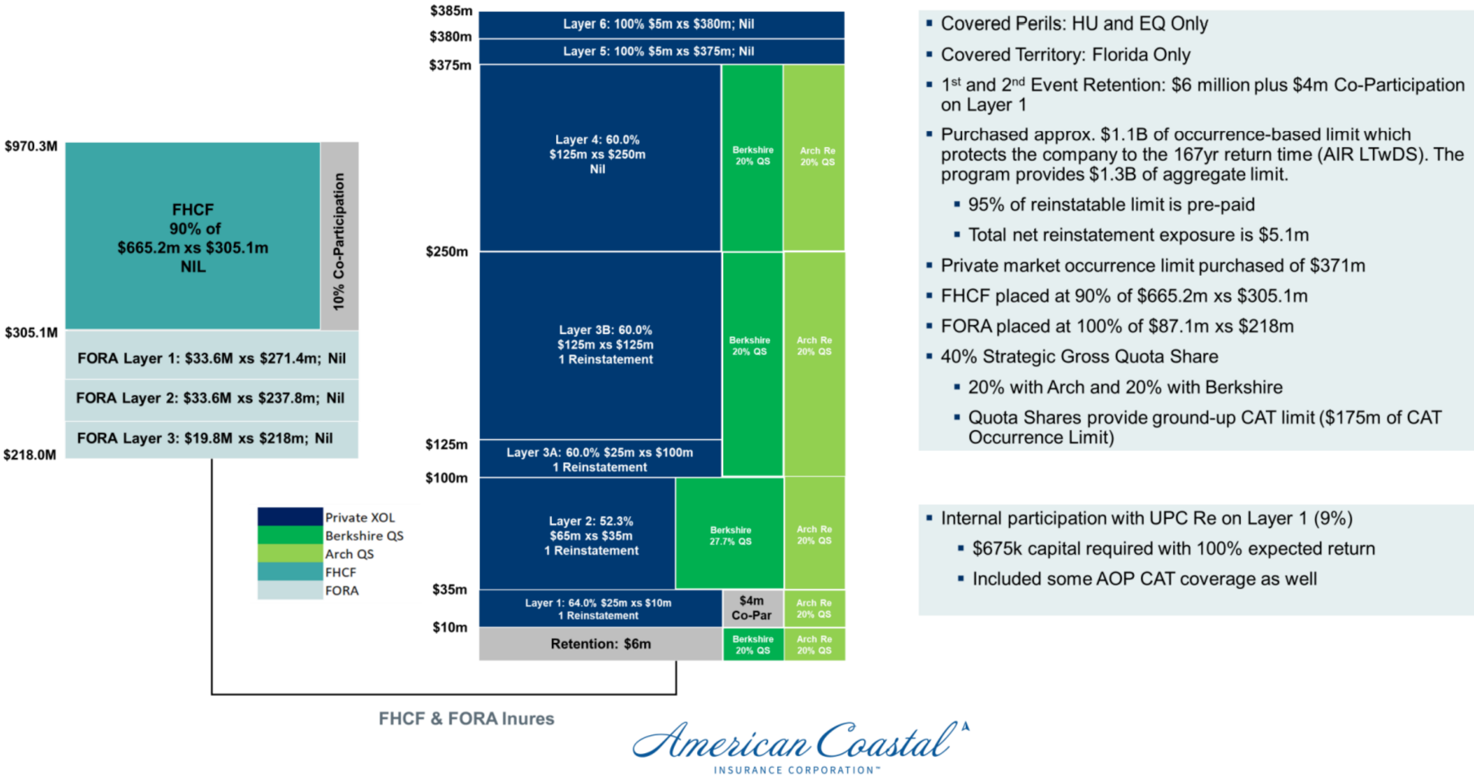
Appendix:

Item 1: 2023-24 American Coastal Core Catastrophe Reinsurance Stack



Key Points on Reinsurance Stack

- The reinsurance stack protects AmCo up to 1.1 billion in losses. Any losses above $1 billion are paid directly by AmCo. Amco's actuaries have predicted that the reinsurance stack protects AmCo from a 1 in 167-year hurricane. Since we only need to wait 3 years to get our money back on this investment, the probability that a hurricane of this rarity occurs in the next 3 years is approx. 1%.

- Currently, AmCo is in a 40% quota share agreement with Berkshire and Arch Re because of a low equity base. This quota share agreement is indicated in light green on the reinsurance stack.

- AmCo has to pay approximately 10 million of the first losses in the stack (indicated by the gray blocks) as well as pay premiums for their reinsurance. These premium costs are not shown on the reinsurance stack.

Item 2: American Coastal Reinsurance Providers

NAIC #	Name of Reinsurer	Amount	Rating Agency	Rating
35300	Allianz Global Risks US INS	10,810,675	AM Best	A+
26921	Everest Reins Co	6,861,684	AM Best	A+
00000	Florida Hurricane Catastrophe Fund	417,561,590	Fitch	AA
00000	Hannover Reuck SE	23,030,992	AM Best	A+
00000	Lancashire Ins Co LTD	3,012,425	AM Best	A
00000	Llyod's Syndicate 1910	6,201,837	AM Best	A+
00000	Llloyd's Syndicate 2987	2,592,373	AM Best	A+
00000	Markel Bermuda Ltd	9,167,151	AM Best	A
10227	Munich Reins Amer Inc	62,065,033	AM Best	A+
25364	Swiss Reins Amer Corp	3,811,425	AM Best	A+
19453	Transatlantic Reins Co	12,204,211	S&P	AA+

Appendix Continued:

Item 3: Premium to Surplus Ratio Projection

	2022	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Gross Premiums Written	463,070,000	699,235,700	727,205,128	639,940,513	559,947,949	543,149,510	581,169,976	621,851,874	665,381,505
Policy Surplus (Equity)	77,510,000	94,025,541	138,821,677	249,149,175	375,814,974	446,518,291	534,484,674	630,613,330	735,475,616
Ratio	5.97	7.44	5.24	2.57	1.49	1.22	1.09	0.99	0.90

Item 4: Key Terms

Gross Premium & Net Premium: The amount of premium received by the insurance company as a result of underwriting various polices is the gross premium. Out of this total premium, some amount is used to pay reinsurance premiums. The amount of money left after paying the reinsurance premium is called the net premium.

Unearned Premium: An unearned premium is the premium amount that corresponds to the time period remaining on an insurance policy. In other words, it is the portion of the policy premium this has not yet been earned by the insurance company because the policy still has some time before it expires. This can be thought of as deferred revenues.

Ceded Premiums: Ceded premiums refer to the premiums paid by the insurer to another insurer for reinsurance protection.

Excess of Loss: Excess of loss reinsurance is a type of reinsurance in which the reinsurer compensates the ceding company for losses that exceed a specified limit. This is a form of non-proportional reinsurance. 10 xs 25, is interpreted as the reinsurer is responsible for the next $25mm of losses that occur after the initial $10mm in losses.

Insurance-to-Value: The amount approximating the replacement cost of insured property.

Quota Share Treaty: A quota share treaty is a form of pro-rate reinsurance (proportional) in which the insurer and reinsurer share premiums and losses according to a fixed pre-determined percentage.

Loss Adjustment Expense (LAE): Loss adjustment expense is a cost that insurance companies incur when investigating and settling an insurance claim. There are two types of LAEs – allocated and unallocated. Allocated costs accumulate during active claim investigations whereas unallocated costs are part of the investigation overhead.