

American Coastal Insurance Corp (ACIC) Double Down

An Incredibly High-Quality Insurer Trading at 3.5x P/E

Aryann Gupta, Nithin Mantena

Key Ratio and Statistics

Recommendation	Strong Buy	P/B	2.46x
Market Cap	\$381.5M	2024E P/E	2.9x
Share Price	\$8.69	2025E P/E	2.6x
Intrinsic Value per Share	\$26.50	Payback Period	3.5x
Upside	204.9%	Date	12/12/2023

Executive Summary: American Coastal 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. We believe AmCo to be the most undervalued insurer in Florida. We believe that it trades at a forward PE of ~2.9x, a payback period of just 3.5 years, and strong growth thereafter.

Since originally pitching the company a month ago, we have worked extensively to verify the quality of ACIC. We have focused our research on hurricane risk, reinsurance, hard market environment, management, equity offering, and NY personal lines exposure. The mediums through which we conducted our research were interviews with multiple P&C insurance experts, review of the most recent quarterly earnings and filings, asking management questions during Q3 call, discussions with HOAs, use of a wayback machine/software to evaluate ACIC's history, extensive simulations, academic papers, and calls with fund managers who own ACIC.

After our research, we have maintained very high conviction in the company and recommend increasing the size of the position in the portfolio.

Reinsurance

We had the opportunity to speak to Professor Woollams of Columbia University. He is an expert in the management of commercial property and casualty insurance claims spending nearly two decades at AIG as President of Global Commercial Claims. In addition, we spoke to Shiwen Jiang, an insurance actuary at Berkshire Hathaway Specialty Insurance who has over three decades of experience in the actuarial sciences for P&C insurance. Shiwen was also able to provide general insight on Berkshire's P&C reinsurance strategy.

High Reinsurance Capacity with Low Attachment Points

A major determining factor in the risk of an insurance business is the quality of their reinsurance stack. We were of the belief that the two most important numbers to pay attention to when analyzing the reinsurance stack (figure 2) was the size of the stack at the upper end (approx. \$1 billion for ACIC) and the risk of the stack being depleted (1 in 167 year hurricane event for ACIC). However, after further due diligence, we have identified new metrics that can be used to evaluate the quality of a reinsurance stack.

ACIC has an attachment/retention point of \$10 million per event. This means that for each event, ACIC pays the first \$10 million and then the reinsurance kicks in. In most years, we can expect ACIC to spend their full \$10 million retention. This year management has stated that even with the impacts of Idalia which crossed over Florida, current loss estimates are well below the reinsurance retention limit.

An actuarial expert suggested that we compare each insurance companies' attachment/retention limit to their policyholder/equity surplus. Currently, ACIC, even with a low equity base, because of the loss-sharing agreement with UPC,

has a 12x equity to retention limit which is far above average in Florida but still below the very best catastrophe insurance companies in the US. Figure 1 below shows the equity to retention limits for various competitors in the Florida P&C market. We included Palomar as it is a very high-quality comp on the West Coast that insurers against earthquakes and hurricanes.

Equity to Retention					
Publicly Traded Florida Insurers (\$mm)	ACIC	ACIC 24e	Palomar	UVE	HRTG
Equity	120.65	202.34	383.25	288.00	151.00
Retention Limit	10.00	12.50	17.50	45.00	70.00
Equity to Retention Limit	12.06	16.19	21.90	6.40	2.16

Figure 1: Equity to Retention Table

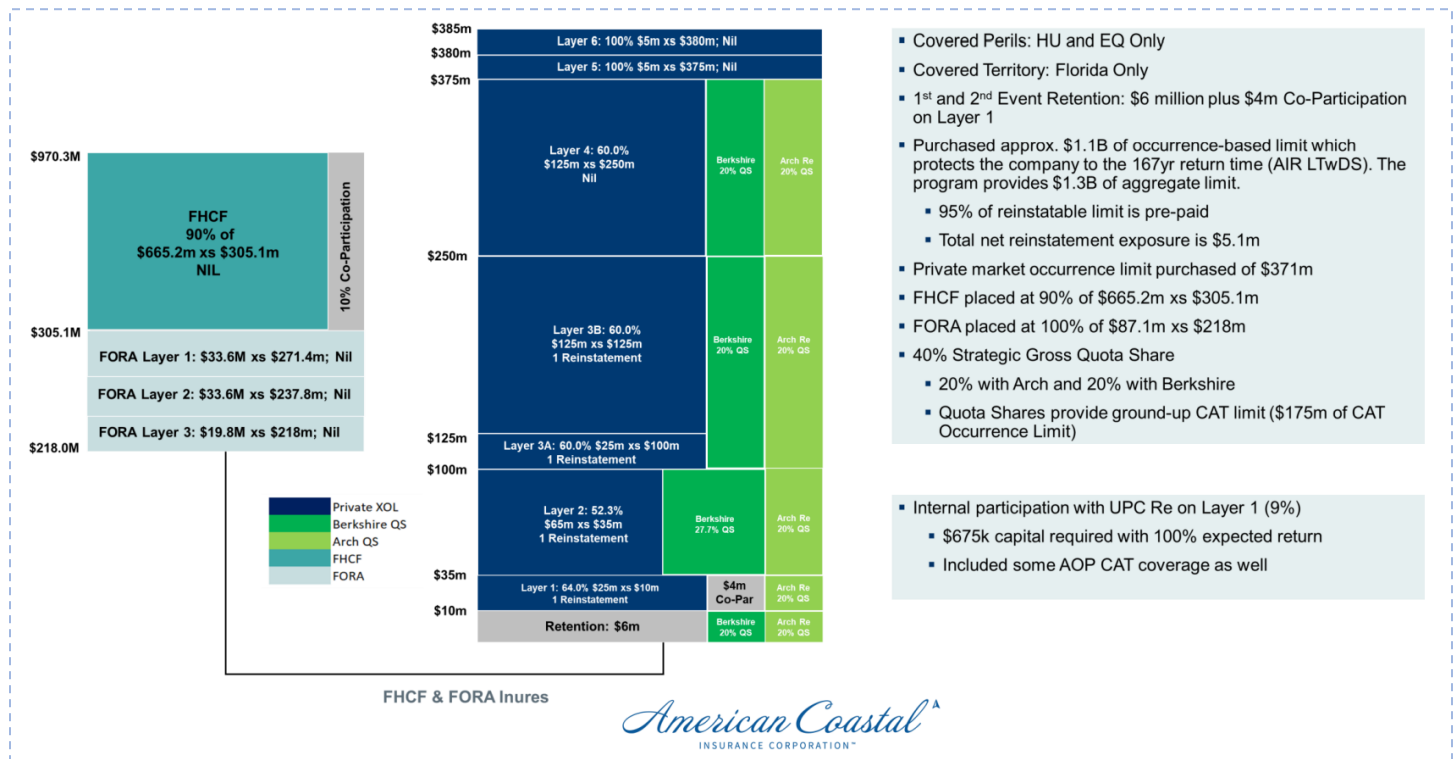


Figure 2: American Coastal Reinsurance Stack

In addition, Shiwen Jiang explained to us the 3-module actuarial simulation used for insurance and reinsurance to calculate this 1 in 167-year probability that can be seen in figure 2. The first module is the event/hurricane simulation. This module allows actuaries to simulate the formation, movement, and dynamics of hurricanes. The simulation varies the diameter, wind speed, pressure, and location of the hurricanes for many years (>100,000 in some cases). The data used in these simulations is almost entirely historical with minimal considerations for the future. Since reinsurance agreements are only in place for 1-year at a time, past data has a very strong correlation with hurricane risk for the next year. This 1 in 167-year number that can be found on ACIC's website comes from running this simulation. Therefore, this number only correlates well with the risk of the reinsurance stack being fully utilized for the next few years. This number should not be used to extrapolate any further that a few years as climate change along with other unforeseeable factors could change this probability. Shiwen Jiang instead suggested that we compare this 1 in 167 number across competitors to evaluate how ACIC's stack stacks up. At the competitors that we looked at, the lowest stack indicated a 1 in 100 probability while the highest stack (Palomar) indicated a 1 in 250-year probability. ACIC sits comfortably in the middle. In addition, ACIC's superior performance during large hurricane

events and disciplined insurance strategy (remember that ACIC has never turned a loss in their 15 year operating history due to their focus on garden style condominiums) leads us to believe that they are overstating the risk of hurricanes to ACIC.

Reinsurers have many considerations when selling reinsurance to specific P&C insurance companies. These considerations, simulated using the 3-module model, include the type of construction of the insured properties, location, etc. In addition, reinsurers have relationships with insurers. While these relationships tend to be stronger the larger the client as a percentage of total insurance book, these reinsurers will often have the same actuaries underwriting the same insurance companies year over year. For example, one actuary may be tasked with just managing the insurance book for ACIC and a handful of other insurers. The fact that reinsurers likely have an established relationship with ACIC means that ACIC will get reinsurance rates that consider the low total value insured at risk for the company. To quantify this, we looked at total reinsurance expenses as a percentage of gross premiums written for the top P&C insurance companies in Florida over the last decade.

Coming into reinsurance negotiations, management often has a plan as to what type of reinsurance stack they want. For example, they will likely have a target max size, retention/attachment point, percent quota share versus excess loss, and approximate price. If ACIC is not able to negotiate the exact terms that they want the first time around, they can always renegotiate at a higher price. If after final negotiations, ACIC does not have a reinsurance stack that sufficiently covers the risk they are exposed to, management always has the option to underwrite lower levels for that year. Because of the long-track record of underwriting discipline that Mr. Peed has shown, his firm understanding of risk created through founding and running AmRisc, and low combined ratios, we believe that Mr. Peed would decrease gross premiums written if a poor reinsurance stack was negotiated. The quality of the insurance stack has been integrated into our financial model in both direct and indirect ways. Directly we have assumed 1 named event per year causing 12.5 million in retention to be used up. Additionally, we have modeled private XOL reinsurance expenses as a percent of GPW increasing from 19% in 2024 to 23% in the out year. Using Crystal Ball, we have simulated both retention points and private XOL reinsurance costs across 1,000+ scenarios with even 3 standard deviation results leading to extremely strong upside (indicates lack of model sensitivity to these rates).

Dynamic Rate Adjustability in Response to Reinsurance Market Trends

Professor Levich asked us to look at how non-Florida catastrophe events affect reinsurance capacity in Florida (e.g., in Japan). Leading on from this question, Professor Levich was concerned that this could lead to a set of circumstances where overall reinsurance costs rise but rates do not rise in Florida.

The first answer is that a significant portion of American Coastal's reinsurance stack is obtained from the Florida Optional Reinsurance Assistance Program (FORA) and Florida Hurricane Catastrophe Fund (FHCF). They have inured reinsurance from FORA and FHCF. The FHCF reinsurance is particularly significant given that it covers them \$665.2m xs \$305.1m. This is shown in Figure 3. Both these reinsurance programs are inherently Florida-focused and thus are not impacted by CAT events in the rest of the world.

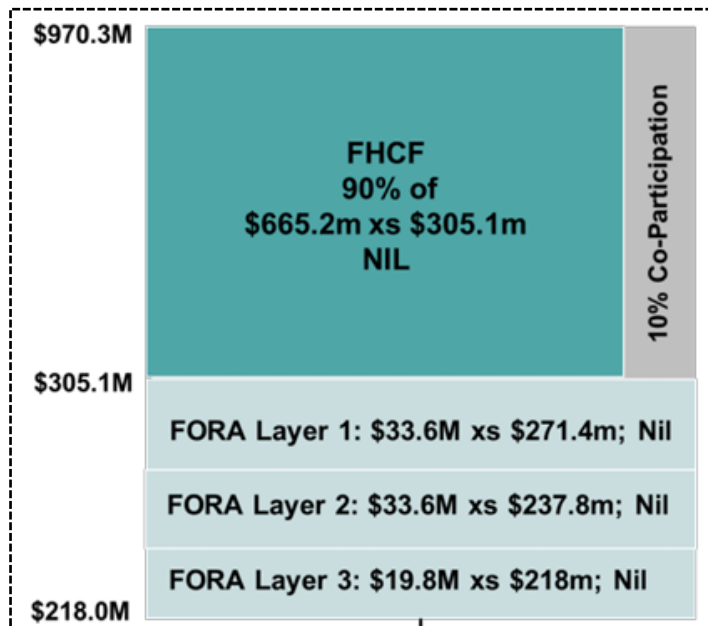


Figure 3: FORA/FHCF Reinsurance Stack

When talking to Professor Woollams one of the concerns he brought up was how sustainable programs like FORA/FHCF are both in terms of durability and ability to pay if there is a black swan event. For that reason, we spent more time looking at how FHCF is funded and maintained. The primary question being what their ability is to pay claims, and how will that look going forward.

The FHCF is a tax-exempt trust fund created by the State of Florida in 1993 that is designed to be self-supporting and self-funded. The FHCF is administered by the State Board of Administration of Florida under Section 215.555 of the Florida Statutes. All participating insurers, like ACIC, pay the FHCF annual reimbursement premiums as consideration for the reimbursement coverage that FHCF provides. The reimbursement premiums are based on insured values of covered properties (as reported annually to the FHCF).

The annual reimbursement contract provides for reimbursement of a percentage of an insurer's residential hurricane losses in excess of its retention which is determined under a statutory formula. Reimbursement is provided at one of three percentage levels (90%, 75%, or 45%) which is selected in advance by the insurer seeking coverage. This means that once an insurer's losses from residential hurricane damage exceed their retention level, the FHCF will cover either 90%, 75%, or 45% of the additional losses, depending on what level the insurer has chosen.

The FHCF obtains its funding from the following available potential sources:

- 1) Accumulated and current year reimbursement premiums
- 2) Recoveries from reinsurance and other risk-transfer mechanisms
- 3) Pre-event bond proceeds and other pre-event liquidity resources
- 4) Proceeds of post-event revenue bonds or bank loans issued
- 5) Investment earnings or accumulated reimbursement premiums

It is important to note that the actual and potential obligations of the FHCF are limited by statute. For the contract year June 1, 2023 – May 31, 2024, the maximum potential liability of the FHCF is \$17 billion, with projected available total liquid resources of approximately \$7.7 billion, which is comprised of \$4.2 billion of project year-end fund balance and \$3.5 billion of pre-event bond proceeds.

The projected available total liquid resources of \$7.7 billion is \$9.3 billion below the maximum potential liability, which would therefore require additional financing. In addition, the FHCF statute limits the Fund’s reimbursement liability to its actual claims-paying capacity, which may depend on the financial market conditions at the time of sale if any post-event revenue bonds are needed to pay claims. The \$9.1 billion retention is the maximum loss amount retained by the industry below the FHCF coverage layer. Figure 4 summarizes this graphically.

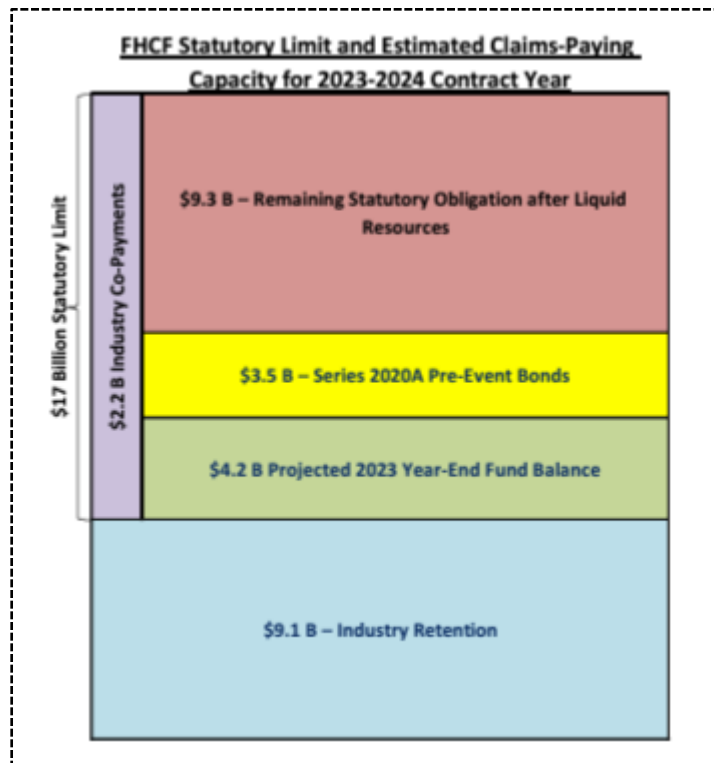


Figure 4: FHCF Statutory Limits & Estimated Claims-Paying

Verisk and RMS are companies that provide catastrophe modelling services. Their models are used to estimate potential losses from hurricanes, while using company-by-company data which includes analysis based on model results by ZIP code and type of business and each individual company retention, company limit, and coverage selection. The data shown in the table below is for the approximately 150 participating insurers where each insurers has its own retention and coverage limits, and therefore each participating insurers has its own unique probabilities of triggering its FHCF coverage and reaching its FHCF coverage limit.

Layer	FHCF Layer Loss (\$ in B)	Ground Up Losses for Average Verisk, RMS Company Retention Limit (\$ in B)	Return Times (Yrs) for Aggregate Verisk, RMS Company Retention Limit
\$1bn FHCF Layer	1.00	7.90	8.00
Projected Fund Balance Exhausted	4.20	14.10	13.00
\$5bn FHCF Layer	5.00	15.20	14.00
Pre-Event Bonds Exhausted	7.70	19.30	17.00
\$10bn FHCF Layer (Ian Level)	10.00	23.30	21.00
Maximum Statutory Limit	17.00	98.20	240.00

Figure 5: FHCF Projected Return Times & Ground Up Losses

In the context of Figure 5, the “Return Times” column is the estimated number of years between hurricane events that cause losses equal to the corresponding number in the column named “FHCF Layer Loss”. The “Company Retention Limit” is the predetermined amount of loss that the insurance company is responsible for covering before the FHCF’s coverage begins.

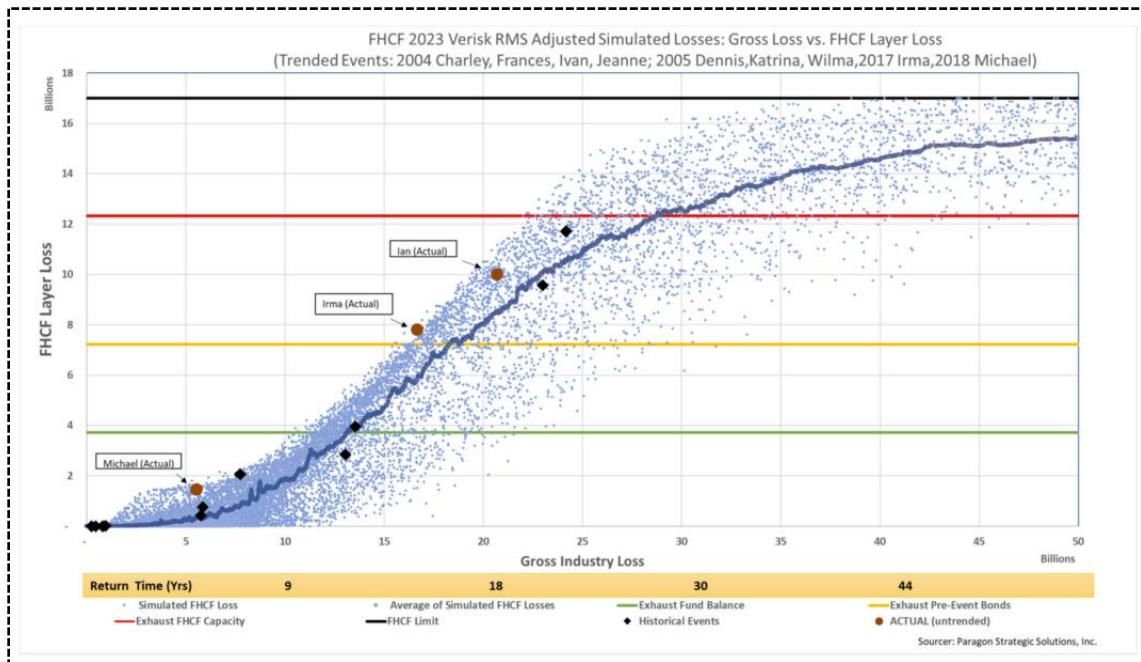


Figure 6: FHCF Adjusted Simulated Losses

While looking at Figure 4 there appears to be a shortfall of \$9.3bn. There is also \$3.5bn in outstanding pre-event bonds. The reason both are not concerns is because FHCF can levy emergency assessments on all property and casualty insurance lines, similar to a statewide sales tax on an essential product with an underlying premium base of \$72.6 billion. While the FHCF statute does limit the amount of assessment that can be levied – 6% for losses attributable to one contract year and 10% for losses attributable to all years – these percentages, when applied to the current assessment base of \$72.6 billion, mean the FHCF could levy annual assessments of as much as \$4.36bn for losses from hurricanes occurring in one contract year and as much as \$7.26bn for losses from hurricanes occurring over all contract years.

The strength of this revenue stream is the primary reason the three major rating agencies – Moody's, Standard & Poor's and Fitch – rate FHCF's current debt as Aa3, AA, and AA, respectively.

FHCF Post-Event Estimated Borrowing Capacity						
(\$ in Billions)	BofA	Citi	JPM	MS	WF	Average
Borrowing Estimates						
Tax-Exempt:						
0-12 Months	1.75	2.25	4.50	4.24	3.50	3.25
12-24 Months	2.50	2.25	4.50	3.00	2.50	2.95
Total tax-exempt	4.25	4.50	9.00	7.24	6.00	6.20
Taxable:						
0-12 Months	4.00	3.25	5.50	6.00	3.50	4.45
12-24 Months	4.00	3.25	5.50	4.00	2.50	3.85
Total Taxable	8.00	6.50	11.00	10.00	6.00	8.30

Figure 7: Expected Post-Event Borrowing Capacity

The FHCF's finances will be significantly stretched next year if we have any hurricane comparable to Irma or worse. This would most likely wipe out the entirety of their "equity" and also into their \$3.5bn Series A 2020 bonds. This extrapolation is based on Figure 6. Running out of surplus while not ideal would not be disastrous. FHCF will be forced to rely on their post-event bonds. In the case of Hurricane Wilma FHCF was able to raise approximately \$30bn of post-event bonds, so they could do this again in theory. The post-event borrowing is somewhat constrained by the post-event borrowing that is estimated by banks and is highlighted in Figure 7.

There is also the implicit backing of the state. The Florida State Government is very highly rated (AAA rated) and had a record surplus for FY2021-2022 of \$22.8bn USD.

We do not see FHCF posing any idiosyncratic risk to AmCo, but rather potentially a systemic risk to the industry but that too with very limited impacts given that it would be industry-wide.

Strategic Risk Mitigation through Quota Share with Reinsurers

From 2019 to 2021, AmCo was in a loss-sharing agreement with UPC. This loss-sharing agreement caused AmCo's equity base to reach low levels of approximately 70 to 80 million dollars. Because of this low equity base, AmCo was forced to enter into a strategic quota share agreement with Berk Re and Arch Re. A quota share agreement is a type of reinsurance that contrasts with the standard excess of loss agreement. One can think of it as reinsurance companies purchasing temporary equity in AmCo. Mechanically, AmCo cedes a portion of their gross premiums earned and at the same time the reinsurance companies agree to pay an equal portion of the losses and expenses.

Currently, AmCo is in a 40% quota share agreement. This quota share agreement would be destructive to shareholders if maintained for long periods of time. This is especially true during hard markets where catastrophe insurance prices are very attractive. However, with ACIC's recent equity offering and increased profitability in years to come, we believe that AmCo should be able to return to a purely excess of loss reinsurance stack by 2026e. To forecast when AmCo would be able to reduce their quota share agreement, we forecasted the net premiums earned (NPE, total premiums written less reinsurance costs) to retained earnings ratio. HCI, the second highest quality P&C insurer in Florida, has a NPE to retained earnings ratio in normalized years of 2x. Palomar, a very high-quality catastrophe insurance comp on the east coast, has a ratio of just .5x today with a lower ratio in soft market years. Management at ACIC as well as insurance analysts like to see a ratio below 2x and probably closer to 1x for the long term. Using LTM data, AmCo has an NPE to equity ratio of 2.7x which is far above the 2x target and the core reasoning behind implementing a quote share agreement. Figure 8 shows these ratios across the comp set.

NPE to Equity	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average
ACIC	1.9x	1.5x	1.2x	0.9x	0.9x	1.0x	1.9x	-5.5x	-1.9x	1.3x
UVE	12.7x	5.3x	3.9x	3.7x	4.1x	4.2x	4.1x	4.9x	10.6x	5.9x
HCI	2.1x	1.5x	1.1x	1.0x	1.1x	1.2x	1.5x	1.7x	1.9x	1.5x
HRTG	1.3x	1.6x	1.3x	0.9x	0.9x	0.8x	0.9x	1.0x	1.1x	1.1x
Palomar			0.1x	0.1x	0.1x	0.2x	0.3x	0.4x	0.5x	0.3x

Figure 8: NPE to Equity Comps Table

Looking forward, we believe that AmCo with a 40% quota share in 2023e (12 months ended in July 2024) should have close to \$200 million in equity and a NPE to equity ratio of just 1.2x, far below the industry standard in Florida and safely below management's upper bound. It is this drastic drop in NPE to equity ratio in 2023e that is allowing us to forecast a decrease in the quota share as % of GPE from approximately 35% in 2023-2024 to 25% in 2024-2025, 15% in 2025-2026, and 5% in 2026-2027. We have sanity checked these numbers using the ceding ratio which we have included in figure 9 below.

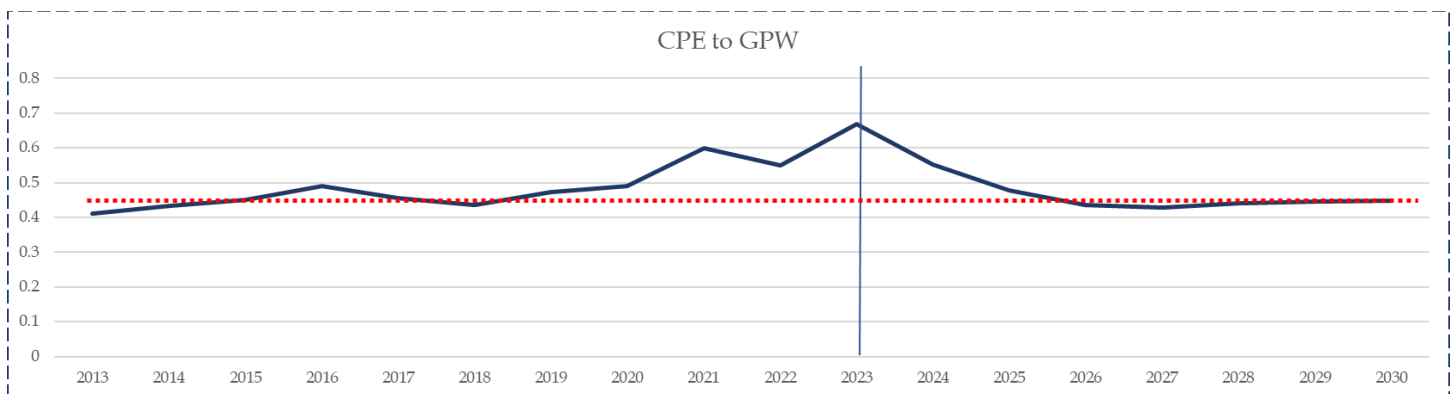


Figure 9: Historical CPE to GPW for American Coastal

As hinted at briefly, AmCo is currently issuing equity. While issuing equity at a time when the share price of ACIC is extremely undervalued would be seen as value destructive, management believes that this additional equity will lead to more value

creation by allowing AmCo to get out of this high quota share agreement faster than currently expected. Below we have conducted an analysis to determine whether this equity offering creates value or not. Simply, we compared the value of ACIC's shares with and without the equity offering, attempting to keep the risk between the two scenarios equal by adjusting the quota share accordingly.

While there were many measures of risk that we could have used, we determined that looking at NPE to equity was the most logical choice. In both scenarios, we would expect management to target reaching a NPE to equity ratio below 1x by 2025e. This is the factor that we will be trying to hold constant in the two scenarios with the independent variable being the quota share percentage.

In figure 10 below, you can see the two scenarios. The first shows what we believe the quota share agreement will be with the \$20,000,000 equity offering. In this scenario, we can see that AmCo will be able to return to a NPE to equity ratio below 1x between 2024 and 2025 fiscal years. The second scenario shows what the quota share agreement would have to be when accounting for the lower level of net income caused by no equity raise. We also included the ceding ratios which can be sanity checked against figure 9. Specifically, you would want to see the ceding ratio come back down to normalized levels such as those from 2013 to 2019.

When comparing the valuations between the two scenarios (figure 11), we can see that the equity offering does not substantially decrease the intrinsic value of ACIC after accounting for the share dilution. The point of this exercise is to show that the equity offering does not destroy significant value, something that the market likely thinks is true and/or sees as a sign of weakness in the company.

Equity Offering & Quota Share Analysis	2022	2023	2024	2025	2026	2027	2028	2029	2030
With Equity Offering									
Quota Share Amount	0%	35%	25%	15%	5%	0%	0%	0%	0%
NPE to Equity	2.7x	1.2x	1.1x	0.8x	0.6x	0.5x	0.5x	0.4x	0.4x
Ceding Ratio (sanity check)	-55%	67%	55%	48%	44%	43%	44%	44%	45%
Without Equity Offering (adj. quota share)									
Quota Share Amount	0%	40%	32.5%	25%	5%	0%	0%	0%	0%
NPE to Equity	2.7x	1.2x	1.2x	0.9x	0.8x	0.6x	0.6x	0.5x	0.5x
Ceding Ratio (sanity check)	55%	72%	63%	58%	44%	43%	44%	44%	45%

Figure 10: Historical CPE to GPW for American Coastal

ACIC Value		ACIC Value	
Equity Value	1,131,583,951	Equity Value	1,193,906,835
DSO (with equity offering)	42,478,686	DSO (with equity offering)	45,058,744
Equity Value per Share	26.64	Equity Value per Share	26.50
Current Share Price	8.69	Current Share Price	8.69
Upside 	206.55%	Upside 	204.91%

Figure 11: Equity Offering Analysis

Hurricane Risk

Hurricanes clearly pose the largest risk for the company and investment going forward. While almost all of this risk is covered by a thorough analysis that we did on the reinsurance stack, we wanted to further clarify the risk through analysis of past and current hurricanes and how they impacted ACIC. In addition, we have created a simple simulation that allows us to see the impact of named events on our financial model over the forecasting period.

General Hurricane Trends

There are many misconceptions that people hold about hurricanes. Some of the common misconceptions are that destructive hurricanes occur frequently (availability bias), their frequency is increasing rapidly because of warming temperatures in the Atlantic (misinformation), and that Florida hurricanes cause state-wide damage.

What is true is that the average number of named category 3, 4, and 5 hurricanes is .31 per year in Florida (National Hurricane Center, Hurricane database), their frequency has remained unchanged over the last 200 years with no apparent trend due to warming oceans (Nature Climate Change, peer reviewed paper), and that hurricanes take specific paths that cause centralized damage (ex. Idalia, Michael, Ian, etc).

Importantly though, hurricanes are increasing in severity due to both higher wind speeds and increased population density in coastal areas. According to a recent study the chance of a “Katrina-like TV and a Harvey-like TV impacting the United States within 15 days of each other is non-existent in the control simulation for over 1,000 years ... but is projected to have an annual occurrence probability of 1% by the end of the century under the high emission scenario.”

Figure 12 below was used to calculate the hurricane frequency by decade in Florida. As can be seen, the average number of categories 3, 4, and 5 hurricanes per year to make landfall in Florida is just .31. In total there have been just 26 category 3, 4, and 5 hurricanes in the past 100 years in Florida. We have not included category 1 and 2 hurricanes as they have a low to nonexistent potential to severely damage infrastructure. Typically, these hurricanes heavily dissipate by the time they make landfall and there is not a substantial amount of data on these hurricanes as they are less tracked than the larger ones.

Hurricane Frequency by Decade in Florida				
Semi-Decades	Category 3	Category 4	Category 5	Total
1923-1928	0	2	0	2
1929-1934	1	0	0	1
1935-1940	0	0	1	1
1941-1946	1	1	0	2
1947-1952	1	4	0	5
1953-1958	0	0	0	0
1959-1964	0	1	0	1
1965-1970	2	0	0	2
1971-1976	1	0	0	1
1977-1982	0	0	0	0
1983-1988	1	0	0	1
1989-1994	0	0	1	1
1995-2000	0	0	0	0
2001-2006	4	1	0	5
2007-2012	0	0	0	0
2013-2018	0	1	1	2
2019-2023	1	1	0	2
Average per 5 Years	0.71	0.65	0.18	1.53
Average per Year	0.14	0.13	0.04	0.31
Standard Deviation	1.0	1.1	0.4	1.5

Figure 12: Hurricane Frequency by Decade in Florida

The second misconception that people have is that hurricanes are occurring more often. This is not true as backed by both the data we found as well as academic papers. Below in figure 13 we can see the number of hurricanes per decade in the US over the last 175 years. Both the per decade rolling average of hurricanes from categories 1,2, 3, 4, and 5 and categories 1, 2, and 3 in the US has not meaningfully changed over the time frame we looked at.

Hurricane Frequency by Decade in US				
Decades	Category (1,2,3,4,5)	Rolling Average (3 Decade)	Category (3,4,5)	Rolling Average (3 Decade)
1851-1860	20		6	
1861-1870	15		1	
1871-1880	20	▲ 17.5	7	▲ 4
1881-1890	21	▲ 18.7	4	▲ 5.5
1891-1900	21	▲ 20.7	8	▲ 6
1901-1910	18	▲ 20.0	4	▲ 6
1911-1920	20	▲ 19.7	7	▲ 5.5
1921-1930	14	▲ 17.3	5	▲ 6
1931-1940	21	▲ 18.3	5	▲ 5
1941-1950	24	▲ 19.7	10	▲ 7.5
1951-1960	17	▲ 20.7	6	▲ 8
1961-1970	12	▲ 17.7	6	▲ 6
1971-1980	12	▲ 13.7	4	▲ 5
1981-1990	15	▲ 13.0	5	▲ 4.5
1991-2000	14	▲ 13.7	5	▲ 5
2001-2010	18	▲ 15.7	7	▲ 6
2011-2020	19	▲ 17.0	4	▲ 5.5
2021-2023	3	▲ 13.3	2	▲ 3
Average	16.9		5.3	

Figure 13: Hurricane Frequency by Decade in the US

Specific Hurricane Analysis

In this section, we look to provide analysis as to specific hurricanes that have impacted ACIC and Florida. We will go in chronological order for the hurricanes starting with Irma in 2017 and finishing with Idalia which occurred this year.

The key aspects that we want you to keep in mind while looking at these hurricanes are the strength of the hurricane, the path it took, the damage that those two aspects caused, and the impact on ACIC.

Irma (September 2017)

Hurricane Irma was the most damaging hurricane since Andrew. Looking at figure 14, the hurricane took a unique path traveling near vertically along the west coast of Florida as a category 1, 2, and 3 hurricane and then traveled into the Atlantic as a category 5. Irma caused \$50 billion dollars in damage. To give context, Hurricane Katrina Sandy caused \$70 billion in damage to the US and Katrina caused \$160 billion putting Irma up there against some of the most damaging hurricanes to the US. Below is an image of the path that Irma took. Orange dots signify category 3 and 4 while red signifies category 5.

While it is hard to estimate what percent of the reinsurance stack was used up in Hurricane Irma's case, ACIC was able to maintain a combined ratio of 78% which is 20% below the average combined ratio in the industry.



Figure 14: Hurricane Irma's Path

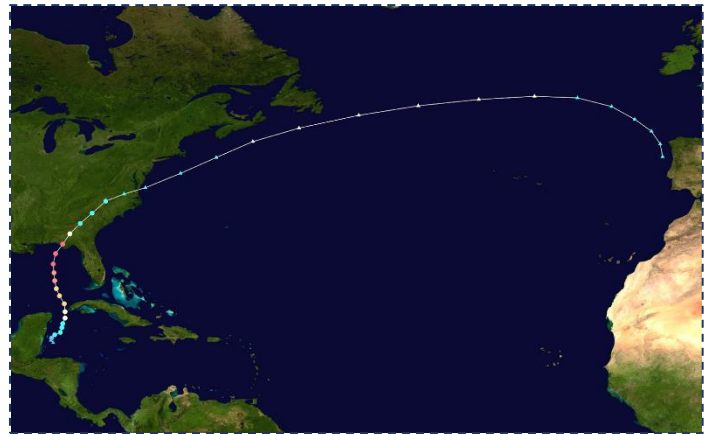


Figure 15: Hurricane Michael's Path

Hurricane Michael (October 2018)

Hurricane Michael was a very damaging hurricane that took a more unique path across the Florida panhandle (figure 15). The hurricane was of category 5 strength when it hit Florida's panhandle. Michael caused approximately 18.4 billion dollars in loss. This compares to Irma which caused \$50 billion dollars in loss exemplifying the significance that the path has on total damage incurred.

During 2018, ACIC has a combined ratio of 86% which is far below the industry average.

Hurricane Ian (September 2022)

Ian was a large category 5 hurricane which passed directly over highly populated areas of Florida where ACIC does business. Look to figure 16 to see the path of Ian. It was the costliest Florida weather disaster on record surpassing that of Katrina and Sandy and the deadliest to hit Florida since 1935. The hurricane caused \$110 billion in damage which is 75% more than Irma and twice that of Michael. The period between 2019 and 2021 exemplifies that hurricanes do not have to happen every year. However, a lack of hurricanes in past years doesn't stop sudden and large hurricanes from forming in the future.

While Ian passed over areas where ACIC insures and was of extreme strength, the hurricane only used up 20% of the reinsurance stack according to management. This is fairly incredible and indicates that management is targeting properties with a very low total insured value at risk.



Figure 16: Hurricane Ian's Path

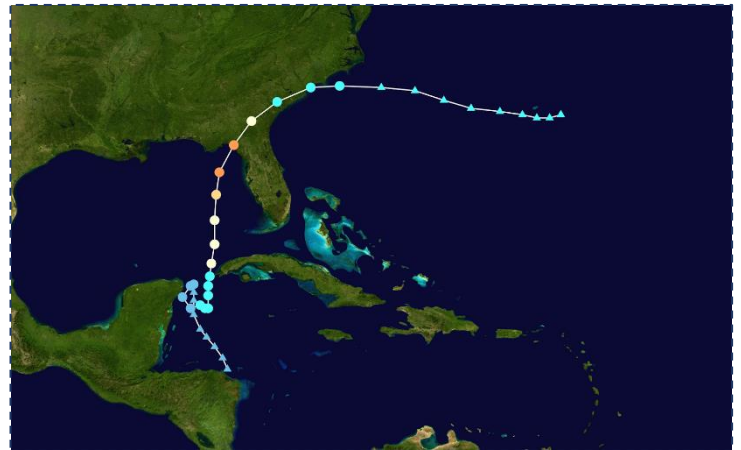


Figure 17: Hurricane Idalia's Path

Hurricane Idalia (August 2023)

Idalia made landfall in Florida as a category 4. The hurricane missed most of the highly populated regions, taking a similar path to that of Michael. Early projections put the losses at \$3 to \$5 billion.

According to management "American Coastal was largely unimpacted by Idalia with our current loss estimate well below the reinsurance attachment point of \$10 million. American Coastal's commercial segment underlying combined ratio was 48.9% in the third quarter and 54.3% year-to-date, down from 57.7% and 66.1%, respectively, year-over-year. Hurricane Idalia represented a gross loss incurred of approximately \$4 million and \$2.5 million net of reinsurance with the remaining \$3.3 million of catastrophe losses stemming from a couple of current year PCS events."

Summary

The path and intensity of a hurricane is important when determining the impact to ACIC. However, even in cases where category 5 hurricanes pass over highly populated areas of Florida, ACIC tends to be highly protected because of their large reinsurance stack, low retention points, and low total value insured at risk because of the building codes that they target.

3 Event Scenario

Something important to note is that ACIC is protected for up to two named events through their reinsurance stack. While the specific mechanics of this two-event protection are unclear to us, any losses stemming from a third named event would technically not be covered by the stack.

Keep in mind though that typically insurance companies can use parts of their unused 1st event stack to protect against future hurricanes. For example, if there was a small named hurricane that only used up 10 million the 1-billion-dollar stack, that wouldn't cause the stack to become void if another larger hurricane occurred. Additionally, ACIC would always have the option to purchase additional reinsurance throughout the year if needed. Lastly, a third named event could be insignificant to ACIC such as Idalia, leading to very limited losses.

To evaluate the risk of a 3-event year, we ran a simulation using Crystal Ball that calculates the probability of a 3-hurricane scenario occurring over the next 7 years (forecasting period). We utilized a Poisson distribution (figure 19) with mean of .31 to estimate the number of hurricanes that would occur per year. After running our model over 10,000 trials, we estimate that a 3-hurricane scenario would occur <3% of the time. This means that only 3% of the time will a 3-event scenario occur over the next 7 years. If we look at just the next 3 years (the payback period) the probability is lowered to just 1%. In fact, there is a 10% chance that no category 3, 4, or 5 hurricane hits Florida over the next 7 years. This analysis does not include various tropical storms or category 1 or 2 hurricanes that could hit Florida as these are insignificant events in relation to the \$1 billion reinsurance stack.

Simulation

In addition, to the smaller simulations that we ran, we ran a larger simulation for our financial model. The key variable that we sensitized was the # of named events per year in Florida. We then tried to evaluate what other variables in our model were correlated with the number of named events per year. We came to the conclusion that there were 5 other key variables in our model that we wanted to sensitize and correlate. Figure 18 shows these variables.

Simulation Variables	
# of Named Events	
Relevance in Model	In our model, we have built in functionality to change the number of cat event per year. This is the core assumption we want to sensitize. Many of the other assumptions we are sensitizing are either correlated significantly with the number of events.
Simulation Inputs/ Assumptions	Poisson distribution with rate of .31. This assumes 73% chance of 0 hurricanes, 23% of 1, 3.5% of 2, and .4% of 3.
Change in Property Market Valuations	
Relevance in Model	Increases or decreases in property values is one factor that determines rates on insurance. There has been a studied positive correlation between the size and number of hurricanes and property market values in Florida.
Simulation Inputs/ Assumptions	Normal distribution with mean of 0-3% depending on year and standard deviation of 1%. We positively correlated these values for each year with the last 3 years of # of named events.
Changes in Hard/Soft Market Pricing	
Relevance in Model	Due to changes in reinsurance capacity, the insurance market has cyclical pricing. The largest driver of hard/soft market pricing is the severity and frequency of named events in the future. 3 hurricanes --> higher chance of hard market.
Simulation Inputs/ Assumptions	Maximum extreme distribution with scale of 2% and likeliest values of 0% in 2024, -15% in 2025, -20% in 2026, -10% in 2027, and 0% thereafter. We positively correlated these values for each year with the last 3 years of # of named events.
Private Excess of Loss Reinsurance Expense	
Relevance in Model	Forecasting private XOL expense as a percentage of gross premiums written (GPE) with the assumption that as # of named events increases, reinsurance costs should increase (supply-side).
Simulation Inputs/ Assumptions	Normal distribution centered around 19% to 25% of GPE depending on year with a standard deviation of 1%.
Per Event Retention	
Relevance in Model	The retention is the \$ value at which the reinsurance kicks in. Any losses below this point are paid directly by ACIC. We believe there is minimal correlation between the retention point at # of named events.
Simulation Inputs/ Assumptions	Lognormal distribution with location of 8, mean of \$12.5 million, and standard deviation of \$5 million.
Per-Event Loss Adjustment Expenses	
Relevance in Model	Per-Event LAE provides an estimate for the costs of assessing damages per hurricane. This cost has averaged \$15 million reaching highs of around \$27.5 for large hurricanes such as Ian.
Simulation Inputs/ Assumptions	Lognormal distribution with location of 0, mean of \$15 million, and standard deviation of \$7.5 million.

Figure 18: Simulation Variables Summarized

In our model, we assumed that a three-event year over the forecasting period would wipe out the entire company and all of its past earnings leading to total loss on the investment. We believe that this assumption is highly conservative and unrealistic as in reality the third hurricane would likely be covered by the remainder of the insurance stack and could be like Idalia which only caused four million in losses. Lastly, the assumption that a third hurricane, regardless of the year it occurs, would lead to total loss on the investment is unrealistic as the company will have likely built up or paid out past year retained earnings.

Our model also attempts to consider extreme hurricane events that use up the entire stack. We did this by assuming that if one of these extreme hurricanes (1/167-year events) occurred anytime over the 7-year forecasting period, it would lead to total loss on the investment. For the same reasons that the three-event year scenario wiping out the entire company is unrealistic, we believe that a 1/167 year hurricane wiping out the entire investment is also unrealistic. This is because ACIC would have additional equity balances to be able to pay out these claims and would have likely paid out a substantial amount of money by later years. Additionally, we believe that ACIC targets customers who are uniquely protected from such extreme events.

We ran our simulation over 1000 trials. Figure 20 shows the distribution of outcomes for our investment in various scenarios. The mean upside was approximately 210 to 220%. The left tail represents the outcomes where there is either a 1/167 hurricane or 3 event year anytime over the forecasting period. For the reasons described above, we believe that our model significantly overstates the downside potential in these scenarios.

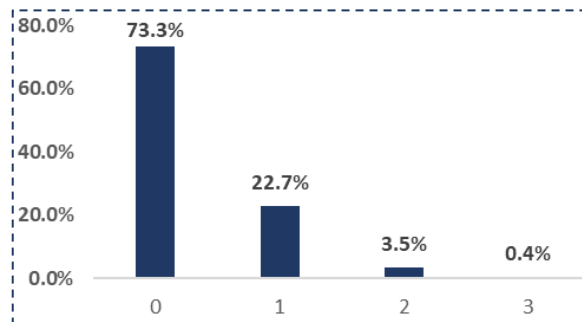


Figure 19: Poisson Distribution representing Hurricanes per Year in Florida

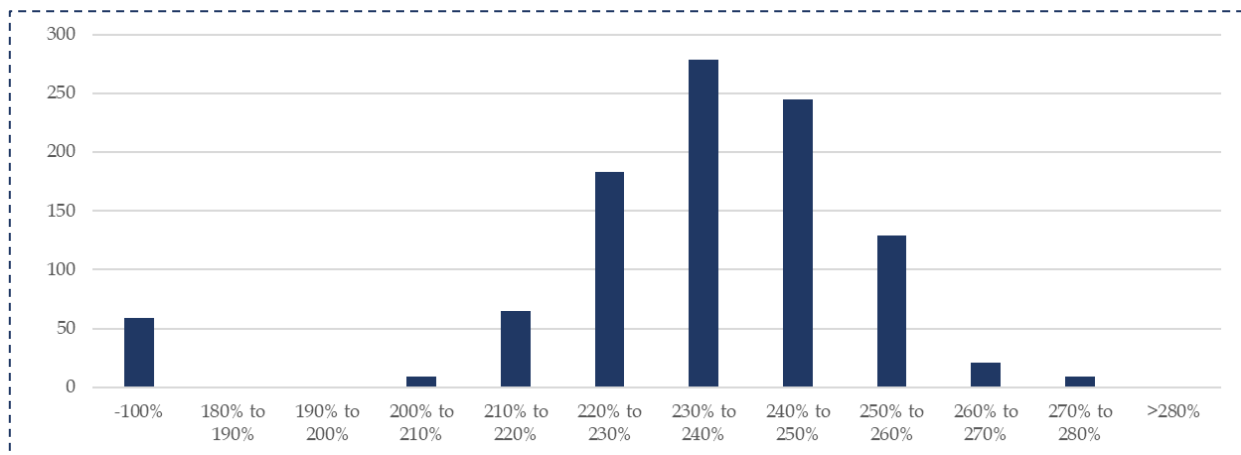


Figure 20: 1000 Trial Simulation of Upside

Hard Market Conditions

Hard Market Conditions Continue to Persist

When talking to Professor Woollams of Columbia he made it very clear that no market participant in the insurance market can know exactly how long a hard market will last. According to past data, hard markets last four years whereas soft markets can last for up to 8 years.

Dan Peed continues to see Florida as a hard insurance market. He expects that to remain the case in both the near and intermediate term. Dan Peed sees the commercial segment being an earnings leader for the foreseeable future.

“While the hard market creates challenges it also creates excellent opportunities for ACIC.” – Dan Peed, CEO of American Coastal

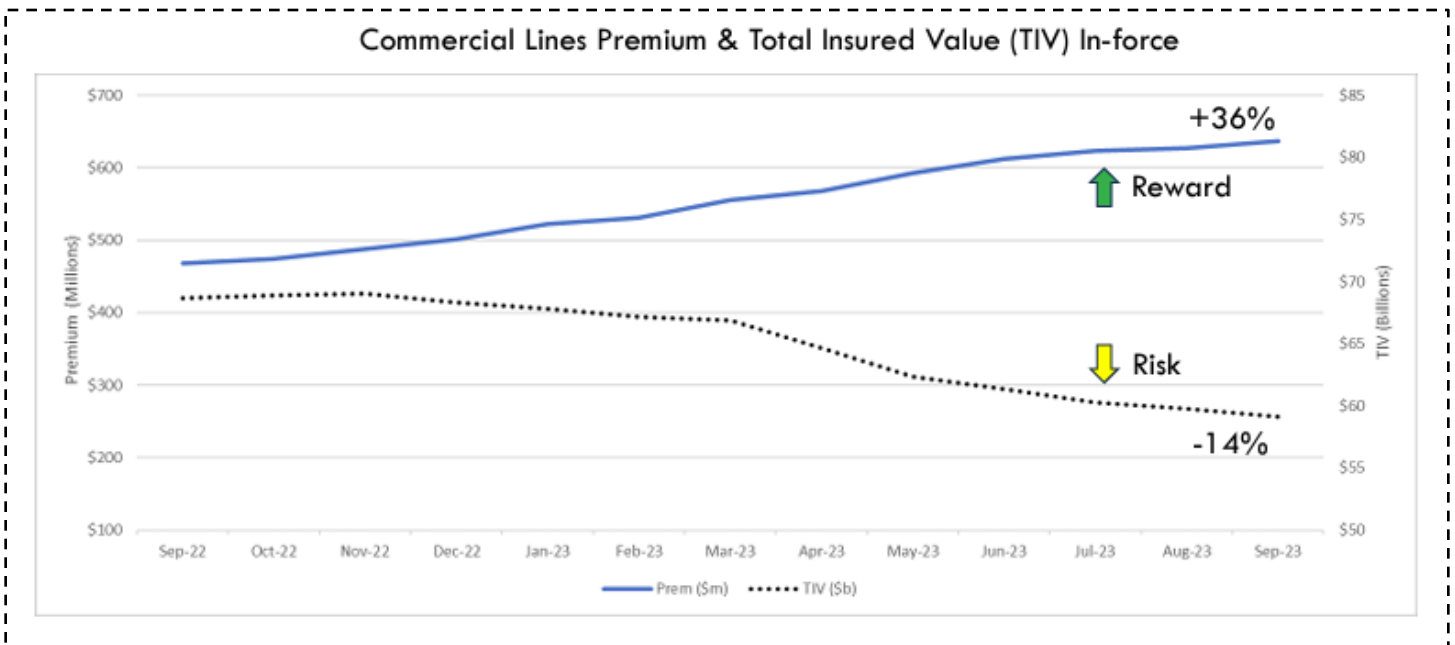


Figure 21: Q3 2023 Commercial Lines Premium & Total Insured Value

For the commercial lines segment (AmCo) gross written premiums were up 22.3% this quarter. We wanted to get a better understanding of the split between what’s driving this. Price or Volume? Figure 21 from the IR deck helped answer that question and management also addressed this. This figure shows a pretty incredible trend in that ACIC was able to insure less homes (indicated by lower total insured value at risk) while collecting significantly more premiums.

“The volume is down, which is reflected by the TIV. It is down 14% and the rates are up around 35-6%.”

- Dan Peed

Thus, we are further convinced in the hard market that Florida is in currently and the pricing power edge that this gives AmCo. These only serve to further mitigate underwriting risk and increase AmCo’s underwriting edge over other CAT insurers in Florida. At the same time, we gained further conviction in Dan Peed’s underwriting discipline.

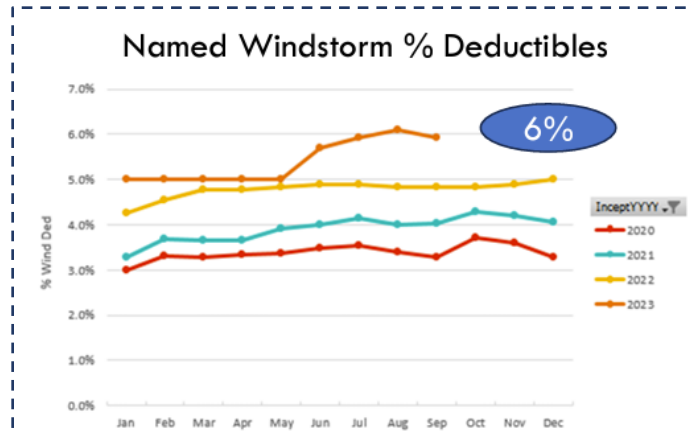


Figure 22: Trend in Named Windstorm Deductibles



Figure 23: Trend in All Other Perils Deductibles

This argument is further supported by looking at the deductibles that HOAs are being forced to take for both AOP and Named Windstorms (figure 22 and 23). Deductibles are simply the amount of money that the insured party must pay before their insurance policy starts paying for expenses that they are covered for. It is obvious why deductibles increasing is good for AmCo. This is purely a creation of the extremely hard market in Florida.

Our view and data were also further confirmed by Shiwen Jiang, an actuarial expert. Shiwen, from his experience in the market currently sees no sign that rates will go down immediately. They might go up at a slower rate but are only expected to further harden.

We also thought it would be useful to assess how AmCo’s primary competitors: HRTG, UVE and HCI, are doing in this hard market where AmCo is able to deliver their current results.

HRTG:

- In the third quarter they incurred a net loss which was driven by the losses following Hurricane Idalia in the Florida Panhandle
- Losses were close to \$40m net for both Maui wildfires
- Premiums in force overall are \$1.3bn
- They are looking to diversify out of Florida, they emphasize that 73.5% of the total insured value falls outside Florida
- However, for Q3 they grew their commercial residential premiums-in-force by 75.3%
- They do want to grow in commercial residential properties in Florida
- They continually mention they are focused on making sure that they are not overly concentrated in any one areas in Florida

UVE:

- Hurricane Idalia made Florida landfall, all losses are comfortably absorbed by UVE's retention
- They have started to slowly increase new business in additional territories
- They lost money in Q3 2023, the loss per share was \$0.16/share
- Idalia was set as a \$45m loss, that is combined with another \$10-\$15m in losses

HCI:

- HCI is also a significant beneficiary of the hard market in Florida with higher average premium policy being the main driver of improved earnings
- For Q3 they reported pretax income of \$20m
- They did acquire UPC's book in Georgia, North Carolina, South Carolina, Connecticut, New Jersey, Massachusetts and Rhode Island so they are not a pure play Florida CAT insurer
- HCI is looking to enter the commercial residential insurance space, but they are awaiting regulatory approval. They are aiming to commence operations in early 2024. This is primarily due to the lucrative nature of commercial residential properties.

Unwavering Confidence in American Coastal's Leadership

Professor Levich questioned our faith in management when we pitched ACIC last month. He asked how Mr. Peed could have agreed to the loss-sharing agreement with UPC which led to subpar financial results and was inherently detrimental for American Coastal.

To better understand the dynamic, it is important to provide more background on the current CEO, Dan Peed. Dan Peed founded AmRisc, the business AmCo currently partners with, in 2000 as a specialty MGA to write commercial property catastrophe. Dan Peed grew AmRisc from a claim sheet business plan to writing close to \$2.5 billion of premium. Dan Peed has grown AmRisc from scratch to the largest windstorm MGA and the fourth largest MGA overall in America. Dan Peed was the President, CEO, and finally Vice Chairman for his final year at AmRisc until he retired at the end of 2019.

Dan Peed, while at AmRisc, founded AmCo as a subsidiary of AmRisc. At the time in 2007, Dan saw a void developing in the Florida commercial-residential property insurance sector. There was a large hole in the property insurance market for 1-to-6 story, garden-style condominiums, 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.

Since its founding AmRisc raised significant sums of capital from BB&T to help fuel growth and thus BB&T had become the majority shareholder by 2012 with Dan Peed only owning a small portion of AmRisc. Following this BB&T corporation agreed to sell American Coastal Insurance Company to Dan Peed and other members of the AmRisc management team in May of 2015.

As part of this management led buyout it was agreed that AmRisc will remain AmCo's exclusive MGA serving the Florida condominium property insurance market. The management team continued to manage the operations of AmCo while also still staying on at AmRisc. What is important to note about the shared management team is that while they average more than twenty years of insurance experience, their distinctive competence in the underwriting of condominium association business comes from the fact that management team is dominated by structural engineers. They not only underwrite condominiums, in their previous careers, they have been involved in the development, inspection and approval of loss prevention systems for condominiums, as well as most other commercial property structures. When AmRisc was initially formed, the principals leveraged the knowledge gained through their engineering education and related structural evaluation and building expertise to evaluate and underwrite secondary and tertiary characteristics of the structural aspects of condominiums in addition to the primary ones that insurance professionals review.

It is not entirely clear as to why Dan Peed agreed to the merger of effective equals between AmCo and UPC. But there is some indication that we can gain from a call in August of 2016 which preceded the merger. The likely rationale for the merger was that UPC and AmCo could be complementary with lots of synergies which would have led to an enhanced earnings profile and improved margins for the combined entity. This was primarily driven by scale given that it would put the combined entity over the \$1 billion mark in premiums which would also help to optimize reinsurance spend. While in hindsight, it is very easy to see how this merger was not particularly favorable to AmCo, at the moment it would have been impossible for Dan Peed to predict UPC's shift towards becoming an 'InsurTech' company. This is arguably what led to UPC's demise. Dan Peed was very committed to the merger which is demonstrated by the fact that he voluntarily agreed to adopt a 3-year lockup for the vast majority of the stock he received as a result of the combination of AmCo and UPC.

As part of this merger Dan Peed had no purview of UPC and was solely restricted to AmCo. However, he was on the Board of Directors as Vice Chair. Only in June of 2020 did Dan act along with the support of the board of directors to oust John Forney. As soon as Dan took over there was a marked change in the way that UIHC was run. In the Q2 2020 Earnings Call there was an immediate focus on the necessity of focusing on generating an underwriting profit.

Dan stated very clearly that he was committed to generating a consistent non-cat underwriting profit before pursuing any kind of topline growth. This meant that a significant number of unprofitable lines were cut. This is very clearly demonstrated in the

Figure below which shows the TIV of the combined entity decreasing while rates were increasing. The decrease in TIV can be attributed just fewer policies being written in the UPC business.

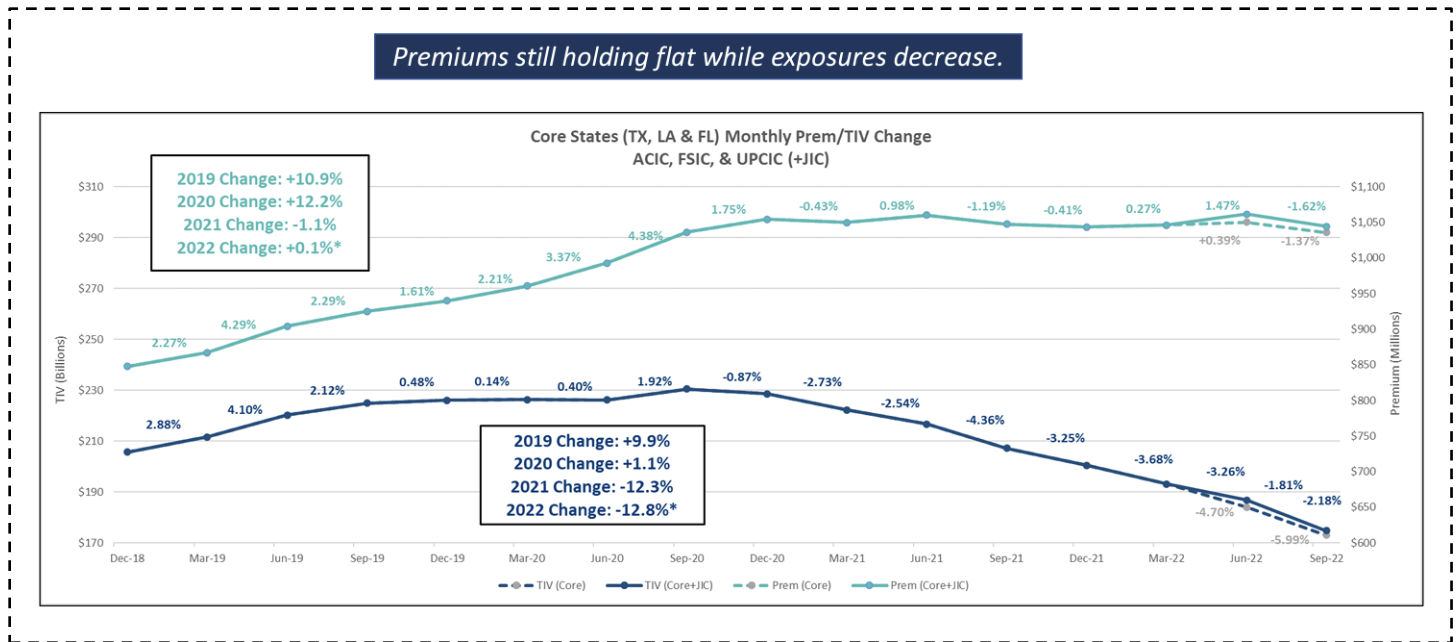


Figure 24: Investor Presentation from November 2022

While Dan did try to save and turn around UPC, it was too late and UPC’s fate caught up two years later with UPC being put into runoff and receivership. This was finalized and consummated in February of 2023 when the Florida Department of Financial Services (DFS) agreed to carve out UPC and all of its liabilities from the UIHC parent and leave UIHC with the two current subsidiaries AmCo and IIC.

When looking at management and trying to assess them, we think that the most important thing is the alignment of incentives. Factors that ensure shareholders will not be victims of the principal-agent problem. The incentives are very clearly aligned given that Dan Peed owns 53% of all outstanding shares.

CEO Compensation		
Publicly Traded Florida Insurers	2021	2022
Company		
United Insurance Holdings Corp.	\$0	\$0
Universal Insurance Holdings	\$3,540,547	\$3,578,393
HCI Group	\$7,736,699	\$1,031,115
Heritage Insurance Holdings	\$3,014,296	\$2,365,485

Figure 25: Comps’ CEO Compensation

This is further reaffirmed by Figure 25 which breaks down the compensation of the CEOs of all Florida-focused P&C comps. Unlike his peers, Dan Peed did not accept a salary as CEO, and each year received just \$161,900 in board fees for his services as Chairman. The same cannot be said of the CEOs of UVE, HCI, and HRTG. Thus, the argument can very strongly be made that Dan Peed is the least greedy CEO among the peer group.

We also see a very strong capital allocation framework within AmCo. Brad Martz, the CFO of American Coastal sees three buckets for any excess cash that they develop at the HoldCo level.

“The financial engineering elements are in that whether it’s stock repurchase, debt repurchase, whatever can generate the highest return. And we’ll look at continuing to provide capital to American Coastal so that we can get off the quota share and retain more of the underwriting profit. All three of those are fuel for earnings growth and higher returns on capital.” – Brad Martz, CFO of American Coastal

It is reassuring to see management giving very clear clarity on what retained earnings will be used for going forward.

In summary, Dan Peed has historically run ACIC (the company he had purview over) very well, took swift action to control and contain UPC losses when he usurped power, and is closely aligned with public minority shareholders.

Interboro Insurance Company

We had not covered ACIC's continued operation of Interboro Insurance Company (hereon referred to as IIC) throughout the pitch. This is because when he had originally pitched ACIC we had believed that IIC would provide 0 NPV to the DCF. This is a personal lines insurer that was a remnant of UIHC and had not been divested along with the Florida business that was put into runoff. IIC's policies are written exclusively in New York with roughly 18,000 policies focused on homeowners and fire insurance products. This segment was excluded throughout the pitch because it only accounts for 7% of gross premiums earned for the AmCo+IIC entity (as of September 30th, 2023).

We were somewhat concerned by IIC as it had contributed over \$8.7mm in losses in the 9 months ending September 30th, 2023. But in the Q3 earnings call, we got greater clarity on the future of IIC. ACIC has executed a non-binding term sheet with a third party to acquire IIC at GAAP book value at the time of closing. Management expects the sale to close within 5 months of today.

Management indicated that the current GAAP book value of IIC is \$23mm. We have 2 more quarters of earnings and think it would be conservative to extrapolate another \$3m in losses (size of their retention shown in figure 26) and, therefore, a sale at BV of \$20 million. This is the most conservative figure given that we are not factoring in the 13% rate increases that IIC has filed for with the New York Insurance Legislator. Management also expects some slight appreciation in the book value of IIC.

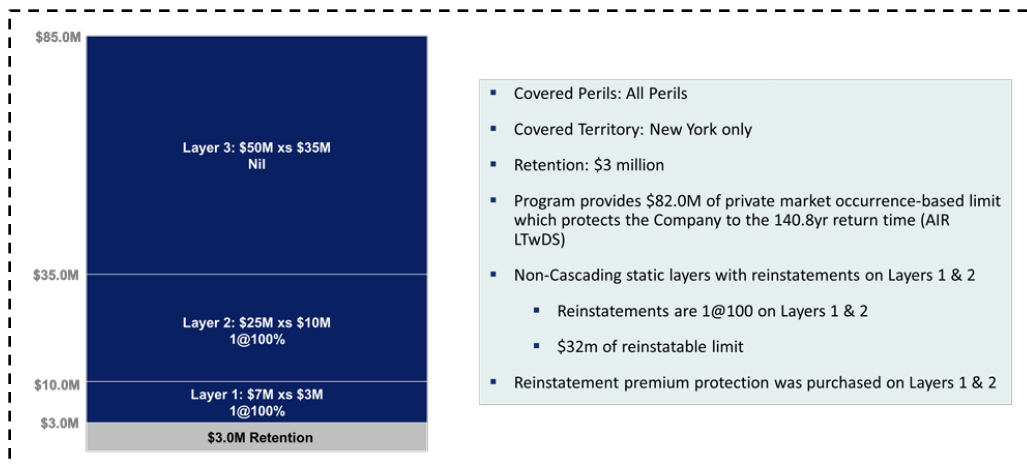


Figure 26: Interboro Insurance Company Reinsurance Stack

Management is very inclined to pursue a sale of this segment and is confident that they will be able to, and we think it will not be a drag on earnings from Q1 2024 onwards.

New Managing General Agent

As was mentioned in the prior section covering management, Dan Peed was the founder and longtime CEO of AmRisc. Now that the deconsolidation of UPC is finally complete, Dan has indicated that he is in the early stages of creating a new MGA business under the American Coastal corporate umbrella. While there is very little information on this in the public domain, we had the opportunity to talk to Jon Cukierwar who runs Sohra Peak Capital, a L/S fund also long ACIC. Jon has had the opportunity to meet Dan Peed multiple times and has said that Dan Peed is “100% in on the MGA idea”.

“There are tremendous opportunities in any type of property, habitational or non-habitational, especially in Florida because of the capacity constraints. And the lack of disciplined, experienced CAT property underwriting.” – Brad Martz, CFO of American Coastal

We also have gotten clarity that this new MGA would not compete in any way with AmRisc, as doing so could potentially jeopardize their current exclusivity agreement with AmRisc. Dan Peed plans to leverage his expertise and AmCo’s IT assets and historical data from both the commercial and personal lines segments to underwrite windstorm policies for one or several new verticals. This would be strictly as an MGA meaning that ACIC would not be taking on additional policy risk. Instead, the policies would be sold to partner carriers in exchange for commission revenue.

Jon indicated to us that this MGA could underwrite \$300m in GPW. When talking to Jon he said that Dan particularly saw a gap in MGAs for the residential market for homes worth between \$750k to \$3mm.

This is something that we have decided not to model out given we are not certain of exact timelines, but rather see it as a very strong call option. Our estimates for the NPV of this MGA range from \$300m to \$400m.

Historical Statements:

3rd Quarter 2023 Results

	Three Months Ended Sep 30, 2023				Nine Months Ended Sep 30, 2023			
	Commercial Lines	Personal Lines	Other	Total	Commercial Lines	Personal Lines	Other	Total
Gross Premiums Earned	157.80	8.00		165.80	435.60	32.80		468.40
Ceded Premiums Earned	(107.50)	(2.40)		(109.90)	(232.70)	(9.50)		-242.1
Net Premiums Earned	50.30	5.60		55.90	202.90	23.40		226.3
Investment & Other Revenue	1.90	0.80		2.70	(1.20)	2.40		1.2
Unrealized G(L) on Equities	0.20	0.00		0.20	0.80	0.00		0.8
Total Revenue	52.40	6.40		58.80	202.50	25.80		228.3
Underlying Loss & LAE	8.00	3.20		11.30	38.00	9.80		47.8
Current year CAT Loss & LAE	4.90	1.00		5.80	13.20	1.80		15
Prior year development	(3.10)	(0.20)		(3.30)	(11.20)	(0.50)		-11.7
Total Loss	9.80	4.00		13.80	40.00	11.10		51.1
Operating & Interest Expense	16.60	7.70	3.00	27.20	72.20	24.80	9.00	106
Total Expenses	26.40	11.70	3.00	41.10	112.20	35.90	9.00	157.1
Other Income (Loss)	0.00	(0.20)		(0.20)	0.00	1.40	0.20	1.2
Income (Loss) before Tax	25.90	(5.50)	(3.00)	17.50	90.20	(8.70)	(9.20)	72.4
Income tax expense (benefit)				3.10				7.3
Net Income (Loss) From Continuing Operations				14.40				65.1
Net Loss Ratio	19.50%	71.20%		24.70%	19.70%	47.60%		22.60%
Net Expense Ratio	33%	138.10%		44.00%	35.60%	105.90%		43.20%
Combined Ratio	52.50%	209.30%		68.70%	55.30%	153.50%		65.80%
CAT Loss	9.70%	17.20%		10.50%	6.50%	7.80%		6.60%
PY Development (F)/U	-6.20%	-4.40%		-6.00%	-5.50%	-1.90%		-5.20%
Underlying Combined Ratio	48.90%	196.50%		64.20%	54.30%	147.70%		64.40%

In the 3rd quarter, the book value per share increased to \$2.78. Net income for the quarter was \$14.4mm. The personal lines segment which we talked about was a drag on earnings and contributed to a pre-tax loss of \$5.5mm. Another important thing to note is that operating expenses are down 45.7% year over year on a quarterly basis given that they are ceding a higher proportion of their gross premiums earned. This is exactly what we had modelled out.

ACIC Historical Unconsolidated Statements

	2013A	2014A	2015A	2016A	Irma 2017A	Michael 2018A	Loss Sharing Period with UPC			Ian 2022A
							2019A	2020A	2021A	
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	0				81,232,464
(3) Reinsurance 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

Valuation

Operating Build

Operating Build (Fiscal Year Beginning June)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Stub	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Gross Premium Written	736,281,300	802,546,617	734,330,155	627,852,282	593,320,407	622,986,427	654,135,748	686,842,536
% Change Attribution to Δ in Property Valuations		0.00%	0.00%	2.00%	2.50%	3.00%	3.00%	3.00%
% 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	59%	9.00%	-8.50%	-14.50%	-5.50%	5.00%	5.00%	5.00%
Gross Premium Earned	736,281,300	802,546,617	734,330,155	627,852,282	593,320,407	622,986,427	654,135,748	686,842,536
% Change YoY								
Private XOL Reinsurance Expense	(133,728,477)	(149,096,924)	(143,138,535)	(138,127,502)	(142,396,898)	(155,746,607)	(163,533,937)	(171,710,634)
% of GPE	-18%	-19%	-19%	-22%	-24%	-25%	-25%	-25%
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	(233,728,477)	(243,096,924)	(239,958,535)	(242,209,002)	(253,764,103)	(274,909,516)	(291,038,250)	(308,140,249)
Quota Share Reinsurance Expense	(257,698,455)	(200,636,654)	(110,149,523)	(31,392,614)	0	0	0	0
% of Gross Premium Earned	35.00%	25.00%	15.00%	5.00%	0.00%	0.00%	0.00%	0.00%
Net Premiums Earned	244,854,368	358,813,038	394,222,096	354,250,666	339,556,304	348,076,911	363,097,498	378,702,287
Reinsurance % (Insurance Ceded)	67%	55%	46%	44%	43%	44%	44%	45%
Less: Commission and Brokerage Costs to AmRisk	184,070,325	200,636,654	183,582,539	156,963,071	148,330,102	155,746,607	163,533,937	171,710,634
%Commission & Brokerage Paid	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Add: Ceding Commissions from QS	87,617,475	68,216,462	37,450,838	10,673,489	0	0	0	0
% of QS	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%
Net Policy Acquisition Costs	96,452,850	132,420,192	146,131,701	146,289,582	148,330,102	155,746,607	163,533,937	171,710,634
Attritional Losses, Gross before Quota Share	(55,221,098)	(60,190,996)	(55,074,762)	(47,088,921)	(44,499,030)	(46,723,982)	(49,060,181)	(51,513,190)
% of GPE	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%
Attritional Losses, Losses Borne by QS Reinsurers	19,327,384	15,047,749	8,261,214	2,354,446	0	0	0	0
% of GPE	2.6%	1.9%	1.1%	0.4%	0.0%	0.0%	0.0%	0.0%
Less: Attritional Losses	(35,893,713)	(45,143,247)	(46,813,547)	(44,734,475)	(44,499,030)	(46,723,982)	(49,060,181)	(51,513,190)
CAT Losses								
Number of Named Events	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
(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	7,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
(3) American Coastal per-event LAE	15,000,000	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	(7,875,000)	(6,875,000)	(4,125,000)	(1,375,000)	0	0	0	0
Less: Net CAT Losses Borne by American Coastal (2 + 3 + 4 + 5)	(14,625,000)	(20,625,000)	(23,375,000)	(26,125,000)	(27,500,000)	(27,500,000)	(27,500,000)	(27,500,000)
	(10,500,000)	(25,375,000)	(27,875,000)	(29,125,000)	(31,625,000)	(31,625,000)	(31,625,000)	(31,625,000)
Investmet Income	12,487,573	16,361,875	16,990,972	14,665,978	14,261,365	14,688,846	15,322,714	15,905,496
interest rate%	5.1%	4.6%	4.3%	4.1%	4.2%	4.2%	4.2%	4.2%
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	99,120,377	165,736,474	183,642,821	140,517,587	122,238,537	121,545,168	127,076,094	132,633,959
Federal & Foreign Income Taxes Incurred	20,815,279	34,804,660	38,564,992	29,508,693	25,670,093	25,524,485	26,685,980	27,853,131
Net Income	78,305,098	130,931,814	145,077,828	81,008,893	96,568,444	96,020,683	100,390,115	104,780,827

Net Income Valuation

ACIC Net Income Valuation								
As of 12/11/2023								
Year	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Period	0.63	1.63	2.63	3.63	4.63	5.63	6.63	7.63
Net Income	42,334,436	130,931,814	145,077,828	81,008,893	96,568,444	96,020,683	100,390,115	104,780,827
PV Of Net Income	40,417,463	116,070,239	119,420,027	61,916,906	68,534,967	63,276,462	61,428,340	59,533,317
PV of Stage 1	590,597,721							
Final-Year Net Income	104,780,827							
Exit Multiple	10x							
Terminal Value	1,047,808,275							
PV of TV	595,333,166							

ACIC Value	
Equity Value	1,185,930,888
DSO (with equity offering)	45,058,744
Equity Value per Share	26.32
Current Share Price	8.69
Upside	202.87%

- 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 HCI. However, ACIC could reasonably deserve a slightly higher multiple than HCI due to better management and stickier customer relationships.

Appendix

Exhibit 1: Thank You Message

We would like to thank Jon of Sohra Peak Capital immensely for his research on American Coastal which has both enabled us and inspired us to pursue further research. We are also extremely grateful to Jon for having taken the time out on multiple occasions to talk to us or answer our questions.

Aryann Gupta & Nithin Mantena

Exhibit 2: Trip to American Coastal Headquarters in St. Petersburg, Florida



Exhibit 3: Definitions

Gross Premium & Net Premium: The amount of premium received by the insurance company as a result of underwriting various policies 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 that 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.