Investment Memorandum: American Coastal Insurance Corporation (ACIC | UIHC)
August 9, 2023

Executive Summary

- American Coastal Insurance Corporation ("American Coastal" or "AmCo") is a commercial property & casualty insurance carrier in the state of Florida that exclusively insures garden-style condominium and homeowner association properties against hurricanes and other catastrophe risks.

- American Coastal is a gem of a business hiding in plain sight. Since its founding in 2007, American Coastal has dominated its niche and captured 40% of its TAM. It has also delivered an average ROE of 23.1%, has demonstrated exceptional loss and profitability ratios, and has never had an unprofitable year despite withstanding several major hurricanes.[1]

- This opportunity exists chiefly because until several months ago, American Coastal was a subsidiary within publicly traded United Insurance Holdings Company ("UIHC"), whose primary business was selling personal homeowner's insurance policies under its main subsidiary United Property & Casualty Insurance Company ("UPC"). In April 2023, The Florida Department of Financial Services memorialized the "GoodCo-BadCo" deconsolidation of UIHC and took "BadCo" UPC into receivership, leaving shareholders today with "GoodCo" American Coastal.[2]

- American Coastal's #1 market share position is firmly protected by a set of competitive advantages and barriers to entry that are borne from its exclusive relationship with AmRisc, the largest catastrophe-focused MGA in the U.S. and with whom for all intents and purposes American Coastal is vertically integrated.[1] These competitive advantages translate to pricing power over competitors, strong customer retention rates, higher margins, and high customer switching costs.

- Shares appear exceptionally undervalued based on our EPS estimates of $1.89-$2.86/share over FY24-29 vs. today's share price of $5.63. Our estimates imply a FY24E P/E of 2.9x, FY25E P/E of 1.9x, and a P/BV and P/TBV of <1x by mid-FY25 while delivering 53% ROE.[1] From FY25 onward, with a healthy capital surplus, American Coastal should return 100% of its incremental net profits to shareholders, which at today's price would imply a ~50% dividend yield and/or significant share repurchases.[1] We see an asymmetric path for American Coastal's share price to appreciate from $5.63 today to $16.00 – $22.00 over the next 24-36 months.[1]

- Founder and CEO Dan Peed owns 48% of shares outstanding and has an impressive track record of not only building American Coastal, but also co-founding AmRisc in 2000 which is the nation's largest catastrophe-focused MGA. Based on our channel checks, Dan has an excellent, revered reputation in the industry. Notably, now that the UPC deconsolidation is finally complete, management appears eager to launch a new MGA under the American Coastal public company, which we view as a free call option that could be valued at $400MM in and of itself by FY27.[3,4]

American Coastal: Overview

American Coastal is a U.S.-listed small-cap commercial property & casualty (P&C) insurer headquartered in St. Petersburg, Florida. Since its founding in 2007, the company has exclusively been in the business of selling windstorm insurance policies to the specific niche of garden style condominium and homeowner association properties within the state of Florida.

As most readers will know, all properties in the state of Florida, whether personal or commercial, must insure against one particular type of property risk that is not as relevant in other states, which is hurricane windstorm risk. While the thought of evaluating a hurricane insurance company can seem daunting, I firmly believe that learning more about the opportunity at American Coastal will prove to be worthwhile, and I will try my best to illustrate a clear picture of the company and its industry.

Perhaps unsurprisingly, many Florida property insurers have a poor reputation, not only among their customers but among Wall Street as well. In the early-mid 2010s, a "trio" of Florida homeowner's insurance carriers Universal Insurance Holdings (UVE), HCI Group (HCI), and Heritage Insurance Holdings (HRTG) became subjects of short reports, primarily because all three were engaging in a now-defunct practice of cherry-picking insurance policies from Florida's state-owned insurance provider Citizen's. UVE in particular caught the attention of investor Anthony Bazzo, who at the 2015 Robin Hood Investors Conference presented a short pitch on UVE so compelling that Lee Ainslie of Maverick Capital deemed it "the best short pitch he's ever seen in 25+ years in the industry."[5]

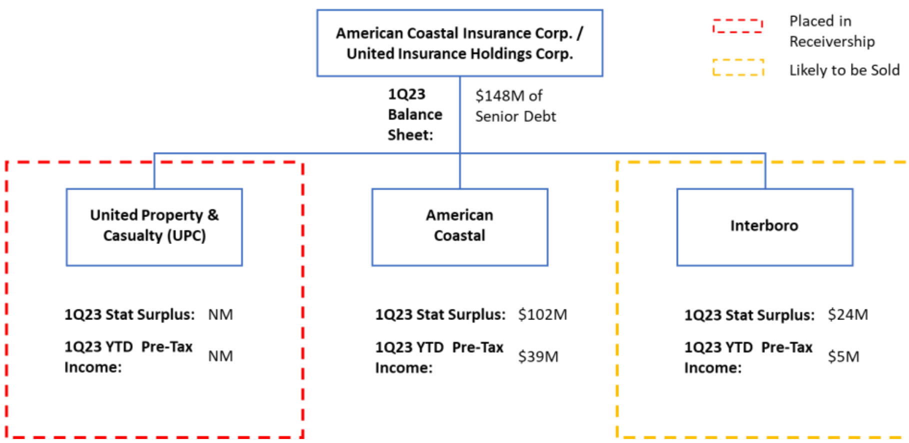
I mention this because, in stark contrast to the "trio," American Coastal in terms of both its business model and business quality is worlds apart and incomparable in just about every respect. While the personal lines "trio" generated its profits by exploiting an unsustainable, commoditized policy acquisition mechanism, had no proprietary underwriting advantages, and eventually suffered net losses, American Coastal operates in a different sector altogether, has established a deeply entrenched set of competitive advantages, has maintained 30% or greater market share within its niche since 2014, has developed a loyal customer base that loves doing business with them, and has never sustained an operating loss in its entire 16-year operating history despite weathering several major hurricanes over the years.[1] Simply put, AmCo is a much better, more durable business than any of the aforementioned personal lines, or homeowner's insurance, carriers.[1]

For those glancing at ACIC/UIHC's financial statements for the first time, one should understand that much has transpired in recent years, and that the historical GAAP financial statements prior to 2023 do not reflect American Coastal's financial history, but rather that of "BadCo" UPC, a business which is no longer owned by or associated with ACIC/UIHC. To summarize the history of events among these entities, UIHC, the public holding company, was primarily a personal lines insurer through its owned entity UPC. UIHC acquired private company AmCo in 2016. But, in the years that followed, executive decisions at UPC caused it to perform so poorly that in June 2020, AmCo founder Dan Peed ousted then-CEO of UIHC John Forney and assumed the role of CEO in an attempt to save the company.[1] His first order of business was to begin trying to save UPC, which at the time represented 69% of the company's policies, by exiting certain

(1) Source: Estimates, thoughts, opinions, and research of Sohra Peak Investment Management LLC.
(2) Source: United Insurance Holdings Corporation, Form 8-K filing, April 19, 2023. http://bit.ly/3Ybif8h.
(3) Source: Raymond James & CFA Society Conference, American Coastal Insurance Corporation, Company Presentation, June 26, 2023.
(4) Source: Estimates, thoughts, and opinions of American Coastal Insurance Corporation management.
(5) Source: ValueWalk, Lakewood Capital's Anthony Bozza short on Universal Insurance Holdings, https://bit.ly/3rN45ye.

states and salvaging others.[6] Fast forwarding several years and many developments later, UPC was placed into runoff in August 2022, and in April 2023 UPC finally became legally deconsolidated from UIHC, as memorialized by the Florida Department of Financial Services (DFS). This has left shareholders today with simply AmCo and an immaterial subsidiary Interboro that is likely to be sold in the coming months.

Simplified Structure of ACIC/UIHC



As a result, for the first time in its history, American Coastal is now a standalone public company, and as of Q1 2023 its GAAP financials have begun reflecting American Coastal without the burden of UPC. In fact, to signify this milestone, in recent weeks the company announced the change of its corporate name from United Insurance Holdings Corporation to American Coastal Insurance Corporation, and a change of its ticker from UIHC to ACIC, both of which will take effect on August 15, 2023.

Today, shareholders are left with a gem of a business that we are convinced will continue dominating its customer niche over the long-term, and that should generate profits during typical hurricane seasons that would represent a 33-52% earnings yield to today's share price.[1] In addition, our analysis of the company's future capital surplus suggests that beginning in FY25, AmCo should be in a position to begin incrementally returning all net profits to shareholders.[1,4] If theoretically returned as a dividend, these sums would imply a ~50% annual dividend yield to today's share price, and if theoretically returned through share repurchases, could dramatically reduce AmCo's share count and add meaningful per-share intrinsic value to the company.

We believe this opportunity exists because of how recently the series of deconsolidation events has occurred, the lack of research coverage on the sell-side and buy-side, the lack of relevant historical GAAP financial statements on AmCo (statutory annual filings from 2008-2022 can be found at www.naic.org), the negative bias against Florida insurers, misperceptions around how to think about hurricane risk, and the tendency for investors to place insurance companies into the "too hard" pile. Now that UIHC/ACIC has shifted from a complex situation to clean one, we think it is only a matter of time before the market recognizes the opportunity at hand. We see a clear path to American Coastal's share price appreciating from $5.63 today to a range of $16.00 – $22.00 or a +180-290% gain over the next 24-36 months.[1]

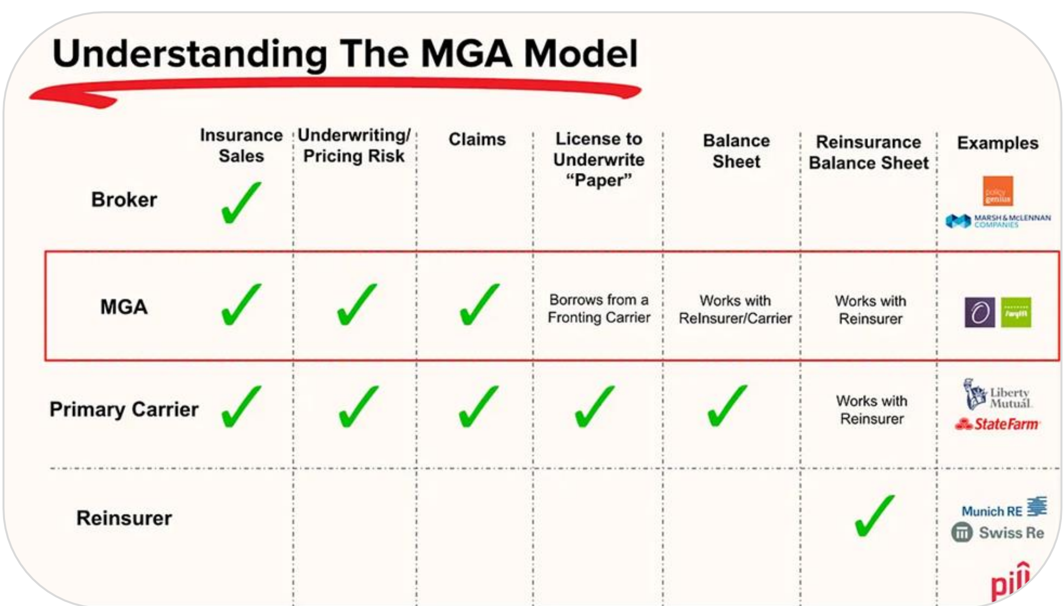
(6) Source: American Coastal Insurance Corporation annual reports, financial statements, presentations, press releases, and other filings.

Introduction to American Coastal

History of American Coastal

In the year 2000, before founding American Coastal, Dan Peed along with two of his classmates from Texas A&M University co-founded a company in the insurance industry called AmRisc. Dan was the leading figure and served as CEO. The three co-founders, all with degrees in engineering, first began working in the construction industry where they learned the ins and outs of commercial property structures. Eventually, they came up with the idea of using their combined knowledge to form a managing general agent (MGA) that specializes in underwriting catastrophe-focused insurance policies for commercial properties.

In the insurance industry, an MGA is an entity in the insurance value chain that sits between the insurance broker and the insurance carrier. An MGA's main function is to specialize in the underwriting and pricing of insurance policies, or in other words, to leverage their internal experience and data in order to accurately price individual insurance policies based on customer risk profiles. An MGA can provide a carrier with instant infrastructure, including well-managed risk and governance structures, intellectual property in underwriting pricing, and access to underwriting talent, all of which can be an instant saving for the carrier since this would require significant investment to build from scratch.[7] The insurance carrier might consider asking the MGA to underwrite its policies in exchange for paying the MGA commission fees. MGAs also perform other value-add functions such as distribution and claims management.


Understanding The MGA Model

	Insurance Sales	Underwriting/ Pricing Risk	Claims	License to Underwrite "Paper"	Balance Sheet	Reinsurance Balance Sheet	Examples
Broker	✓						MARSH & McLENNAN COMPANIES
MGA	✓	✓	✓	Borrows from a Fronting Carrier	Works with Reinsurer/Carrier	Works with Reinsurer	
Primary Carrier	✓	✓	✓	✓	✓	Works with Reinsurer	Liberty Mutual, StateFarm
Reinsurer						✓	Munich RE, Swiss Re

(Source: The Insurance Stack: A Battle for Margin)

Since its founding in 2000, AmRisc has gone on to be wildly successful, and today stands as the largest catastrophe-focused MGA in the United States. AmRisc has underwriting reach across six states, business

(7) Source: Best's Review, *The Rise of the MGA*, November 2015.
(8) Source: Medium, The Insurance Stack: A Battle for Margin, Parker McKee, https://bit.ly/3OAeExi.

relationships with a dozen or so of the world's largest insurance carriers including Zurich, Lloyd's, and AIG, and underwrites over $2 billion in annual gross written premiums.[1]

In 2004 and 2005, Florida experienced an unlucky string of major hurricanes, which caused a great deal of damage in a short period of time. Many of the major insurance carriers, and smaller carriers as well, writing windstorm policies were either no longer comfortable underwriting hurricane risk or realized they hadn't developed the proper underwriting skills to underwrite hurricane risk under state-admitted guidelines, and as a result stopped offering admitted policies to certain segments of the market. This created a large void in P&C insurance supply, particularly for personal lines and low-rise commercial-residential lines, because policies in these segments carried premiums that were deemed too small by the major carriers for them to be interested in dealing with the associated hurricane risk. This quickly became problematic for many property owners across the state, because purchasing property insurance is either required or prudent, and suddenly they were left with no attractive options. Most property owners 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 subpar.

From his perch at AmRisc, Dan saw this void developing in real time. Specifically, he noticed that within the commercial-residential property insurance sector, there was a large gap forming in the property insurance market 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.

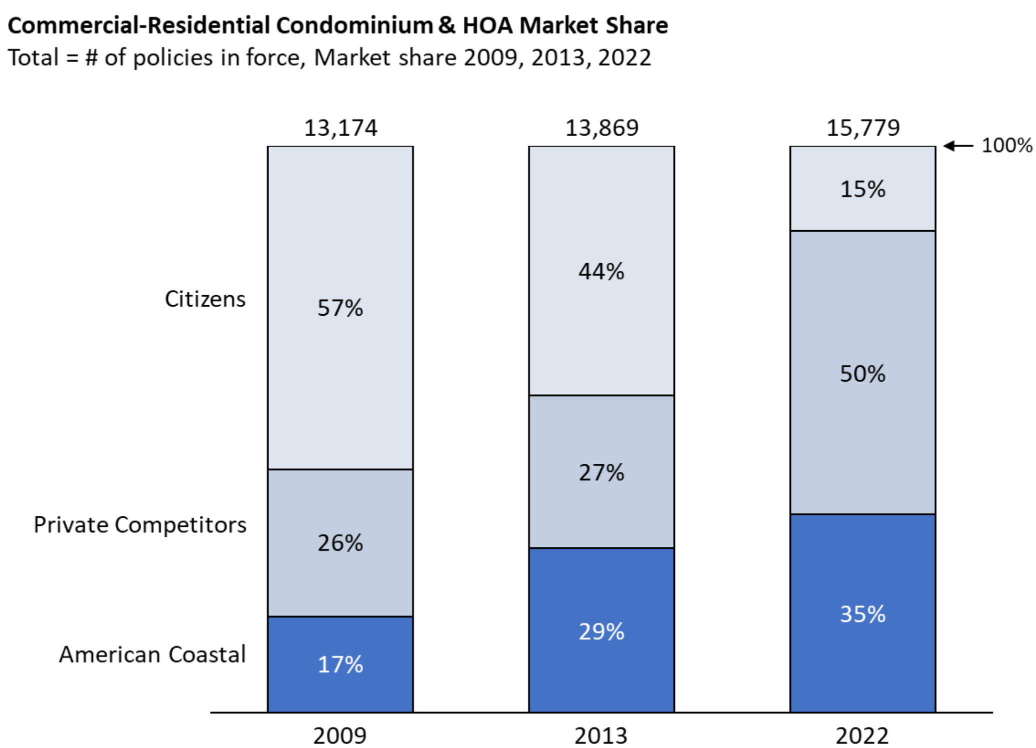
Garden style Condominium Association (Source: American Coastal)

With approximately 13,000 garden style condominium and homeowner associations facing unattractive insurance options, including either undesirable coverage from Citizen's or sky-high premiums from the E&S market, Dan viewed this as an opportunity to create an insurance carrier that would serve this garden style niche, capture the market share left behind by the previous carriers, and allow him to capture profits from both the MGA and carrier functions of the value chain.

Dan also knew that AmRisc was one of, if not the only, remaining underwriter of windstorm insurance serving this niche of the market, as every other MGA and carrier that didn't specialize in coastal catastrophe risk like AmRisc did was exiting the space. Customers came to appreciate AmRisc as the only policy provider that didn't abandon them after the 2004-05 hurricanes.[1]

By leveraging AmRisc's specialization in underwriting catastrophe-focused commercial P&C insurance, Dan and his team surmised they would be able to offer the highest value proposition policy on the market through a combination of desirable policy coverage, reasonable price, and a strong brand reputation among customers through AmRisc.

In 2007, Dan with the help of his partners launched American Coastal, and just like AmRisc, their new business became a resounding success. American Coastal grew from writing just $3 million in premiums in 2007 to $303 million in 2013, capturing 29% of the addressable market.[1] Since then, American Coastal has maintained its stronghold, most recently capturing 35% market share in 2022 with strong profitability.[1]



(Source: Florida QUASR Database, Estimates of Sohra Peak Investment Management LLC)

Along the way, Dan, his partners, and financial partners including Truist Insurance Holdings negotiated ownership stakes in AmRisc and American Coastal. According to those we have spoken with, Dan at some point swapped 100% of his ownership in AmRisc in exchange for full ownership of American Coastal.[1] In 2016, Dan announced the sale of American Coastal to UIHC in a $330 million all-stock deal that granted Dan 49% ownership of UIHC.[9] Although Dan sold AmCo at a reasonable valuation of trailing FY 2015 P/E of 9.6x and P/B of 1.89x, based on our conversations with former employees we are of the view that Dan may have been persuaded to sell by John Forney, CEO of UIHC and UPC.[1] By others' accounts, John Forney is a good salesman, and he may have over-sold the quality of his own business and the cross-selling opportunities between his and Dan's businesses.[1] To Dan's credit, nobody could have known the outrageous extent to which legal fraud would pervade the entire personal lines insurance industry starting in 2017, which would contribute to the downfall of UPC. As we will expand upon later, UPC's business ran into trouble and was ultimately placed into receivership. American Coastal is the continuing company today.

Background Information

Before breaking down exactly what has driven American Coastal's longstanding success, I thought it would be best to first touch upon several fundamental concepts specific to the company's industry and business model that should serve as helpful background.

Distribution Chain

The purchase decision for windstorm P&C insurance among garden style condo and homeowner associations begins with the condo / HOA board. Every year, condo and homeowner associations are required by Florida law to purchase windstorm property insurance for their property structures. The condo / HOA board is responsible for acquiring this insurance, and each year must make a decision whether to renew their current policy or to find a new policy provider. Policies are 1 year in length.

The condo / HOA board typically has a longstanding relationship with an insurance broker, who in turn has relationships with the industry's policy underwriters which include both insurance carriers and MGAs, depending on whether or not a carrier utilizes an MGA to perform their policy underwriting. This broker serves as the condo / HOA board's distribution channel through which they gain access to different windstorm policies from the various MGAs and insurance carriers.

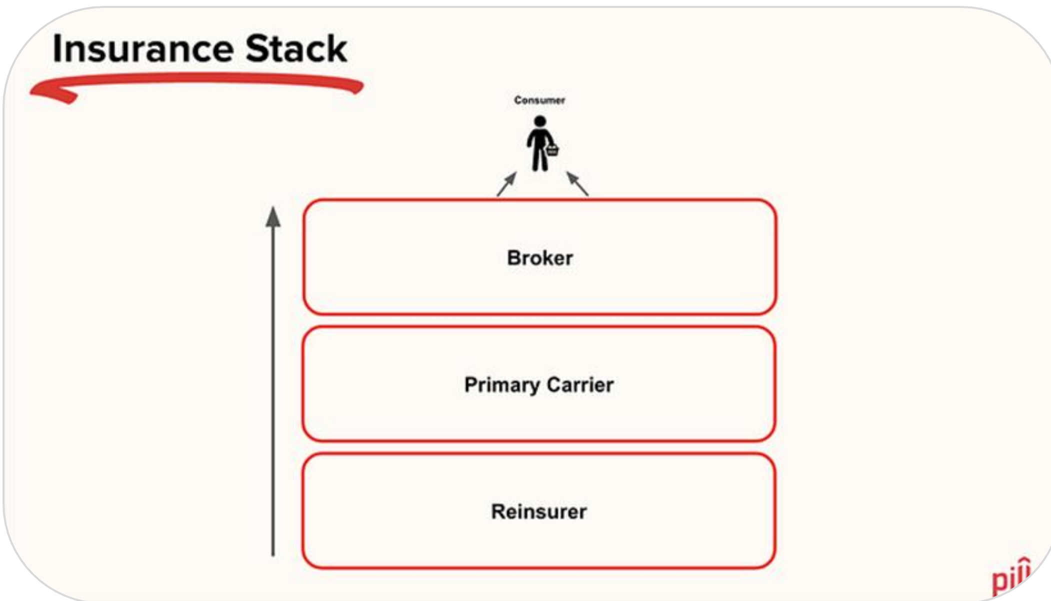
According to our discussions with former brokers, the insurance broker typically presents the board with two quotes from different policy providers, and then the board selects one.[1] One of these quotes is almost always from AmRisc-AmCo.[1] The condo or homeowner association pays the quoted premium, and in turn receives insurance coverage for any losses sustained from covered events.

Once a policy is selected by the insured, the broker goes back to the underwriter who binds, or confirms, the policy. If an insurance carrier underwrote the policy in-house, then the insurance carrier naturally now assumes the policy. If an MGA underwrote the policy, then the MGA will then pass the policy along to an insurance carrier partner, as an MGA functions solely as an underwriter and service provider and does not

(9) Dan Peed and his wife jointly held, and today still hold, ownership of the UIHC shares which are referenced as Dan's.

assume any of the actual policy risk itself. A typical MGA has relationships with multiple carriers, and various elements among those relationships can determine which carriers receive which policies.

In the case of AmRisc and American Coastal, the two entities have an exclusivity agreement that includes a right-of-first-refusal for American Coastal on all policies underwritten by AmRisc for this specific insurance niche. This means that every time AmRisc underwrites a policy that gets approved by a garden style commercial-residential property, AmRisc must offer AmCo the right to accept or reject the policy before AmRisc can offer the policy to any other carriers with whom it has relationships.



(Source: The Insurance Stack: A Battle for Margin)

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.[1] The two companies work together closely to determine the parameters that AmCo desires for its policies, and AmRisc adjusts and prices its quotes to the insureds accordingly.

After accepting a policy, American Coastal adds it to its policy book, which as of June 2023 stood at approximately 5,100 policies. Like any carrier, American Coastal secures reinsurance coverage for losses that its insureds incur and that AmCo is obligated to cover. Given an MGA does not hold any policies or assume any coverage, an MGA does not need to procure any reinsurance coverage.

How American Coastal Makes Money

Below is a historical American Coastal income statement with descriptions summarizing key line items:

American Coastal: 2014 Statutory Income Statement

American Coastal Insurance Corporation Income Statement: Statutory Annual Filing	FY 2014	
Gross Premiums Written	310,291,048	Total premiums AmCo writes in policies during fiscal year.
Change in Gross Unearned Premiums	(2,121,048)	
Gross Premiums Earned	308,170,000	Total premiums AmCo receives from its policyholders during fiscal year.
Ceded Premiums Earned	(133,468,368)	Cost of reinsurance coverage. Paid or "ceded" to reinsurers.
Net Premiums Earned	**174,701,632**	Premiums earned by AmCo net of reinsurance costs.
Losses Incurred	(10,537,889)	
Loss Adjustment Expenses Incurred	(17,106,772)	
Losses and LAE	**(27,644,661)**	Loss and related expenses that are not covered by reinsurance.
Policy Acquisition Costs, Net	(42,751,047)	Commissions paid to AmRisc for underwriting and other services.
Selling, General & Administrative Expenses	(33,978,786)	All Other OpEx.
Total Expenses	**(104,374,494)**	
Net Underwriting Gain	70,327,138	
Net Investment Income & Realized Gains	1,948,180	
Pre-Tax Income	**72,275,318**	
Income Tax Expense	(24,385,078)	
Net Income	**47,890,240**	
Loss Ratio (Losses and LAE / NPE)	**15.8%**	Industry measure of profitability.
Expense Ratio (OpEx / NPE)	**43.9%**	Industry measure of profitability.
Combined Ratio (Loss Ratio + Expense Ratio)	**59.7%**	Industry measure of profitability.
ROAA (Return on Avg. Assets)	**14.6%**	
ROAE (Return on Avg. Equity)	**25.4%**	

While a bit oversimplified, the above provides a high-level summary as to how American Coastal makes its money.

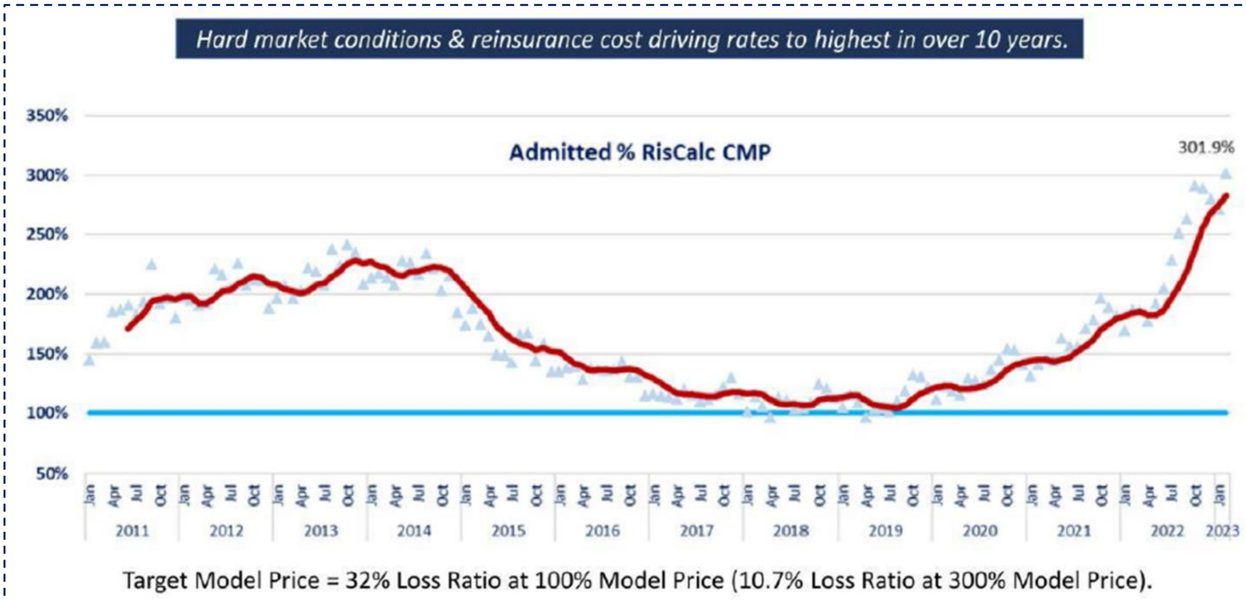
Insurance Cycle: Florida Insurance is in a "Hard Market"

One more item to be appraised of is the concept of a "hard market" that the Florida insurance industry is currently experiencing, as it has a positive impact on American Coastal's near-term earnings power. A hard market is characterized by unusually high insurance and reinsurance premiums, limited reinsurance capacity, stricter underwriting terms, and reduced competition among insurance carriers. A soft market, as you probably guessed, is characterized by the inverse conditions. At the moment, Florida insurance is in the midst of one the hardest markets in its history, for two main reasons.

The first reason, and the typical reason that hard markets develop, is the destructive string of hurricanes that have struck Florida over the past six years from 2017 to 2022. Florida experienced three major hurricanes over that span: Hurricane Irma in 2017, Hurricane Michael in 2018, and Hurricane Ian in 2022.

Typically after a major catastrophe event (e.g., hurricane, earthquake, volcanic eruption) occurs, given that these events cause above-average losses for the insureds, insurers and reinsurers alike incur above-average losses and their capital surplus levels fall below expectations. In insurance, the biggest constraint that insurers and reinsurers face in determining how much in policy premiums they can write at any given moment is how much capital surplus, or equity, that they have on hand.

Therefore, after a major catastrophe event, reinsurers that are not strongly-capitalized going into the catastrophe event are afterwards forced to curtail their reinsurance capacity that they can offer to the insurance carriers for the following year. This creates a domino effect to all insurers because not only must the poorly-capitalized insurers curtail their written premiums to the insureds, but even the strongly-capitalized insurers may have to do so as well because of the reduced overall reinsurance capacity available. This dynamic of fixed demand and reduced supply is the economic mechanism responsible for driving up policy premiums during hard markets.



(Source: American Coastal, Investor Presentation, June 2023)

The second reason for the current hard market, unique to Florida and alluded to earlier, is the unprecedented degree of legal fraud that unfairly multiplied windstorm losses for insurers, particularly for personal lines insurers, and for reinsurers in recent years. Bad actor attorneys exploited insured claims through “assignment of benefits (AOB)” rights and “one-way attorney fees” clauses.

The spirit of an AOB agreement was to allow insureds with property damages to transfer their insurance rights to a more insurance-educated third party, such as a restoration company or contractor, who could then file a claim on the insured’s behalf. However, “billboard attorneys,” as they have been notoriously nicknamed, exploited this by going to great lengths to convince insureds not only to assign their insurance benefits over to the attorney, but even in cases where the insured’s “property damage” was extremely minor and hardly worth filing. These attorneys would engage in unscrupulous tactics to win clients such as purchasing ads, knocking on homeowners’ doors, and offering to take insureds out to steak dinners. Once an attorney receives an insured’s AOB, they would then attempt to grossly exaggerate the insured’s loss claim in bad faith, of which they would receive a percentage if victorious, and would often win.

Even worse than AOB was the abuse that took place under one-way attorney fees clauses, where insurance carriers were forced to pay the claimant's attorney's fees in the event that the insured disputed, and won, an insurance claim with their carrier and received a higher claim payout. To illustrate how bad this was, in one instance that we heard from the CFO of a competitor, an insured disputed a $12,000 claim payout from its insurance carrier, ended up winning the dispute, and received a total of $15,000. However, while the insured received this increase of $3,000, their attorney walked away with an egregious $745,000 in billed attorney's fees, all of which the insurance carrier was forced to pay.[1]

These legal abuses were so damaging to Florida's insurance industry because storm losses suddenly became overly inflated and almost impossible to predict. For example, according to an employee at a personal lines carrier, after Hurricane Irma in 2017, their company initially estimated $150 million in total losses, but, due to legal abuse, this sum swelled to an unanticipated $600 million.[1] When risk becomes impossible to predict, it can become difficult for insurers and reinsurers to confidently underwrite future coverage.

These catastrophe- and legal-driven processes reinforced themselves three times over the past six years, creating what some industry participants we've spoken with are calling an "all-time" hard market in Florida. Reinsurance pricing during the most recent annual June 1st renewal cycle was extremely high, carrier policy pricing has been similarly high, and many carriers and reinsurers have either been forced out of the market due to poorly-capitalized balance sheets or have chosen to leave due to the fear of mispricing future risk.

> *"Not only is this market in terms of reinsurance a hard market, but it's looking like an all-time kind of hard market. People who have been in the industry for a very long time are saying they have never seen prices like this. Affordable reinsurance right now is very difficult to come by for Florida companies. It looks like this really hard market could persist for awhile." – Associate, Insurance Rating Agency*

While this has been bad news for those who have exited, it has been good news for firms such as AmCo whose businesses have been strong enough to remain in the market, as the remaining firms are now in a position to over-earn over the next 2-4 years, or the amount of time that just about every expert we have spoken with unanimously believes that this hard market cycle will continue.[1]

In addition, in December 2022, Florida passed legislation repealing both one-way attorney fees and AOB agreements in the insurance industry, the benefits of which have already begun and which will take full effect beginning January 2024 as policies approach their annual renewal cycles.[10,11] Industry executives believe these reforms will reduce future loss costs meaningfully for both insurers and reinsurers. American Coastal's CEO commented on a recent earnings call that, all else equal, these reforms should reduce AmCo's annual losses and LAE expenses by 25%.

(10) Source: JD Supra, *Florida's Most Comprehensive Tort Reform in Decades*, https://bit.ly/43JfdJz.
(11) Source: My Florida CFO, Consumer Services, *Assignment of Benefits (AOB)*. https://bit.ly/3q7Qh0N.

American Coastal: Dominating Florida's Garden Style Windstorm Insurance Niche

American Coastal has been the undisputed market leader in the garden style commercial-residential windstorm insurance segment for well over a decade. The company has also proven to be almost impossible to compete with, and among its competition it has uniquely demonstrated high, consistent profitability, even in the face of some of the most destructive hurricanes in Florida's history. We break down exactly how we believe American Coastal has been able to accomplish this.

Undisputed Market Leader & Strong, Consistent Profits

American Coastal has not only maintained its #1 market share position since 2009, it has also done so while generating strong, consistent profits, and by our analysis, has also repeatably been the most profitable player among its competitors.

Below is a summary of American Coastal's historical key metrics:

American Coastal Insurance Corporation															
Ratios	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Profitability															
Ceding Ratio (CPE/GPE)	-26%	-33%	-41%	-45%	-48%	-41%	-43%	-44%	-39%	-42%	-44%	-47%	-49%	-60%	-55%
Pre-Tax Profits ($MM)	$23	$30	$46	$49	$45	$79	$72	$53	$48	$52	$28	$42	$37	$39	$41
Pre-Tax Margin	27%	23%	24%	22%	18%	28%	24%	17%	17%	22%	11%	15%	11%	10%	9%
Loss Ratio	25.8%	13.7%	13.4%	14.5%	17.4%	11.4%	15.7%	24.0%	28.5%	34.4%	31.5%				41.5%
Expense Ratio	44.0%	54.5%	49.3%	49.6%	51.3%	46.7%	43.5%	45.7%	27.4%	44.4%	54.8%				45.0%
Combined Ratio	69.8%	68.2%	62.7%	64.1%	68.7%	58.1%	59.2%	69.7%	55.9%	78.8%	86.3%				86.5%
										Irma	Michael				Ian
Efficiency															
Return on Assets (ROA)		11.9%	15.4%	14.3%	11.5%	17.1%	14.6%	10.5%	9.6%	12.4%	6.2%	6.6%	5.1%	6.2%	7.7%
Return on Equity (ROE)	26.1%	25.1%	31.3%	27.4%	22.1%	31.4%	25.4%	18.8%	17.6%	23.8%	12.3%	18.2%	17.7%	20.3%	29.1%
Market Share, Total Garden Style Policies		17%	20%	23%	26%	29%	33%	37%	36%	32%	34%	37%	40%	40%	35%
Risk															
RBC Ratio	5.6x	4.5x	4.6x	5.3x	5.9x	7.2x	7.7x	6.5x	29.3x	6.3x	8.4x	5.0x	5.0x	4.9x	5.0x

(Source: American Coastal Public Filings, Estimates of Sohra Peak Investment Management LLC)

It should be noted that from 2019 through 2021, AmCo participated in a loss-pooling arrangement with UPC when UPC was suffering heavy losses. This agreement essentially took a portion of UPC's losses and assigned them to AmCo, which weakened AmCo's profits and also makes it impossible to discern certain metrics for AmCo during these years. The reason for the agreement's existence was because from 2019 through 2021, UIHC's reinsurers were hesitant to offer capacity to UPC given its shaky fundamentals. In order to placate the reinsurers, UIHC agreed to force AmCo to absorb a portion of UIHC's losses.

In all other years, AmCo's numbers are clean and unencumbered, and we get a clear view into the stellar value creation that has taken place across both hard and soft market cycles, and even through Hurricanes Irma and Ian, the #2 and #1 costliest hurricanes respectively to ever hit the state of Florida.

In particular, what should be appreciated are American Coastal's consistently low loss and combined ratios. These ratios are the primary drivers of AmCo's consistently high margins and returns, and they are far below the average levels of both the P&C industry and competitors. Loss ratio is the company's total claims and other claims-related expenses that are not covered by reinsurance divided by its net premiums earned; expense ratio is the company's other operating expenses divided by its net premiums earned; and combined ratio is simply the loss ratio plus the expense ratio.

Below is a table of aggregate U.S. P&C insurance industry data over the past 10 years produced by the National Association of Insurance Commissioners:

U.S. Property/Casualty Insurance Industry Results (in billions, except for percent)

For the six months ended June 30,	Chg.	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Direct Premiums Written	9.9%	$434.0	$394.8	$362.3	$355.2	$340.6	$321.3	$306.9	$295.5	$282.8	$269.1
Net Premiums Written	10.6%	$388.6	$351.2	$327.6	$315.3	$316.7	$280.4	$268.8	$261.1	$251.4	$241.4
Net Premiums Earned	8.8%	$362.6	$333.3	$316.6	$308.3	$297.4	$270.4	$261.6	$252.5	$243.0	$243.0
Net Loss & LAE Incurred	15.0%	$266.6	$231.9	$217.2	$215.8	$204.9	$197.5	$186.9	$175.0	$171.8	$159.5
Underwriting Expenses	6.4%	$99.7	$93.7	$90.2	$85.4	$85.3	$75.8	$74.5	$72.4	$69.3	$67.6
Underwriting Gain (Loss)	NM	($4.2)	$7.3	$8.9	$6.5	$7.0	($3.2)	($0.2)	$4.7	$1.5	$5.8
Net Loss Ratio	4.0 pts	73.5%	69.6%	68.6%	70.0%	68.9%	73.0%	71.4%	69.3%	70.7%	70.7%
Expense Ratio	(0.9) pts	25.7%	26.7%	27.5%	27.1%	26.9%	27.0%	27.7%	27.7%	27.6%	26.9%
Dividend Ratio	(0.2) pts	0.47%	0.71%	1.55%	0.55%	0.53%	0.54%	0.55%	0.53%	0.57%	0.52%
Combined Ratio	2.8 pts	99.7%	96.9%	97.7%	97.6%	96.3%	100.6%	99.7%	97.6%	98.8%	98.1%

(Source: National Association of Insurance Commissioners)

American Coastal's historical average combined ratio of 67.4% is not only lower than the industry average, it is lower by a whopping ~30% in any given year.[12] While the average P&C insurer is roughly breakeven and relies on investment income earned to generate a profit, American Coastal is in a league of its own. As a further data point on the industry's lackluster returns, according to global credit agency A.M. Best in its 2007 U.S. P&C Financial Review, the U.S. property-casualty industry as a whole delivered only 4 underwriting gains during the previous 30 years.[13]

To be sure that American Coastal's profits are not just the byproduct of the Florida market specifically, we also compare AmCo's historical loss and combined ratios to those of its closest publicly traded peers, previously referred to as the "trio": HCI Group (HCI), Universal Insurance Holdings (UVE), and Heritage Insurance Holdings (HRTG). This set of comps is imperfect as these peers operate primarily in the personal lines homeowner's insurance segment. However, all three companies have heavy exposure to the Florida windstorm insurance market, and all three companies either currently have or at one point had competed in the garden style commercial-residential segment against American Coastal.

(12) Source: National Association of Insurance Commissioners, U.S. P&C and Title Insurance Industries. https://bit.ly/43VQkKO.
(13) Source: A.M. Best, *Special Report: U.S. Property/Casualty 2007 Financial Review*.

Below is a table comparing the loss and combined ratios among the peer group:

American Coastal Insurance Corporation Peer Group Profitability Ratios	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Loss Ratios															
HCI	45.5%	53.9%	60.3%	54.8%	42.1%	27.8%	31.5%	30.9%	51.2%	73.7%	51.2%	49.7%	61.0%	60.3%	80.1%
UVE	56.0%	83.0%	66.5%	62.5%	54.5%	40.6%	37.7%	37.2%	47.6%	50.9%	53.9%	71.6%	82.2%	75.3%	83.2%
HRTG					25.0%	40.5%	40.1%	37.5%	58.0%	53.1%	52.3%	57.1%	68.5%	69.9%	78.7%
Average	**50.8%**	**68.5%**	**63.4%**	**58.6%**	**40.5%**	**36.3%**	**36.4%**	**35.2%**	**52.3%**	**59.2%**	**52.5%**	**59.5%**	**70.6%**	**68.5%**	**80.7%**
American Coastal	**25.8%**	**13.7%**	**13.4%**	**14.5%**	**17.4%**	**11.4%**	**15.7%**	**24.0%**	**28.5%**	**34.4%**	**31.5%**				**41.5%**
Combined Ratios															
HCI	60.8%	77.5%	96.2%	87.9%	72.0%	57.5%	65.5%	63.6%	89.3%	115.8%	95.8%	95.4%	104.2%	105.1%	122.5%
UVE	88.0%	139.0%	104.2%	96.6%	94.1%	74.9%	73.9%	73.7%	82.6%	84.4%	87.3%	104.0%	113.5%	105.5%	110.2%
HRTG					168.0%	72.9%	71.4%	65.0%	92.8%	94.1%	90.4%	96.5%	107.0%	104.6%	114.3%
Average	**74.4%**	**108.2%**	**100.2%**	**92.2%**	**111.3%**	**68.4%**	**70.3%**	**67.5%**	**88.2%**	**98.1%**	**91.2%**	**98.6%**	**108.2%**	**105.1%**	**115.7%**
American Coastal	**69.8%**	**68.2%**	**62.7%**	**64.1%**	**68.7%**	**58.1%**	**59.2%**	**69.7%**	**55.9%**	**78.8%**	**86.3%**				**86.5%**

(Source: SEC Filings, Statutory Annual Filings)

As you can see, American Coastal's profitability ratios are noticeably and consistently lower than those of its peers. Besides the fact that American Coastal's underwriting model has consistently been the best, perhaps the biggest takeaway here is the difference in ratios between AmCo and its peer group in 2017 and 2022, as these were years of major hurricanes Irma and Ian. As the numbers reflect, the personal lines windstorm insurance business model has been volatile and exposed to losses during years of major hurricanes, while American Coastal's business model has proven to be more durable and, unlike the others, has never exceeded a combined ratio of 100% which would imply an operating loss. We attribute American Coastal's lower and less volatile losses to be structural and the result of lower TIV-at-risk within the garden style segment, underwriting being meaningfully more difficult and a source of differentiation in the commercial-residential sector, and American Coastal's conservative risk selection.

Competitive Advantage

<u>AmRisc & American Coastal: An Inseparable Relationship</u>

As mentioned, American Coastal's founder and CEO Dan Peed was also AmRisc's co-founder and CEO. His tenure as CEO of AmRisc ran from 2000 through 2019, including a 13-year overlap as CEO of both American Coastal and AmRisc. As an MGA, AmRisc underwrites insurance across six states and works with many major insurance carriers. In this specific niche within Florida, though, AmRisc writes 100% of American Coastal's business, and American Coastal gets an exclusive first look on all of AmRisc policies written within the segment as part of the exclusivity agreement between the two entities.

Based on our conversations within the industry, including having spoken with Dan himself, it appears incredibly unlikely to us that this relationship will ever be broken as long as Dan Peed is alive and in charge of American Coastal, for several critical reasons:

1. <u>Longstanding Internal Relationships</u>: There is a longstanding, close relationship among virtually all of the staff and certainly among the senior executives at both companies. They all clearly know

each other well, have worked together for many years, and likely enjoy working with each other. We also believe these strong relationships have led to friendly commission-sharing arrangements, the continual renewal of their exclusivity agreement every five years that next expires in 2027, and a relationship built on mutual respect rather than negotiating to the last penny.

2. Shared Brand Value: AmCo and AmRisc share equal value in their customer-facing brand within the garden style insurance segment. When a condo / HOA board receives a quote, AmRisc and American Coastal appear together on the policy. This strongly disincentivizes either party from walking away from the longstanding reputation they have built together among their customers.

3. Truist Ownership: AmRisc is a subsidiary of Truist Insurance Holdings, who we do not think should have any logical interest in vertically integrating into insurance carriers, nor do we think they have any such intention. Truist's portfolio consists of seven insurance businesses, all of which are focused on brokerage-related services and which have commanded far higher valuation premiums than insurance carriers have. In February 2023, Truist sold a 20% stake in its business to Stone Capital Partners at a valuation of 27x P/E, or a much higher multiple than most P&C insurers receive in public markets at 8-15x P/E.[14] We think Truist has little incentive to suddenly enter the business of taking on policy risk and spoiling this narrative, never mind just to capture AmCo's ~$100MM annual net profit opportunity vs. their trailing annual net profit of $5.8B.

4. Mutually Assured Destruction: While AmRisc could theoretically threaten to end their relationship with AmCo in order to try and extract higher commissions from another carrier, one must remember that Dan Peed's economic interests are fully aligned with American Coastal, and that he would therefore have every incentive to ensure mutual destruction for AmRisc as well. If AmRisc were to ever threaten to end their relationship, AmCo could in turn 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 of 19 years, he is one of few people in the industry who could credibly do this. In addition, with some degree of success, Dan could also poach away a good 10-15 early AmRisc employees who he made very rich during his tenure there and who are likely loyal to him.

We also include direct quotes from our conversations with former industry persons with direct experience dealing with American Coastal:

> *"Dan Peed started AmRisc and he is not there now, but he has a very good relationship with all of the management at AmRisc and all of the underwriters at AmRisc. I would expect that whenever that contract comes up for renewal, it's just going to get renewed again because Dan Peed, like I said, he basically started AmRisc, and they all love him. I'm still pretty good buddies with the Chief Underwriting Officer at AmRisc. He could go anywhere. He could leave AmRisc and go be CEO somewhere, but he won't leave, because Dan Peed got him in the industry, and he's not messing with that relationship. So he would never leave AmRisc. And so that works out very well for American Coastal."* – Senior Employee at Former Competitor

(14) Source: Stone Point Capital, Truist Announces Agreement to Sell Minority Stake in Truist Insurance Holdings. https://bit.ly/3Ompjui.

> *"As long as Dan Peed is still running United, I don't see anybody else coming in and taking that relationship with AmRisc away. I just don't see it happening. It's almost like they operate as one. I think if you go to AmRisc's website, there's still some carryover between AmRisc and American Coastal. It gets very gray when working with those guys of who actually sits with American Coastal and who actually sits with AmRisc. It's a very close relationship."* – Former Reinsurance Broker

Given how positive both personally and economically the relationship between AmRisc and AmCo has been, and the lack of any incentive we can think of for either party to change course, it appears highly likely to us that AmRisc and AmCo will continue their business relationship for as long as Dan Peed is CEO of American Coastal.

<u>Breaking Down American Coastal's Competitive Advantages</u>

> *"It's no secret that everybody wants access to AmRisc and American Coastal."* – Former Competitor

> *"I was President of a company called American Platinum which was a subsidiary of Universal. And we launched a commercial-residential program and we basically did what's called a 'me too' of the American Coastal program that was already in place. You just basically submit their forms and their rate filings and then you're off to the races, and you basically do whatever American Coastal does. It's an easy way of doing it in insurance. We were about $1 billion in premium in Florida on the homeowner side, but we were new to commercial-residential, and we thought since we had such a big presence in Florida that it'd be easy for us to grow and compete against American Coastal. But as we got into that market, you really saw how much of a stronghold they have on that market, and how good of a relationship they have with their brokers. Let's just say we were competing on a condo building against American Coastal, and let's just say we quoted a premium of $40,000 and American Coastal came in at $55,000. They're going to go with American Coastal just because they like those guys, they know they're very smart and underwrite well, they used a claims TPA that they liked, they had been through the 2004-2005 storms that came through Florida, and they just trusted them. It was just a fact we had to deal with. Without a doubt American Coastal has a stronghold on that market."* – Former Head of Commercial-Residential Insurance at UVE

All of our research has pointed to American Coastal's relationship with AmRisc as the primary source of its competitive advantages and the driver of its enormous success. Specifically, we have found that American Coastal's stronghold over the industry has been the product of AmRisc's best-in-class underwriting, AmRisc's dominance over the broker distribution channel, and the high switching costs created among longtime customers and brokers alike who have come to love AmRisc & AmCo.

1. <u>AmRisc's Best-In-Class Underwriting</u>:

   If underwriting Florida windstorm policies for homeowners proved to be too challenging for even the major carriers, then it should be no surprise that being the best underwriter for commercial windstorm insurance, which is even more difficult to write than residential, is a huge advantage. As UVE learned in the above anecdote, underwriting commercial policies properly is not as easy as leveraging your personal-lines experience and copying-and-pasting the leading competitor's rates and forms. We learned from speaking with others that there are intricacies in commercial property that an underwriter has to be good at identifying, and that underwriting homeowner's insurance is relatively easier. One source we spoke with described their personal lines carrier's underwriting team as being half-staffed with recent high school or college graduates, whereas in comparison, AmRisc's underwriting team is much more qualified.[1] In their words, "AmRisc is a completely different underwriter. It's a smarter underwriter. It's a higher compensated underwriter that really understands the entire risk."

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 $10+ billion in cumulative written premiums over that span.[6] The fact that AmRisc has also underwritten these premiums at a cumulative combined ratio of under 70% provides strong evidence that AmRisc has also been highly successful in its underwriting.[6]

American Coastal's competitors, in contrast, have only a tiny fraction of AmRisc's data, experience, and demonstrated success, if any. Since American Coastal'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 prior proprietary data. And, of those competitors, which we will discuss in a bit, two have since exited the space, and the only one remaining has a mixed reputation among its customers and has supposedly just lost senior talent from its commercial-residential team.[1]

AmRisc's underwriting skill has been critical to building AmRisc's and American Coastal's joint reputation over the years because this best-in-class underwriting ability has allowed AmRisc & AmCo to jointly be the only stable policy provider in the minds of customers over the past 23 years. From the policy holder's perspective, AmRisc and American Coastal have jointly provided such a strong value proposition because policy holders value an insurer who can provide good coverage, reasonable prices, assurance that 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.

Most policy holders have been burned by insurers over the past two decades. Every private admitted carrier disappeared after the 2004-05 hurricanes, new entrants were often forced to raise their rates on customers by as much as +100% year-over-year because they did not understand how to properly underwrite risk in this segment, and shortsighted carriers have nickeled and dimed customers in court over claims. In the midst of dealing with all of these fly-by-night insurers, customers have seen the AmRisc & AmCo brand as the only positive constant through all of this change, which in turn has all been possible by AmRisc's high-caliber underwriting capability.

2. AmRisc's Dominance Over the Distribution Channel:

Perhaps even more important than an underwriter's value proposition to its end customers is its relationship with the industry's insurance brokers because the insurance brokers are the gatekeepers who decide which quotes to show the end customers.

> *"The customers and brokers truly like AmRisc and American Coastal. They like the team and have been working with them for so long that there is a big following. When I was competing with American Coastal, when you're talking with brokers, the second they would say that they worked with AmRisc, you almost know that you don't have a chance of winning unless you're coming in 30% below their quote, and then you have a chance. But otherwise you're going to lose."* – Senior Employee at Former Competitor

There are less than 200 retail brokers that control this marketplace in the state of Florida, and AmRisc has strong relationships with just about all of them between retail and wholesale.[1] To understand why, most of the same value propositions that apply to the end customer also apply to the broker, with even arguably more importance. If an end customer accepts a policy from an underwriter who ends up vanishing, jacking up prices, or treating them unfairly, the end customer simply switches to another underwriter the next year. But, given that the broker must have presented that underwriter's quote in the first place and the average broker also presented that underwriter to 15-20 different condo / HOA boards, the broker risks souring their own reputation with their clients and with future prospective clients as brokers rely heavily on word-of-mouth referrals.

For that reason, brokers are even more incentivized to recommend a stable, highly reputable underwriter to their clients, and AmRisc is the only underwriter that fits that description. Similar to the old adage of how a stockbroker never got fired for recommending IBM, an insurance broker in this segment never got fired for recommending AmRisc.[1] This is also especially powerful because, as mentioned earlier, a broker typically only presents two quotes to its client during each renewal period, and one of those quotes is almost always AmRisc & AmCo. This means that in practice, almost every single customer that AmRisc is willing to underwrite a policy for will be shown that quote, and AmRisc is in a great position to win that quote every time.

3. High Switching Costs for Policy Holders and Brokers:

> *"When someone does come in at half the price these days, insureds have gotten smart, and they're like, 'Alright, what's going on here? This doesn't seem very credible.' And they'll get some of these HOAs to change, but a year later, that new market entrant is saying, 'Oh, look, we severely underpriced this and you're getting a 100% increase,' and the HOA says 'Okay, we're never doing business with you guys again, we're going back to AmRisc.'"*
> – Former Head of Commercial-Residential Insurance at UVE

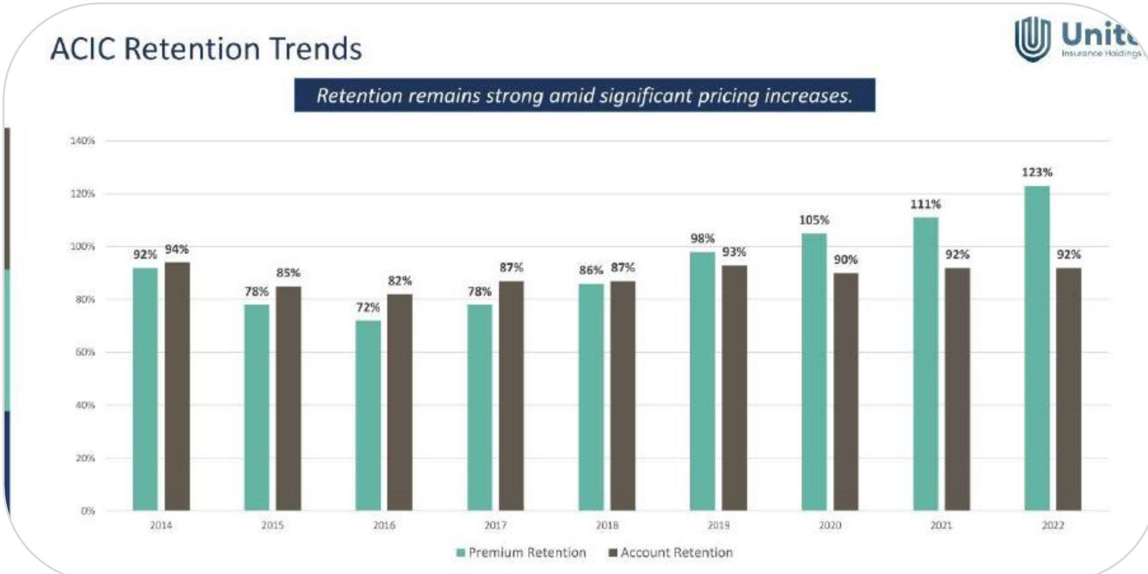
As a result of all of these forces at play, condo & HOA boards and brokers have come to love working with AmRisc & AmCo because of the high premium they have placed on stability. This has compounded the problem for competition that has tried to enter the space over the past 10-15 years. In addition to having to deal with AmRisc's significant underwriting advantage, new entrants have also historically underestimated the extent to which customers and brokers are loyal to AmRisc and how unwilling they are to buy a policy from a new entrant because of how often customers and brokers have been burned before. We categorize this as high switching costs for insureds and brokers to transfer their business away from AmRisc & AmCo and a strong barrier to entry and success for new entrants and existing competition.

As a result of these competitive advantages, we believe American Coastal has enjoyed the concrete benefits of higher pricing power, stronger customer retention rates, and lower loss ratios than its competitors. Together, these have been the major elements that have allowed American Coastal to earn consistently high margins and strong returns on capital and equity.

1. High Pricing Power: AmRisc & AmCo have leveraged their strong reputation and best-in-class product to charge premium prices to their customers while still enjoying high retention rates. We have heard many anecdotes of American Coastal winning quotes over competitors despite competitors attempting to undercut meaningfully on price. On average, we have found that American Coastal charges a +10-15% premium for its policies as compared to quotes from competitors with similar coverage.[1]

2. Strong Customer Retention Rates: As a result of customers and brokers loving to work with AmRisc & AmCo, American Coastal has enjoyed strong customer retention rates over the years across both hard and soft market cycles. American Coastal has proven to consistently harbor retention rates above the insurance industry average of 84%.[15]

(15) Source: PropertyCasualty360, How insurance agencies can boost customer retention by 95%. https://bit.ly/47fo5tv.



(Source: Investor Presentation, American Coastal Insurance Corporation, June 2023)

The period of 2014-2016 was characterized by a soft market after years with no major hurricane losses. During soft markets, pricing across the industry typically declines as more capital and new reinsurers and insurance carriers enter the market. Rather than engage in a race to the bottom on pricing with competitors, American Coastal remained discipline in its pricing and underwriting as new entrants often priced their policies lower by anywhere from 20-50%.[1] Though, as discussed earlier, this didn't last, as these same competitors either raised their prices significantly in the years that followed or suffered huge losses as a result of mispricing risk, and most ended up leaving the segment altogether. American Coastal's discipline during the 2014-2016 soft market cycle also demonstrates to us a long-term operating approach taken by top management.

3. Lower Loss Ratios: We have already established American Coastal's industry-leading low loss ratios, and reiterate that this is the result of AmRisc's best-in-class underwriting ability.

We also mention one more competitive strength for American Coastal, which is the wrap product that it offers to its customers through its relationship with Lloyd's of London, which no other competitor offers. Lloyd's of London is one of the oldest and best known global insurance entities and offers specialist insurance services through its pool of smaller insurance syndicates. American Coastal works with Lloyd's to add unique, one-off coverages to its policies that it doesn't underwrite itself but that individual customers might want. This added flexibility increases the value proposition to AmCo's insureds.

According to our research, Lloyd's is also the only big player in the market for these coverage add-ons, and Lloyd's has not been willing to work with any other players in this segment except for American Coastal because of AmCo's longevity and Lloyd's trust in AmCo.[1] The former head of commercial-residential insurance at UVE told us that he attempted to develop a similar relationship with Lloyd's, but was told for

UVE to first get 3-5 years under its belt in this segment before Lloyd's would be willing to talk.[1] We view this wrap product as yet another advantage for American Coastal.

Garden Style Commercial-Residential is a Lucrative Niche

Notwithstanding all of American Coastal's competitive advantages, we believe the garden style commercial-residential windstorm insurance segment is also a lucrative insurance niche for underwriters in general, and which further tilts the odds of success in American Coastal's favor.

1. Windstorm Policies Required by Law: Florida law requires property insurance policies to include coverage for damage caused by a windstorm that the National Hurricane Center declares to be a hurricane. Demand for windstorm policies is therefore inelastic and recession-proof.[1]

2. Pricing Exemption for Admitted Carriers: Unlike the homeowner's insurance market, Florida law allows admitted carriers such as American Coastal to deviate from their rate (pricing) schedule when the properties they are insuring are worth more than $5 million. This means that American Coastal is free to charge what the market will bear rather than being tethered to a regulated rate schedule like most residential insurers are. This has resulted in American Coastal being able to price some policies at +50% to +200% above the price their underwriting model suggests, while still retaining all of the benefits of being an admitted carrier. For a quick primer on admitted vs. E&S carriers, please refer to Appendix C at the end of this memo. In a nutshell, the benefits of being an admitted carrier include a guaranteed backstop by the state of Florida for policy holders which many condo & HOA boards require, the requirement that brokers must show admitted carrier policies to clients before E&S carrier policies, and avoiding the 5% surplus lines tax incurred by E&S carriers.

3. Low TIV-at-Risk: Total insured value (TIV) is the maximum amount of property insurance coverage written under a policy. Within the garden style commercial-residential, American Coastal does not wish to underwrite 100% of the market. Rather, we believe American Coastal would only want policies from a maximum of 40% of the market because of the differences in underlying risk characteristics among the 15,000 to 16,000 condo and homeowner associations in the state of Florida.[1] The main risk consideration is the 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.[1]

   Buildings made of masonry materials are more resilient to hurricane-force winds than properties built with wood frame construction, which is how over 90% of residential homes are constructed.[1] This is precisely why the garden style policies that American Coastal underwrites are at much lower risk than homeowners policies. On a homeowner's policy, a house can get completely totaled 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%.[1] The average TIV-at-risk after a major hurricane is also higher for homeowner's policies, which we estimate to be 30-40% vs. just 10% for American Coastal's properties.[1] The majority of American Coastal's claim payouts are for damaged roofs.

Absence of Competition

> *"It's really just American Coastal. AmCap and Universal left the space. Besides Heritage, I really don't know who their competitors are now."* – Former Insurance Broker

At the moment, American Coastal has only one major private admitted competitor Heritage Insurance Holdings. Using official data provided by the NAIC as of September 30, 2022, we estimate current market share within garden style windstorm insurance to be divided among market participants as follows:[16]

- 35%: American Coastal Insurance Corporation
- 16%: Heritage Insurance Holdings
- 13%: Citizen's Property Insurance (State-Owned)
- 12%: Total, Other Private Admitted Carriers
- 24%: Total, Other Private E&S Carriers

In the 2015 to 2018 period, American Coastal at one point had three major private admitted competitors in the garden style commercial-residential market: American Capital, Universal Insurance Holdings, Heritage Insurance. American Capital exited in 2020/2021 following massive losses from Hurricane Irma that they did not properly manage against, Universal withdrew because they realized the underwriting required was very different from their core business, and Heritage started pulling back on volume after they suffered big losses in 2017-2020 after trying to win market share by undercutting on price.[1]

One crucial reason in our view why American Coastal makes life so hard for its competitors is that American Coastal only tries to acquire that top 40% of the market whose risk they feel most comfortable taking on. We also have to remember that, among any of the underwriters, AmRisc is the most experienced by a longshot in assessing property risk. This suggests to us that while American Coastal's competitors can make some inroads into that desirable 40%, the large majority of the risk that competitors end up underwriting falls within the less desirable 60%. All else equal, we believe this has led to higher losses and business risk for competitors during years with above-average hurricane losses.

We were also fortunate to get in touch with the former President of UVE's commercial-residential insurance division, who was one of the more interesting sources we had spoken with and who we have already mentioned in this memo. His perspective was powerful to us given he was the person at UVE who was tasked with forming a subsidiary to compete directly with American Coastal. To re-summarize his experience, he spent several years attempting to compete with AmCo, concluded that he couldn't, and exited the market. It is not often that we encounter such powerful testimonial from a former competitor.[1]

We would be remiss if we didn't mention as well the reason why UIHC's former CEO John Forney became interested in acquiring American Coastal in the first place. According to American Coastal's CFO, who was also CFO at UIHC prior to the acquisition of American Coastal, UPC initially attempted to enter the garden style commercial-residential market as well, and quickly found that it was really hard to compete with American Coastal.[4] They then reached out to American Coastal to acquire them in 2016. If you can't beat 'em, buy 'em.

Looking ahead, while it is inevitable that the current attractive hard-market rate environment will lure competitors back to this segment of the market, we think that American Coastal will remain disciplined and could cede some market share as it did in 2014-2016, but will certainly remain the dominant player in the industry and continue to reap the benefits of its durable competitive advantages. Furthermore, as recent history has shown with HCI and UVE, any new entrants might not last in the segment for very long. Two out of three new entrants over the last 10 years have followed a similar 3-4 year playbook of acquiring market share by mispricing policies, realizing that they don't really know what they are doing and that AmRisc & AmCo control the market, and then exiting.[1]

The only remaining admitted carrier competitor, Heritage, mentioned to us during our call with their CFO that this commercial-residential segment is not an area of "strategic focus" for them as compared to their main homeowner's insurance business.[1] According to others we have spoken with, Heritage also has a mixed reputation among condo & HOA boards and brokers because they entered the market in 2014-15, gained market share quickly by underpricing competitors, but then soon after raised prices sharply because they realized they weren't pricing their risk accurately. Lastly with regards to Heritage, while unsubstantiated, we heard a rumor from an industry source that Heritage's head of commercial-residential recently departed to form his own company, and took many of his former staff at Heritage with him.[1] In sum, we aren't worried about Heritage, as there is nothing to suggest to us that they are a threat to American Coastal's target market share.

Overall, no competitor has come close to challenging American Coastal's dominance since its founding 2007, the barrier to success for competitors seems exceptionally high, and we don't see any basis for these circumstances changing any time soon.

Why This Opportunity Exists: "GoodCo" AmCo and "BadCo" UPC Separation

As mentioned earlier, we believe this opportunity exists for a host of reasons including how recently the series of deconsolidation events has occurred and the potential misperceptions surrounding it, the lack of research coverage on the sell-side and buy-side, the lack of relevant historical GAAP financial statements on AmCo (statutory annual filings from 2008-2022 can be found at www.naic.org), the negative bias against Florida insurers, misperceptions around how to think about hurricane risk, and the tendency for investors to place insurance companies into the "too hard" pile.

Among those reasons, the chief reason why we believe this opportunity exists is because of how recent the GoodCo "AmCo" and BadCo "UPC" deconsolidated occurred, as well as the potential for misperceptions surrounding the deconsolidation, and we think it is easy to see why. UIHC currently screens poorly on traditional trailing twelve-month profit and book value metrics, a quick glance at the financial history portrays what appears to be a disaster, and cursory-level research of UIHC or United Insurance Holdings Corp. is far more likely to yield unflattering material about the insolvent UPC than it is anything useful about American Coastal.

Fortunately, this lack of awareness of the current situation at NewCo has presented us with what we believe to be a tremendous opportunity. Time will be our friend as American Coastal's future results eventually become recognized by the market.

The Unraveling of UPC

In summary, UPC failed for two reasons, both of which began around 2016-2017.

The first reason UPC failed was because of CEO John Forney's strategic shift towards becoming an InsurTech company, which in hindsight was almost certainly a mistake. According to former employees, UPC began spending a great deal of money on R&D for its in-house technology applications which not only never came to fruition, but also led to worsened underwriting quality.[1] For instance, UPC apparently ended its traditional inspection process, or the process that occurs when an underwriter sends an employee or third-party company to inspect a property and confirm its details before either underwriting a policy or approving a claim for the property. UPC attempted to replace this industry-standard inspection process with its own in-house IT. The way this IT was supposed to work was the homeowner was supposed to use a smartphone app to take photos of their property and fill out the paperwork digitally, which resulted in UPC's internal underwriting data becoming an absolute mess.[1] For instance, a former VP of underwriting at UPC lamented how ridiculous it was that a UPC policy holder was to be expected to climb up and take detailed pictures of his or her own roof, and how UPC would rely on this information for its underwriting models!

UPC also tried to save on costs by relying on broadly available agent-provided data for property valuations rather than spending money on keeping their own in-house appraisal staff on payroll.[1] Imagine properties that were last appraised by UPC in 2016, or around the time when this initiative began. In the 5 years that followed, many of those houses incurred two major hurricanes, a smattering of smaller hurricanes, a major property valuation increase during the COVID-era, and any one-off construction and renovation activity. The large and growing disconnect between actual property values and UPC's internal data further contributed to the worsening quality of its underwriting data.[1] In practice, underwriting flaws like this can lead to bad outcomes for both the insureds and UPC, such as UPC paying a claim to a homeowner that covers far less than the homeowner actually needs, and which often ends in either a claim dispute and/or UPC paying the claim and incurring a higher loss than their faulty underwriting projected. As we will touch on in a moment, these hazards have also drawn scrutiny to UPC, which we view as the product of sheer underwriting incompetence rather than any systematic nefarious activity.

The second reason UPC failed was because of the historically bad string of hurricanes that struck Florida from 2017 through 2022. Were it not for these hurricanes, UPC could have survived, but the combination of poor vision and execution under Forney along with this streak of hurricanes was too much for UPC to withstand. The final nail in the coffin for UPC was Hurricane Ian which struck in September 2022, after which the company was placed into receivership.

Dan Peed Ousts UIHC CEO John Forney

As UPC's struggles were mounting, at some point, Dan Peed had lost confidence in John Forney. In June 2020, Dan, 49% shareholder of UIHC and board director, took over as CEO of UIHC. Based on our conversations with others, we have gathered that it is highly likely Dan accumulated enough political backing among the board to force Forney to resign in order to assume the role of CEO himself.[1]

Soon after taking over, Dan's first order of business was to attempt to save UPC, which at the time represented 69% of the company's policies, by exiting certain states and salvaging others. He first began with the sale of UPC's homeowner's policy book in four northeastern states to HCI Group in December 2020, and then a year later, sold the books of another three states to HCI Group in December 2021.[17,18]

Dan also went to great lengths to try and salvage the remaining UPC business, because despite the company losing its way under Forney, UPC was still a significant homeowner's policy provider across its remaining states. UPC enjoyed the competitive advantage of having a lower reinsurance cost base than smaller competitors thanks to its multi-state reinsurance volume, and had demonstrated success in its earlier years as a homeowner's carrier. Dan's attempts to right the ship included correcting underwriting standards and risk management in UPC's existing states, creating a loss-pooling arrangement between AmCo and UPC to placate reinsurers, and even transferring $114MM from AmCo's statutory equity to UPC in 2021 and 2022 in an attempt to strengthen UPC's balance sheet.

However, despite these efforts, saving UPC proved too challenging, especially with Florida being pummeled by an unlucky streak of hurricanes. In August 2022, with UPC teetering, Dan officially filed plans with the Florida Office of Insurance Regulation (FLOIR) for UPC to exit its remaining states of Florida, Louisiana, Texas, and New York, and to place UPC in runoff.[19]

(17) Source: Artemis, *United (UPC) transfers business from four Northeast states to HCI Group*. https://bit.ly/3OIr5aI.
(18) Source: Artemis, *United (UPC) transferring more homeowners business to HCI Group*. https://bit.ly/3qgDyce.
(19) Source: Insurance Journal, UPC Gives up the Ghost: Now in Orderly Run-Off, But Trouble May Be Brewing. https://bit.ly/3ORBMYF.

The Chronicle of UPC's Deconsolidation

Unfortunately for Dan and UIHC, the drama surrounding UPC did not end there. On September 28, 2022, a month after Dan had submitted UPC's runoff plan to FLOIR, Hurricane Ian ravaged Florida, and went down as the costliest hurricane in Florida's history on an inflation-adjusted basis. This caused severe losses for UPC and threw a wrench in Dan's deconsolidation plans because even though Dan and UIHC filed to place UPC in runoff before Hurricane Ian even existed, there was still uncertainty as to whether FLOIR would approve the deconsolidation of the two companies in the same structure that it was originally submitted. Some feared that Ian's heavy losses would lead to FLOIR rejecting the existing runoff plan and forcing UIHC to also forfeit AmCo's assets or similar. For months, the stock price reflected this fear, troughing at $0.29/share in December 2022.

Then, on February 27, 2023, FLOIR officially approved the deconsolidation, which would place UPC into receivership with the Florida Department of Financial Services (DFS), carve out UPC and all of its liabilities from the UIHC parent, and leave UIHC with its two remaining subsidiaries of AmCo and Interboro and with sustainable capital levels. This was viewed as a highly favorable development by the market.

However, UIHC's headaches persisted. In order for the FLOIR-approved deconsolidation plan to be memorialized, it also had to be ratified by the DFS, who was given its standard 90-day review period to examine the runoff plan before taking any action. This presented a major challenge for UIHC, for two reasons. First, if the DFS were to wait the entire 90 days, then that would coincide with the end of May, which would make it near impossible for American Coastal to secure reinsurance capacity by the industry-wide annual June 1 renewal deadline, and particularly during, of all years, an all-time hard market where reinsurance capacity was more difficult to secure than in any other years in memory. And, second, UIHC's 10-K was due in mid-April, and unless the DFS ratified the deconsolidation plan by then, UIHC's auditor Deloitte insisted on including language surrounding substantial doubt of going concern.

The DFS initially refused to expedite its review process, and on April 17, 2023, UIHC released its 10-K with substantial doubt of going concern language, which spooked investors.[6] The next day, UIHC's share price fell from $3.48 to as low as $1.50, despite confidence exhibited from UIHC's management that the DFS would sign off on the plan. Sure enough, just two days later, during after-hours on April 19, 2023, UIHC released an 8-K filing announcing that the DFS had ratified UIHC's deconsolidation plan, and in the following weeks, UIHC also secured its annual reinsurance capacity and reached an agreement with the DFS to settle its final UPC-related item regarding reinsurance recoverables.[6] This was excellent news for UIHC, as it removed all UPC-related risk off the table and paved the way for the company to finally be finished with this deconsolidation and focus on its future as American Coastal.

Addressing Misperceptions Surrounding the Deconsolidation

To be perfectly clear, the DFS memorializing the deconsolidation agreement that was already approved by FLOIR indicates that, with certainty, the totality of UPC is now in receivership with the DFS, is the full responsibility of the state of Florida, and in no way, shape, or form is still the responsibility of UIHC/ACIC, as far as we are concerned.[1] Recent court filings from the DFS in Leon County have further demonstrated that the DFS is already underway in taking steps towards proceeding with the UPC runoff plan, most recently giving existing UPC policy holders formal notice of their February 27, 2024 deadline to file any remaining claims.[20]

While we view this deconsolidation as a done deal and have completely removed it as a potential risk following the DFS memorialization, we also recognize there is still misperception out there among some who we believe to be less informed of the current status of the situation.

For example, among news articles, tweets, and other forms of communication, we have read incorrect claims in recent months that American Coastal – not UPC! – is on the verge of insolvency, that Dan Peed pillaged UPC policy holders while enriching himself, or that UIHC "gamed the system" and got "bailed out" by taxpayers who have to foot the bill for UPC's insolvency.

For one, American Coastal is alive and well, and not remotely in any financial distress. We think any purveyors of this claim have simply mistaken UIHC or American Coastal with UPC. As of Q1 2023, American Coastal's regulatory filings confirm that it had $102MM of statutory tangible equity, and on June 26, 2023, American Coastal's CFO Brad Martz gave a company presentation at an investor conference in NYC communicating his excitement for American Coastal's future, which would be a highly unusual action to say the least if his company were about to declare bankruptcy.

We also refute the claim that Dan Peed pillaged UPC policy holders while enriching himself, and believe the facts speak for themselves in demonstrating that Dan did the exact opposite. As mentioned, he transferred $114MM from American Coastal to UPC in 2021 and 2022 in an attempt to strengthen UPC's balance sheet. If he were trying to enrich himself, why would he give away $114MM to an entity that he were secretly planning to send into runoff the entire time? Not to mention, as 48% shareholder of the parent company, would be akin to Dan throwing away $55MM of his own wealth?

Additionally, if Dan's goal were to enrich himself, why then did he propose a loss-pooling arrangement between AmCo and UPC from 2019 through 2021 which transferred tens of millions of dollars in losses from UPC to AmCo, also money to which he laid 48% claim, and which would also make little sense if his goal were to pillage the company? In light of accusations that Dan did poorly by UPC's customers in its final years, we also struggle to see why Dan would deliberately try and cheat his policy holders. Given AmRisc's and American Coastal's excellent longstanding reputation with its customers and with major global carriers, where Dan had been a combined CEO for 21 years, it is hard for us to envision a scenario where Dan would build a stellar career and reputation taking a customer-first approach, and then suddenly risk it all by abusing UPC's policy holders.

None of this adds up to us, and our strong view is that Dan did make an honest effort to try and salvage UPC. He had strong incentive to save UPC as his 48% stake would have been worth a heck of a lot more with the positive equity value assigned to a healthy UPC than having no UPC at all. We think that, if anything, any unusually high volume of customer complaints during UPC's final years were the result of the poor inspection, property valuation, data, and underwriting setbacks that UPC incurred under John Forney, and that despite Dan's best efforts, the UPC ship in that hurricane environment was already headed toward the rocks.

(20) Source: Leon County Clerk of the Circuit Court & Comptroller.

For the record, if anything, one should make the argument that Dan Peed is the least greedy CEO among the publicly traded Florida windstorm insurers. Below is CEO compensation among the peer group over the last two years while Dan was CEO of UIHC:

CEO Compensation **Publicly Traded Florida Insurers**	**2021**	**2022**
Company		
United Insurance Holdings Corp.	$ -	$ -
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

(Source: SEC Filings)

Unlike his peers, Dan 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.

Lastly, the notion that Dan and UIHC somehow "gamed the system" by avoiding the loss of UPC themselves and getting "bailed out" by taxpayers is simply untrue. The series of events over the course of 2022 leading up to Dan placing UPC into runoff before Hurricane Ian even existed is well documented in public record. While it is extremely unfortunate and unlucky for everybody involved that Hurricane Ian caused so much damage, Dan and UIHC's management played by the rules, and there was no documented foul play involved. We find it very hard to believe that FLOIR, who spent six months reviewing the runoff plan, would have approved it, and that the DFS, who has now had well over its standard 90-day review period, would have also memorialized the runoff plan if there were any suspected foul play.

We understand why some of these misperceptions may exist. The events that have unfolded over the past year have been all but straightforward. Even we have spent several months conducting diligence and getting ourselves fully around the facts at hand. Given we are heading into election season, we also think there is an element of political animosity towards Governor DeSantis and the state of Florida that may be motivating the spread of incorrect surface-level claims surrounding Florida in general, and that the recent hurricane devastation has left insurance carriers as tempting lightning rods for criticism.

All considered, in public markets, companies are occasionally hated or misunderstood for the wrong reasons, and to some extent this could be one of those moments for American Coastal, or in other words the reason why this opportunity currently exists. As we break down in the following Valuation section, we find that American Coastal's future profits will be so compelling relative to today's share price that this opportunity is unlikely to exist for much longer.

Valuation

At today's price of $5.63/share and $240MM market capitalization, we view American Coastal's shares as exceptionally undervalued based on our FY23 net income estimate of ~$60MM, FY24 net income estimate of ~80MM, and FY25-29 net income estimates of between $100-125MM, and the implications that these future profits will have on American Coastal's future book value and distributable capital levels.

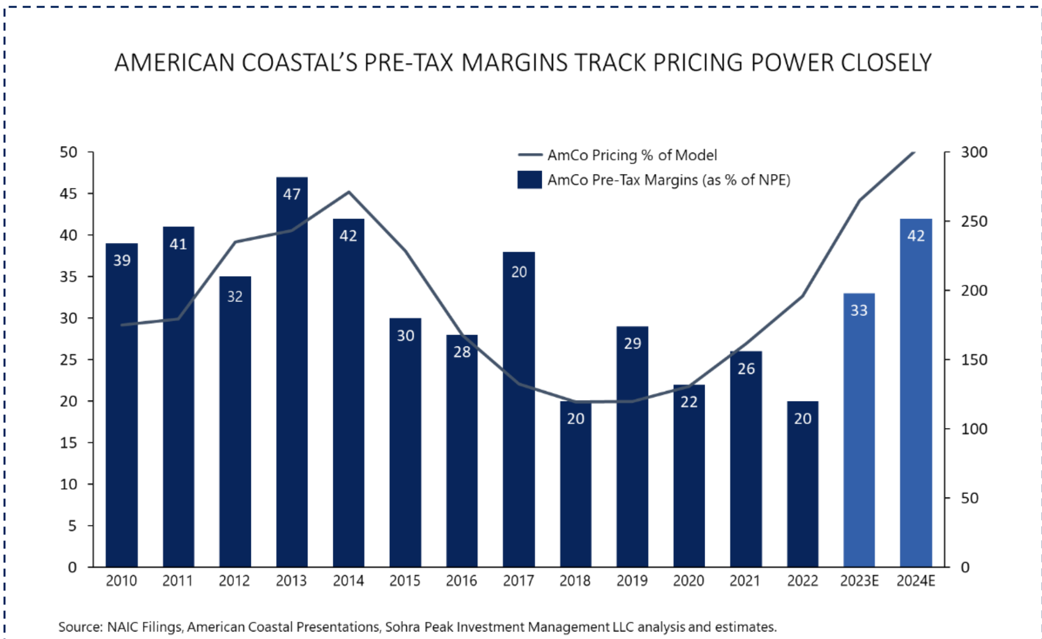
The range of outcomes for FY25-29 is a function of different profit expectations at different points of the hard market cycle. As discussed, during a hard market, margins and profits for existing players are above-average, which will be a tailwind American Coastal should enjoy over the next 2-4 years or as long as the current hard market persists.

On a relative basis, American Coastal is also the lowest valued insurance company among frankly any category of insurers that we can find as measured by both our expectations of future earnings and book value, despite American Coastal being an arguably higher quality business than most insurance carriers.

Estimating Future Earnings

Given the complexity of the unit economics, for a granular walkthrough of how we arrive at our future earnings estimates, please refer to Appendix B at the end of this memo. The main considerations driving our future estimates include:

- Significant growth in gross premiums earned over the next several years as a result of substantial policy price increases in the current hard market environment. As seen historically, higher policy pricing has a strong correlation with higher pre-tax margins as a result of operating leverage.



- Temporarily depressed earnings in FY23 and to a lesser extent in FY24 due to American Coastal's current 40% quota share agreement with two of its reinsurance partners, Berkshire Hathaway and Arch Re. At the end of FY22, American Coastal had an unprecedented shortfall in equity reserves mainly due to a combination the $78.7MM of AmCo's equity that Dan Peed transferred to UPC in 2022 and the greater than expected losses caused by Hurricane Ian. AmCo engaged in a hefty quota share agreement in order to maintain both its market share and healthy capital ratios. As AmCo's equity surplus builds in future years, we expect its quota share will step down, which will significantly boost AmCo's profits.
- Structurally lower loss and LAE expenses as a result of the recent one-way attorney fees and AOB legal reform.
- American Coastal maintaining 35-40% market share.
- Partial credit given to Dan Peed's new MGA initiative which we discuss in this Valuation section.

Below is our output of future profit estimates for American Coastal on an absolute and per share basis:

American Coastal Insurance Corporation							
Future Estimates	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Share Price	$ 5.63						
Gross Premiums Earned	612,083,333	689,416,667	696,686,667	635,483,333	572,338,433	558,348,124	585,754,159
Quota Share Premiums Ceded	*25-40%*	*15-25%*	*10-15%*	*0-10%*	*0%*	*0%*	*0%*
Pre-Tax Margin	*10.3%*	*11.9%*	*19.5%*	*19.4%*	*17.1%*	*15.1%*	*14.5%*
Pre-Tax Income, Core AmCo Business Underwriting Gain	63,136,368	81,917,081	136,111,349	123,042,710	97,822,266	84,268,722	84,910,342
Pre-Tax Income, Net Investment Income	13,034,239	25,511,462	25,914,964	29,164,670	32,661,655	33,811,804	38,126,876
Pre-Tax Income, In-House MGA Business	-	-	1,375,000	6,062,500	13,687,500	19,625,000	24,125,000
Net Income	**58,651,367**	**82,719,978**	**125,819,011**	**121,867,807**	**111,011,994**	**106,033,255**	**113,314,908**
Book Value	108,752,018	193,538,445	321,445,695	445,218,292	557,945,805	665,652,646	780,723,286
Return on Average Equity	75%	54%	53%	32%	20%	14%	12%
Tangible Book Value	39,698,518	126,879,320	256,941,507	382,222,561	496,005,994	604,451,978	720,040,018
Return on Average Tangible Equity	148%	99%	66%	38%	25%	19%	17%
Shares Outstanding	43,500,968	43,811,457	44,053,839	44,191,551	44,289,110	44,388,973	44,487,226
Earnings per Share	**$ 1.35**	**$ 1.89**	**$ 2.86**	**$ 2.76**	**$ 2.51**	**$ 2.39**	**$ 2.55**
Trailing Multiple, P/E	**4.2x**	**3.0x**	**2.0x**	**2.0x**	**2.2x**	**2.4x**	**2.2x**
Book Value per Share	**$ 2.50**	**$ 4.42**	**$ 7.30**	**$ 10.07**	**$ 12.60**	**$ 15.00**	**$ 17.55**
Trailing Multiple, P/Book Value	**2.3x**	**1.3x**	**0.8x**	**0.6x**	**0.4x**	**0.4x**	**0.3x**
Tangible Book Value per Share	**$ 0.91**	**$ 2.90**	**$ 5.83**	**$ 8.65**	**$ 11.20**	**$ 13.62**	**$ 16.19**
Trailing Multiple, P/Tangible Book Value	**6.2x**	**1.9x**	**1.0x**	**0.7x**	**0.5x**	**0.4x**	**0.3x**

(Source: Estimates of Sohra Peak Investment Management LLC)

If our estimates are remotely accurate, American Coastal's shares appear to us to be extraordinarily undervalued under any approach to valuation.

We intentionally excluded any share repurchase or dividend assumptions in order to demonstrate how rapidly we expect book value and tangible book value to accumulate. In practice, American Coastal could return to shareholders ~100% of its net profits, which it had historically done, beginning in FY25.

The reason we view FY25 as the most likely year during which AmCo can begin to return capital to shareholders is based on our estimates of the company's future equity reserves. For insurance companies, the standard way to think about how much equity reserves are needed in a given year is to view it in relation to how much in net premiums earned (NPE) the company expects to generate over the following year.

American Coastal Insurance Corporation Ratios	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Risk & Profitability Ratios									
Statutory Surplus	*152,821,348*	*142,137,925*	*77,510,571*	*137,996,589*	*222,783,016*	*350,690,266*	*474,462,863*	*587,190,376*	*694,897,217*
Net Premiums Earned, NTM	*148,159,000*	*209,982,000*	*233,833,333*	*253,733,333*	*341,898,822*	*337,233,081*	*318,170,896*	*312,791,083*	*323,008,126*
Statutory Surplus Ratio (CEO & CFO Target <2x LT)	**1.0x**	**1.5x**	**3.0x**	**1.8x**	**1.5x**	**1.0x**	**0.7x**	**0.5x**	**0.5x**
Implied Minimum Statutory Surplus Needed to be <2x	*74,079,500*	*104,991,000*	*116,916,667*	*126,866,667*	*170,949,411*	*168,616,541*	*159,085,448*	*156,395,542*	*161,504,063*
Implied Excess Capital Available for Capital Allocation	**78,741,848**	**37,146,925**	**(39,406,096)**	**11,129,922**	**51,833,605**	**182,073,725**	**315,377,415**	**430,794,835**	**533,393,154**

(Source: Estimates of Sohra Peak Investment Management LLC)

As the table above calculates, the key ratio to track when thinking about how much AmCo needs to hold in statutory surplus, or book equity, is the "Statutory Surplus Ratio." This is calculated as statutory surplus divided by NTM net premiums earned (NPE) and serves as a proxy for how much of the company's equity is at risk in any given year. Management's has historically kept this ratio below the generally conservative level of 2.0x. As you can see, at the end of FY22, American Coastal had unusually low statutory equity reserves compared to prior years due to the 2022 equity transfer from AmCo to UPC and Hurricane Ian. While this table begins at 2020 due to space constraints, since 2008, AmCo's Statutory Surplus Ratio had never before exceeded 1.5x.

By the end of FY25, we expect this ratio to comfortably fall from 3.0x to 1.0x, and for AmCo to have up to $182MM in capital to return to shareholders throughout FY25 while still comfortably maintaining its statutory surplus ratio below the conservative 2.0x threshold. At today's prices, a $182MM return of capital to shareholders through a share repurchase program and/or a dividend would occur at a noteworthy 76% yield. Better yet, AmCo can then continue to return ~100% of its incremental net profits to shareholders, which we expect to be more than $100MM annually. This would likewise represent an enormous yield to today's share price.

While we can't predict the timing of AmCo's potential return of capital, we hope this illustrates the sheer magnitude of the price and value disparity that we feel exists here.

New MGA Initiative: Free & Potentially Valuable Call Option

As excited as we are about the opportunity to purchase American Coastal's core business at what we see as a substantial discount, there is yet one more potential driver of future value that we think could be substantial. As you know, Dan was the founder and longtime CEO of AmRisc, the country's largest and most successful catastrophe-focused MGA, and is arguably one of the most knowledgeable people in the world when it comes to underwriting catastrophe-focused property insurance. Now that the deconsolidation of UPC is finally in the company's rearview, management has indicated that they are in the early stages of creating a new MGA business under the American Coastal corporate umbrella, with high ambitions.[1,4]

Of course, management has indicated that they do not plan to compete in any way with AmRisc, as doing so would be foolish for a multitude of reasons. Instead, we believe that Dan plans to leverage his expertise and American Coastal's IT assets and historical data from both the commercial and personal lines segments to underwrite windstorm policies for one or several new verticals, act strictly as an MGA so as to not take on any policy risk, and sell those policies to partner carriers in exchange for commission revenue. While we unaware of the initiative's specifics, management has floated that there are several segments of the Florida marketplace that could be underwriting areas of focus. We think that Dan can leverage his reputation and AmCo's strong relationships within the broker distribution channel, and feel confident that in just 3-4 years this MGA could underwrite $300MM in GWP which through our analysis of MGA unit economics we estimate would translate to $24MM in operating income.[1,4]

> *"AmRisc is a juggernaut of service fee income, lots of EBITDA, hundreds of millions of dollars of EBITDA for Truist. We would love to someday be able to replicate that in a way that doesn't compete with AmRisc, because AmRisc is our friend and they do a great job. But there are other segments of the Florida marketplace and other markets that are capacity constrained in terms of quality alternatives for insurance products."* – Brad Martz, CFO of American Coastal[3]

As a ballpark estimate, applying the aforementioned Truist Insurance Holdings 2022 valuation of 17x EV/EBITDA to Dan's new MGA business, which would be much smaller than Truist of course but growing at a much higher rate, would assign this MGA business a roughly $400MM valuation under a $300MM GWP scenario. We are fully cognizant that this business plan is still in the development stage and is far from proven, and are accordingly viewing this as not much more than a free call option. <u>We also think it is hard not to get excited about this business line's potential as it is not every day that you get to own economic interest, arguably for free, in an industry leader re-building his life's work</u>. Should Dan's new initiative turn out to be a home run, this new business line could become, while hard to imagine, even more valuable to the public company umbrella than American Coastal's core business given the market's valuation of MGAs.

Relative Valuation: Deep Valuation Discount to Peers

American Coastal is a specialty P&C insurer that dominates its niche and commands structurally higher-than-average margins throughout the cycle, as do many other high quality specialty insurers, some of whom command rich earnings (e.g., 20-30x) and book value (e.g., 5-10x) multiples. However, because AmCo's market niche is Florida property insurance, AmCo is a true property catastrophe insurer. This separates AmCo from many of the other high quality specialty P&C insurers because of the tiny but real existential risk of a 1-in-160 year catastrophe event that goes "over the top" of AmCo's reinsurance limit, as well as the less stable nature of its yearly earnings. For these reasons, we think that it is apt to compare American Coastal's valuation to those of other catastrophe-focused P&C insurers and reinsurers rather than to the broad category of specialty P&C insurers, in order to take a conservative view over valuation.

Relative Valuation
Comparable Companies

	Comparable Group 1: CAT-Focused P&C Reinsurers		Comparable Group 2: CAT-Focused P&C Insurers, No Growth		Comparable Group 3: CAT-Focused P&C Insurers, Growth	
	RenRe	**Everest Re**	**HRTG**	**UVE**	**HCI**	**Palomar**
	$193.11	$355.30	$4.50	$14.34	$59.90	$58.52
2023 EPS Consensus:	$26.20	$48.19	$0.64	$1.45	$1.83	$3.29
2024 EPS Consensus:	$30.02	$58.92	$0.92	$1.75	$2.34	$3.86
2023 P/E:	7.4x	7.4x	7.0x	9.9x	32.7x	17.8x
2024 P/E:	6.4x	6.0x	4.9x	8.2x	25.6x	15.2x
Historical Median P/E:	**9.1x**	**8.5x**	**7.8x**	**8.1x**	**9.9x**	**24.3x**
2023 BVPS Consensus:	$141.08	$269.25	$5.84	$11.16	$20.82	$17.92
2024 BVPS Consensus:	$164.99	$320.81	$6.43	$12.96	$22.32	$21.32
2023 P/B:	1.4x	1.3x	0.8x	1.3x	2.9x	3.3x
2024 P/B:	1.2x	1.1x	0.7x	1.1x	2.7x	2.7x
2023 ROE:	20%	20%	12%	14%	9%	20%
2024 ROE:	20%	20%	15%	15%	11%	20%
Historical Median P/B:	**1.3x**	**1.1x**	**0.9x**	**1.7x**	**2.0x**	**4.4x**

(Source: Public Filings, Sell-Side Consensus Estimates)

While there aren't many publicly traded catastrophe-focused P&C pure play companies, we see the best comparable companies as the Florida personal-lines P&C insurers (HCI, HRTG, and UVE), catastrophe-focused reinsurers Renaissance Re (RNR) and Everest Re (RE), and California-focused earthquake specialty insurer Palomar (PLMR). We have categorized these companies into three comparable groups in the table above.

We view the reinsurers in group 1 as imperfect but relevant comps given their meaningful catastrophe underwriting exposure and their similarly lumpy earnings profiles and exposure to "hard" and "soft" market cycles, as well as the insurers in group 2 given their similar business models to AmCo albeit in the personal lines segment. We also note that companies in groups 1 and 2 are currently trading below their historical P/E multiples due to the market recognizing that these insurance businesses are overearning in the current "hard market" environment. HCI and Palomar in comparable group 3 each have credible earnings growth narratives, which we believe is why the market assigns each a higher multiple. Based on our research, HCI is growing its "InsurTech" business which the market seems to give them credit for, and Palomar continues moving into new markets such as Hawaii hurricane insurance and inland marine insurance.[1]

Even though we view American Coastal's business to be significantly higher quality than the commoditized reinsurers in group 1 and the personal lines Florida insurers in group 2, we conservatively assign American Coastal valuation multiples squarely within the range of its peers in groups 1 and 2. Should Dan Peed's new MGA business experience some success, we see further upside with multiples closer to AmCo's peers in group 3, as this scenario would add significant earnings growth potential for AmCo.

American Coastal Insurance Corporation Valuation	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Share Price	$ 5.63						
Scenario 1: Core Business Valuation							
Pre-Tax Income, Core AmCo Business Underwriting Gain	63,136,368	81,917,081	136,111,349	123,042,710	97,822,266	84,268,722	84,910,342
Pre-Tax Income, Net Investment Income	13,034,239	25,511,462	25,914,964	29,164,670	32,661,655	33,811,804	38,126,876
Pre-Tax Income, In-House MGA Business	-	-	-	-	-	-	-
Net Income	58,651,367	82,719,978	124,760,261	117,169,111	100,306,373	90,446,634	93,800,884
Earnings per Share	$ 1.35	$ 1.89	$ 2.83	$ 2.65	$ 2.26	$ 2.04	$ 2.11
Multiple: P/E	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x
Implied Fair Value: P/E	$ 10.79	$ 15.10	$ 22.66	$ 21.21	$ 18.12	$ 16.30	$ 16.87
Book Value per Share	$ 2.50	$ 4.42	$ 7.27	$ 9.94	$ 12.22	$ 14.26	$ 16.37
Multiple: P/B	3.0x	2.0x	1.5x	1.5x	1.5x	1.5x	1.5x
Implied Fair Value: P/B	$ 7.50	$ 8.84	$ 10.91	$ 14.91	$ 18.33	$ 21.39	$ 24.55
Implied Fair Value, Mean P/E & P/B	**$ 9.14**	**$ 11.97**	**$ 16.78**	**$ 18.06**	**$ 18.23**	**$ 18.85**	**$ 20.71**
Scenario 2: Core Business & Successful MGA Valuation							
Pre-Tax Income, Core AmCo Business Underwriting Gain	63,136,368	81,917,081	136,111,349	123,042,710	97,822,266	84,268,722	84,910,342
Pre-Tax Income, Net Investment Income	13,034,239	25,511,462	25,914,964	29,164,670	32,661,655	33,811,804	38,126,876
Pre-Tax Income, In-House MGA Business	-	-	1,375,000	6,062,500	13,687,500	19,625,000	24,125,000
Net Income	58,651,367	82,719,978	125,819,011	121,867,807	111,011,994	106,033,255	113,314,908
Earnings per Share	$ 1.35	$ 1.89	$ 2.86	$ 2.76	$ 2.51	$ 2.39	$ 2.55
Multiple: P/E	8.0x	8.0x	10.0x	12.0x	14.0x	15.0x	15.0x
Implied Fair Value: P/E	$ 10.79	$ 15.10	$ 28.56	$ 33.09	$ 35.09	$ 35.83	$ 38.21
Book Value per Share	$ 2.50	$ 4.42	$ 7.30	$ 10.07	$ 12.60	$ 15.00	$ 17.55
Multiple: P/B	3.0x	2.0x	2.0x	2.5x	2.5x	2.5x	2.5x
Implied Fair Value: P/B	$ 7.50	$ 8.84	$ 14.59	$ 25.19	$ 31.49	$ 37.49	$ 43.87
Implied Fair Value, Mean P/E & P/B	**$ 9.14**	**$ 11.97**	**$ 21.58**	**$ 29.14**	**$ 33.29**	**$ 36.66**	**$ 41.04**

(Sources: Estimates of Sohra Peak Investment Management LLC)

Even under a scenario where no credit is given to Dan's new MGA business initiative, we see a clear path to American Coastal's shares appreciating roughly 3x from today's prices to $16.00 – $22.00 or a +180-290% in the next 2-3 years. Should the MGA initiative succeed, AmCo's return potential could be considerably higher.

Valuation Sanity Check: Precedent Transaction of American Coastal Sale to UIHC in 2016

As a sanity check to our valuation assumptions, we are fortunate to have an extremely close precedent transaction comp, which is none other than American Coastal itself and its sale to UIHC in 2016.

In 2016, Dan Peed sold American Coastal to UIHC for a total valuation of $330MM. Based on AmCo's FY15 results, this transaction valued American Coastal at a trailing P/E of 9.6x and P/B of 1.89x for a similarly mature business as the core business we own today. This compares favorably to our long-term valuation multiple assumptions of P/E of 8.0x and P/B of 1.5x. American Coastal also earned a 19% ROE in FY15, as compared to our estimated ROE of 75% in FY23, 54% in FY24, and 53% in FY25, suggesting a higher P/B premium could be warranted.

We also note that since 2016, the average price for a Florida condo or townhome has increased by +91.6%. Given that property valuation is a primary driver of insurance policy price and profit, applying this increase to American Coastal's $330MM valuation would imply a current fair value of $632MM or $14.52/share.

Valuation Sanity Check: American Coastal's Historical Profits

> *"I don't think there's any other Florida property insurance company that can show you results like this."* – Brad Martz, CFO of American Coastal[3]

ACIC Historical Profitability

ACIC has been profitable every year since inception inclusive of major hurricane losses.

$ in thousands ($000)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 ¹	2021 ¹	2022
GAAP Pre-tax income	$ 49,468	$ 45,410	$ 79,316	$ 73,679	$ 52,607	$ 47,567	$ 52,193	$ 27,907	$ 42,299	$ 37,049	$ 38,793	$ 41,478
Direct Loss Ratios:												
Non-CAT	11.1%	5.8%	3.0%	6.6%	11.3%	7.2%	12.1%	14.2%	9.2%	6.7%	4.0%	3.0%
CAT	0.2%	0.6%	0.0%	0.0%	4.9%	4.0%	224.1%	15.4%	8.3%	11.2%	1.7%	65.3%
Total	11.3%	6.4%	3.0%	6.6%	16.2%	11.2%	236.2%	29.6%	17.5%	17.9%	5.7%	68.3%
							Irma	Michael				Ian

(Source: Investor Presentation, American Coastal Insurance Corporation, June 2023)

As another sanity check to our profit and valuation assumptions, we look at American Coastal's historical pre-tax GAAP profits, including those in 2019-2021 adjusted for the UPC loss-pooling arrangement. As pointed out in the above slide, AmCo's 12-year average annual pre-tax income was $49MM, which helps to account for the inherent volatility in AmCo's earnings due to the unpredictable nature of storm losses.

Similar to our previous point made, the average price for a Florida condo or townhome has increased by +59.6% since 2019 alone, and by +68.1% over the average price during the years 2011-2022. Applying this increase of +68.1% to the 12-year pre-tax profit average of $49MM brings us to a present day pre-tax profit of $82MM, or similar to our $84-85MM assumption for pre-tax underwriting profit in FY28 and FY29 following the presumed end of the hard market cycle. We also note that today's higher interest rate environment will allow American Coastal to earn higher investment income.

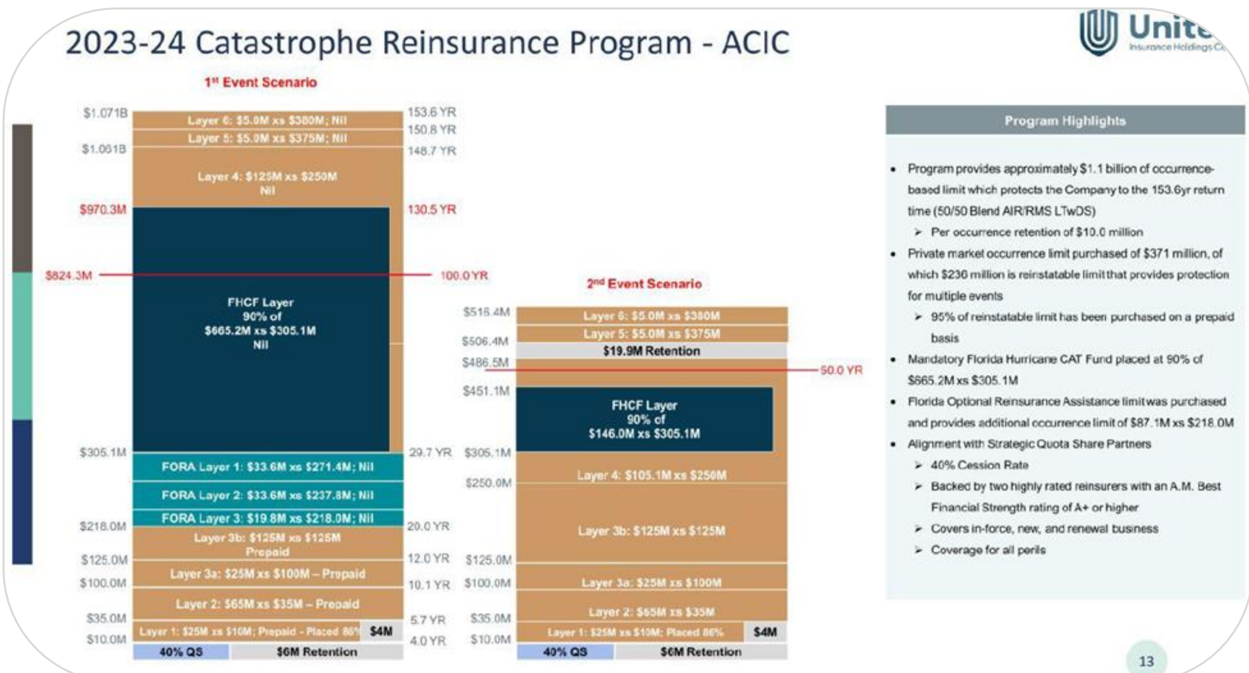
Lastly, we would like to emphasize once again how remarkable it is that American Coastal has never experienced an unprofitable year in its entire 16-year operating history, which no other Florida based catastrophe-focused insurer that we know of can lay claim to. This is largely a testament to the quality of the business, and if anything, we think this higher earnings floor compared to its peers should merit a valuation premium for American Coastal.

<u>Addressing Hurricane Catastrophe & Other Risks</u>

Last though certainly not least in importance, we lay out our framework for how we think about hurricane risk in the context of American Coastal's business, as well as address other perceived risks.

Overview of Reinsurance Limit

In order to have a good framework for thinking about hurricane risk, it is first necessary to understand how American Coastal's reinsurance protection works. Each year, American Coastal purchases reinsurance protection from a handful of reinsurers. Each reinsurer negotiates specific terms with American Coastal including how much reinsurance protection they plan to offer, at which price, and at which "layer" within the carrier's reinsurance "tower" they would provide coverage. Below is American Coastal's reinsurance "tower" for the period from 6/1/2023 to 6/1/2024:



(Source: Investor Presentation, American Coastal Insurance Corporation, June 2023)

As you can see, the reinsurance tower is comprised of many layers of coverage, with each layer covered by one or even multiple reinsurance partners. From a high-level, reinsurance coverage for American Coastal is activated when the carrier incurs policy holder losses due to a "named storm," or in other words a tropical storm or hurricane to which meteorologists always assign a name. The reinsurance coverage begins at the bottom of the tower. For the 2023-24 program, American Coastal and its reinsurers agreed that American Coastal will pay the first $10MM in losses incurred, or "retention," from any named storm.

After that $10MM is exhausted, the reinsurance coverage then moves up the tower to layer 1, which reads "$25MM xs $10MM." The term "xs" stands for "in excess of" which in excess of loss (XOL) reinsurance jargon means that the reinsurer or reinsurers responsible for layer 1 coverage have agreed to cover or reimburse American Coastal for the next $25MM of losses that occurred after the initial $10MM in losses that American Coastal retained as a part of its "retention" layer. Then, layer 2, which reads "$65MM xs $35MM," similarly means that the reinsurer or reinsurers responsible for layer 2 coverage have agreed to reimburse American Coastal for the next $65MM of losses that occurred after the initial cumulative $35MM of losses has been exhausted. In any given hurricane season, tower losses are cumulative across multiple named storms, meaning that if the first storm causes for instance $100MM of losses, then the tower will continue at layer 3a if a second named storm makes landfall.

FHCF and FORA are state-run reinsurance programs. FHCF has existed for many years and was created by the state to help provide carriers with accessible reinsurance, and FORA was introduced just last year in light of hard market conditions to help carriers secure affordable reinsurance.

The word "prepaid" in layers 1 through 3a means American Coastal has already paid for those reinsurance coverages to replenish if they get exhausted, essentially adding another $250MM in total reinsurance capacity assuming the company incurs multiple storms. In addition, should reinsurance limit become particularly exhausted after any given storm, American Coastal can always purchase additional reinsurance mid-season and between storms, which is cheaper to acquire as well given the partial completion of hurricane season.

The most important numbers here in the context of risk are the numbers at the very top of the 1st event reinsurance tower, which are $1.071B and 153.6 YR. The figure $1.071B represents the total reinsurance coverage for losses, excluding prepaid reinsurance, that American Coastal has pre-negotiated ahead of this year's hurricane season. In other words, for any single-hurricane losses up to $1.071B, American Coastal has 100% coverage for these losses from its reinsurance partners beyond the initial $10MM retention expense. 153.6 YR refers to the rarity of the storm that the industry's actuarial models have concluded would cause $1.071B of direct losses for American Coastal. This can be thought of as a storm that occurs every 1-in-153.6 years, or in probabilistic terms, a 0.65% probability that a storm of this severity will occur this hurricane season.

Hurricane Ian Would only Exhaust 30% of AmCo's Reinsurance Limit Today

To help put recent events in perspective with American Coastal's reinsurance program, we break down Hurricane Ian and how we calculate it would have impacted American Coastal's 2023-24 reinsurance program. We think comparing Ian's theoretical impact to the 2023-24 reinsurance program makes sense because of the key industry reforms that have taken place over the past year and which more accurately reflects how a storm occurring today would impact American Coastal.

As previously mentioned, Hurricane Ian was the most damaging hurricane in Florida's history. According to NOAA's final loss estimate, Ian caused a total of $112B in damage across the state.[21] This was almost double the total damage dealt by Hurricane Irma (2017), which was the second-costliest hurricane to ever strike the state of Florida, and double the damage dealt by the infamous Hurricane Andrew (1992), the third-costliest hurricane to ever strike Florida.[22] All numbers are expressed in inflation-adjusted terms.

(21) Source: NOAA, *National Hurricane Center Tropical Cyclone Report, Hurricane Ian.* *www.nhc.noaa.gov/data/tcr/AL092022_Ian.pdf*.

Despite Ian's devastation, not only was American Coastal's business profitable, but we calculate that Ian would have only exhausted 30% of American Coastal's reinsurance tower today.

As of February 2023, AmCo estimated that Ian caused $679MM of losses to American Coastal's insureds. While management believes this number is a conservative overestimate, we will assume this as the final number. In order to compare this figure apples-to-apples to American Coastal's 2023-24 reinsurance program, we make three adjustments:

1. Legal Reform: As discussed, in December 2022, Florida passed legislation that got rid of the horrible one-way attorney fees clauses and AOB agreements, which will lead to significantly reduced losses & LAEs for insurance carriers. AmCo's CEO estimates that the company's losses & LAEs will be reduced by 25% as a result.

2. Fewer Policies: As part of the aftermath of the UPC deconsolidation, American Coastal had to shed approximately 15% of its policies over the past year through June 30, 2023 in order to help maintain adequate capital ratios. While the company plans to re-gain this shed market share, in the meantime, all else equal, it will also accordingly incur fewer losses this hurricane season than it did last.

3. Increase in Policy Deductible Limit: In an effort to reduce policy premiums for insureds, last year Florida passed legislation that raised the policy deductible limit for American Coastal's commercial-residential segment from 5% to 10%. Based on our conversations with management, we gather that AmCo plans to raise its deductibles to 7.5-10.0% for about one-third of its policies which should have an overall effect of reducing annual losses by about 25% based on our estimates.

Taken together, we arrive at a total loss estimate down from $679MM to $325MM, or just 30% of this year's $1.071B reinsurance limit. We think this is an important concept to grasp, because one way we interpret this analysis is that in order for a hurricane to test the upper limits of American Coastal's reinsurance program, it would have to wreak more than 3.3x as much damage as Hurricane Ian, which was already the most devastating hurricane in Florida's history by an order of magnitude.[1]

Addressing the Existential-Risk Hurricane to American Coastal

We do have an opinion on the specifically bad storm that would pose a threat to American Coastal's existence, along with the entire state of Florida's insurance and reinsurance industry, and the exact characteristics of the storm that we believe would have to be included. We also present this as good news, because from an investment perspective we think this risk can be isolated and hedged out, which effectively removes what we view as this only true threat to American Coastal's business.

In our view, a hurricane that could pose a threat to American Coastal's existence would likely have to contain all of the following elements:

a. Category 5 strength.

(22) Source: News-Press, *Where Category 4 storm ranks*. https://bit.ly/3KxySWl.

b. Make direct landfall on southeast Florida, specifically on Miami-Dade, Broward, and Palm Beach counties which altogether account for 28% of Florida's population.

c. A hurricane path after landfall that continues to move deep inland into Florida.

Category 5 Strength

Historically speaking, it is extremely rare for a category 5 hurricane to make landfall. Since 1856, just five category 5 hurricanes have made landfall in the United States, three of which have been in Florida. These storms were the Labor Day Hurricane in 1935, Hurricane Andrew in 1992, and Hurricane Michael in 2018. The table below shares the history of hurricanes that have made landfall by state through 2008.

KBRA KROLL BOND RATING AGENCY

Appendix B: Hurricane Information

Hurricane Impacts by State (1856-2008)

	Category of Hurricane					Climatological Probability (Using Poisson)		Current-Year Probability (Using Poisson)	
			Major (MH)						
State	**Cat. 1**	**Cat. 2**	**Cat. 3**	**Cat. 4**	**Cat. 5**	**H**	**MH**	**H**	**MH**
Texas	25	17	12	7	0	33%	12%	41%	15%
Louisiana	21	15	15	3	1	30%	12%	38%	15%
Mississippi	4	6	6	0	1	11%	4%	14%	6%
Alabama	17	5	4	0	0	16%	3%	20%	3%
Florida	41	32	28	6	2	51%	21%	61%	27%
Georgia	11	5	1	1	0	11%	1%	14%	2%
South Carolina	17	6	4	2	0	17%	4%	22%	5%
North Carolina	25	14	11	1	0	28%	8%	36%	10%
Virginia	7	2	1	0	0	6%	1%	8%	1%
Maryland	1	1	0	0	0	1%	<1%	2%	<1%
Delaware	2	0	0	0	0	1%	<1%	2%	<1%
New Jersey	2	0	0	0	0	1%	<1%	2%	<1%
New York	6	1	5	0	0	8%	3%	10%	4%
Connecticut	5	3	3	0	0	7%	2%	9%	3%
Rhode Island	3	2	4	0	0	6%	3%	8%	3%
Massachusetts	6	2	3	0	0	7%	2%	9%	3%
New Hampshire	1	1	0	0	0	1%	<1%	2%	<1%
Maine	5	1	0	0	0	4%	<1%	5%	<1%

Source: William Gray's Tropical Meteorology Research Project at Colorado State University and the GeoGraphics Laboratory at Bridgewater State University

We also point out how Florida's string of major hurricanes from 2017 to 2022 has been truly unusual, even in the context of recent history. Prior to 2017, Florida hadn't seen a major hurricane make landfall since the unlucky string of major hurricanes in 2004-05, and prior to that hadn't seen such a storm since 1995.

Florida major hurricanes

Storm	Saffir–Simpson Category†	Date of Landfall (UTC)	Year	Landfall Intensity (in Knots)	Landfall Location
Ian	4	September 28	2022	130	Cayo Costa
Michael	5	October 10	2018	140	West of Mexico Beach
Irma	4	September 10	2017	115	Cudjoe Key
Dennis	3	July 10	2005	105	Santa Rosa Island
Wilma	3	October 24	2005	105	Cape Romano
Charley	4	August 13	2004	130	Cayo Costa
Ivan	3	September 16	2004	105	West of Gulf Shores, Alabama*
Jeanne	3	September 26	2004	105	Hutchinson Island
Opal	3	October 4	1995	100	Pensacola Beach
Andrew	5	August 24	1992	145	North of Homestead
Elena	3	September 2	1985	100	Gulfport, Mississippi*
Eloise	3	September 23	1975	110	East of Destin
Alma	3	June 8	1966	100	Dry Tortugas*
Betsy	3	September 8	1965	100	Tavernier
Donna	4	September 10	1960	125	Conch Key

(Source: Wikipedia)

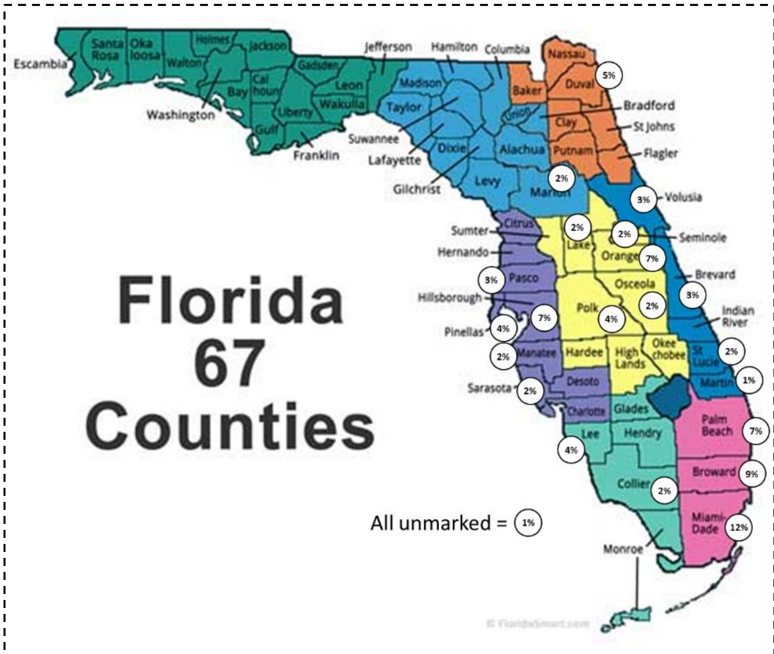
It is possible that for unknowable reasons, such as climate change, warmer waters, or other meteorological phenomena, hurricanes could now be more likely and/or severe than they had been historically. Based on our conversations with those who had spent a great deal of time researching this and in some cases have internal hurricane experts or PhDs on staff, the consensus we had received was that even if hurricane risk were now structurally higher, the series of major hurricanes from 2017 to 2022 was statistically improbable and downright bad luck.

> *"Our hurricane expert internally, his opinion on it is that even if hurricanes are more likely to happen in increased severity and frequency, what's happened over the last 5-6 years in Florida is just a streak of really bad luck. I don't think anyone thinks that a permanent shift, such as climate change, is really that bad."* – Associate, Insurance Rating Agency

<u>Direct Landfall on Southeast Florida</u>

When a hurricane makes landfall, unless the storm moves back towards ocean, the lack of water underneath it causes the storm to rapidly weaken as it stays over land. This is why a hurricane is at its most devastating form to the region over which it first makes landfall, and more forgiving to those regions it strikes as it moves further inland.

This is important to our risk analysis because among all of the coastal Florida regions, southeast Florida contains by far the highest concentration of the state's population, and therefore property risk, with 28% of all residents living among Miami-Dade, Broward, and Palm Beach counties, known as the "tri-county."



(Source: Florida Demographics by Cubit)

We estimate that American Coastal has approximately 25% of its policies within the tri-county which is proportionate with the state's population demographics. For this reason, we believe that not only would an existential-risk hurricane have to be of historical strength, but it would also have to make direct landfall on the tri-county where American Coastal's risk, and also the entire state's insurance industry risk, is greatest.

Among the category 5 hurricanes that have made landfall on Florida, only one, Hurricane Andrew in 1992, made landfall on the tri-county. Interestingly, while Andrew ravaged Miami-Dade county, it left Palm Beach in much better shape, which makes us appreciate just how specifically bad of a path, even upon landfall, a hurricane would have to take in order to devastate the entire tri-county.

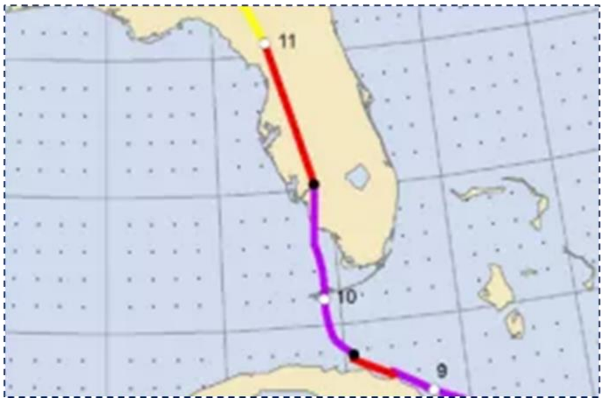
<u>Continue Deep Inland into Florida</u>

Lastly, even if a hurricane were both category 5 and made landfall upon the tri-county, we think that the final element of continuing deep inland into Florida would be necessary in order to firmly pose an existential threat to American Coastal and the Florida property insurance industry.

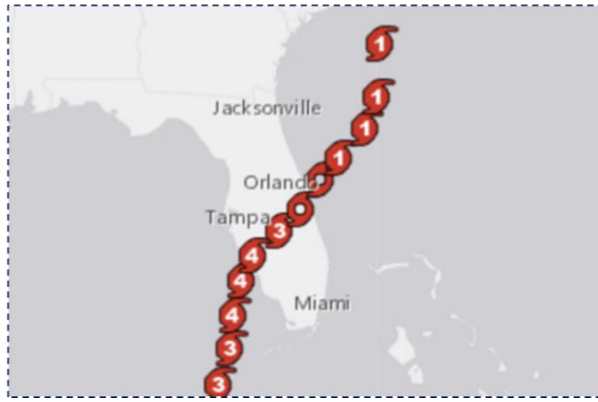
The key reason why Hurricanes Ian of 2022 and Irma of 2017 were the #1 and #2 costliest hurricanes, respectively, in Florida's history, was because besides both being category 4 hurricanes upon landfall, both also continued inland into Florida all the way until they weakened into tropical storms.

Below were Irma's and Ian's respective paths:

Hurricane Irma, 2017



Hurricane Ian, 2022

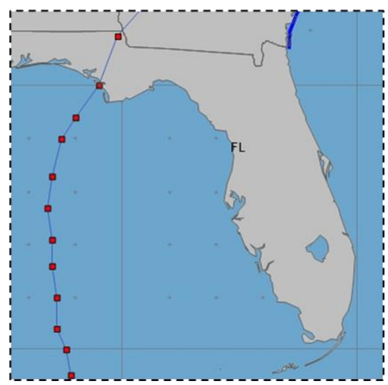


In contrast, none of Florida's historical category 5 hurricanes remained on land for long, which is a key reason why none of them rank as Florida's costliest hurricane despite being the very strongest.

Labor Day Hurricane, 1935

Hurricane Andrew, 1992

Hurricane Michael, 2018



The Labor Day Hurricane skimmed southeast Florida and parts of the western coastline, Hurricane Andrew only graced the state's southern-most vicinity, and Hurricane Michael only struck the Florida panhandle. In our view, this illustrates the importance of the hurricane's specific path in addition to its strength and area of initial landfall.

<u>Putting it All Together: An Unprecedented Storm</u>

As demonstrated, combining all three of these outlined elements into one storm has never occurred in Florida's history, and should it ever occur we believe would result in the most devastating hurricane to ever make landfall on the state of Florida. While this outcome is not impossible, we hope breaking down the ingredients that we think are necessary for an existential-risk hurricane helps to make more sense of why insurance industry actuaries assign an exceedingly unlikely 1-in-153.6 year or 0.65% annual probability to the occurrence of such a storm.

Given that we view this outcome as the only credible threat to American Coastal's business model and future profits, we believe that the ability to identify and isolate this risk is good news, for two reasons.

The first reason is because we believe we are able to hedge out this risk through the use of short selling shares and/or purchasing deep OTM put options on other publicly traded property insurance businesses with similar or greater Florida exposure as American Coastal to an existential-risk hurricane. Without revealing specifically which companies and/or instruments we used to create our hedge, we sleep well at night knowing that should such a catastrophic storm occur, we wouldn't expect to lose much money on our investment in American Coastal.

The second reason is because, from a probabilistic perspective, even when including the odds of an existential hurricane occurring, we see the odds of success in this investment as heavily in our favor. Let's assume that, in a worst case scenario, AmCo's share price would go to $0. Before that event were to occur, in order to recoup 100% of our investment through return of capital to shareholders alone, based on today's market cap and our statutory surplus calculations we estimate that from Q2 2023 forward, it would take 12 quarters for us to receive back 100% of our initial investment through return of capital to shareholders. If the probability in any given year of an existential-risk hurricane occurring is 0.65%, then the probability of this event not occurring for three consecutive years, and thus the probability of us breaking even or better on this investment, is 98.1%. In reality, when adding the element of our hedged position to this equation, the odds of us making money are far greater than this, as there is almost no scenario where we estimate that we would actually lose money should the business produce the profits that we think it will.

Lastly on this subject, we think it is important to note that should an unprecedented hurricane of this prototype devastate Florida on an epic scale, we are almost certain that the state would have to step in as every property insurance carrier and reinsurer with significant exposure to Florida would likely become insolvent. Equity holders could still face the prospect of getting wiped out, but it is hard to imagine that the state wouldn't provide bailouts of some form to the insurance companies.

American Coastal's Strong Reinsurance Partners

One area of risk assessment for an insurance carrier is the strength of its reinsurance coverage partners. Hypothetically, if one of the carrier's major reinsurers becomes insolvent and can no longer reimburse the carrier for its losses, then the carrier itself could face insolvency if it isn't able to cover those losses themselves. We believe this not a risk at all for American Coastal thanks to the diversification and strength of its reinsurance partners, who are listed below along with their corresponding reinsurance recoverable amounts owed to American Coastal as of December 31, 2022:

Federal ID #	NAIC #	Name of Reinsurer	Amount
95-3187355	35300	ALLIANZ GLOBAL RISKS US INS CO	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 RUECK SE	23,030,992
AA-3190871	00000	LANCASHIRE INS CO LTD	3,012,425
AA-1120083	00000	LLOYD'S SYNDICATE NUMBER 1910	6,201,837
AA-1128987	00000	LLOYD'S SYNDICATE NUMBER 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

(Source: American Coastal, Statutory Annual Statement, 2022)

Almost all of AmCo's reinsurance recoverables here are due from a combination of the state of Florida (FHCF), which is a virtually risk-free counterparty, along with Munich Re, Hannover Rueck, Allianz Global, Transatlantic Reinsurance, and Markel, all of whom have A+ ratings from A.M. Best, the gold standard insurance rating agency. We do not view reinsurance counterparty insolvency as a risk to American Coastal, and we note that our research indicates that reinsurers like partnering with American Coastal. According to a Vice President at Swiss Re, "reinsurers like stable, profitable businesses with good people running them." We also note that American Coastal's quota share reinsurance partners are Berkshire Hathaway and Arch Re, both of whom have stellar reputations in the insurance industry.

Severing of the AmRisc-AmCo Relationship

Theoretically, an end to the relationship between AmRisc and AmCo would be quite bad for American Coastal, given it would dissolve most or all of American Coastal's competitive advantages and sources of high business quality. As mentioned, we see the only scenario where this happens as one where Dan Peed for some reason is no longer CEO or Chairman of American Coastal.

Florida Admitted Carrier Pricing Exemption

As an admitted carrier that sells policies with TIV >$5MM, American Coastal is not required to submit policy price changes with the state of Florida. This allows AmRisc & American Coastal the flexibility and ability to underwrite more risks than they otherwise would and capture more margin where appropriate. A repeal of this exemption could be viewed as a risk to AmCo's business model. Based on our research, we don't believe this exemption is at any risk of being repealed. One source we spoke with felt strongly about the staying power of this exemption: "There is no chance this exemption goes away. It is not just a Florida thing either, it exists in all 50 states without any federal mandate."

Monitoring Florida's Legal Environment

The legal environment in Florida has been a source of fraud and abuse, as we have seen in the period from 2017 to 2022. While recent reform in the legal arena has been overwhelmingly positive, we realize that the Florida legal environment is changing frequently and should be monitored as a source of potential risk.

Appendix A: Basic Insurance Terminology

a) **Retention**: Insurance retention means that you, as an insured company, will be responsible for paying claims against you up to a certain dollar amount. For claims that go beyond that dollar amount, the insurance company handles the claims.

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

c) **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. Unearned premiums appear as a liability on the insurer's balance sheet because they would be paid back upon cancellation of the policy. For example, at the end of the first year of a fully prepaid five-year insurance policy with insurance premiums of $2,000 per year, the insurer has earned a premium of $2,000 and has an unearned premium of $8,000.

d) **Ceded Premiums:** Ceded premiums refer to premiums paid or payable by the captive to another insurer for reinsurance protection.

e) **Cession**: Cession refers to the transfer of part of an insurance company's obligations to a reinsurer. This allows the ceding company to reduce its exposure, so that risk is distributed among two or more companies instead of falling upon a single insurer.

f) **Excess of Loss**: Excess of loss reinsurance is a type of reinsurance in which the reinsurer indemnifies–or compensates–the ceding company for losses that exceed a specified limit. Excess of loss reinsurance is a form of non-proportional reinsurance. Non-proportional reinsurance is based on loss retention. With non-proportional reinsurance, the ceding company agrees to accept all losses up a predetermined level.

g) **Probable Maximum Loss (PML)**: Probable maximum loss (PML) is the maximum loss that an insurer would be expected to incur on a policy. Probable maximum loss (PML) is most often associated with insurance policies on property, such as fire insurance or flood insurance.

h) **Insurance-to-Value**: The amount approximating the actual replacement cost of insured property. It is an important concept applied in insurance to ensure that an insurance policy adequately covers and protects the value of a property (i.e., building) in the event of a partial or total loss.

i) **Quota Share Treaty**: A quota share treaty is a pro-rata reinsurance contract in which the insurer and reinsurer share premiums and losses according to a fixed percentage. Quota share reinsurance allows an insurer to retain some risk and premium while sharing the rest with an insurer up to a predetermined maximum coverage. Overall, it's a way for an insurer to boost and preserve some of its capital.

j) **Loss Adjustment Expense (LAE)**: A loss adjustment expense (LAE) is a cost that insurance companies incur when investigating and settling an insurance claim. There are two types of loss adjustment expenses—allocated and unallocated. Allocated costs accumulate during active claim investigations; unallocated costs are part of the investigation overhead. Some loss adjustment expenses are recouped by insurance companies by requiring the policy holder to pay them.

k) **Rate On Line**: Premiums (ceded to reinsurers) divided by indemnity (losses recoverable to insurance company by reinsurance company). Rate on line (ROL) is the ratio of premium paid to loss recoverable in reinsurance contracts, which signals how much money an insurer must pay to obtain reinsurance coverage. A high ROL indicates that the insurer must pay more for coverage, while a low ROL means an insurer pays less for that same coverage.

Appendix B: Breakdown of Earnings Estimates

The basis for our earnings estimates begins with our estimates for American Coastal's future gross written premiums (GWP) each year. In the Florida insurance industry, given reinsurance capacity gets renewed each year on June 1, insurance carriers accordingly think about their annual business plans with June 1 as a start and end date. AmCo management has pointed to $700MM of GWP as a reasonable number for the 12 months beginning 6/1/2023, and we estimate GWP in future years based on assumptions for annual changes in property valuations, market share, and market pricing conditions, the three key drivers of GWP.

Core Business P&L Economic Breakdown									
Calendar Year → Fiscal Year	**12 Months Ending 6/1/2022**	**5 Months Ending 6/1/2023**	**12 Months Ending 6/1/2024**	**12 Months Ending 6/1/2025**	**12 Months Ending 6/1/2026**	**12 Months Ending 6/1/2027**	**12 Months Ending 6/1/2028**	**12 Months Ending 6/1/2029**	**12 Months Ending 6/1/2030**
Gross Premium Written	507,716,000	610,000,000	700,000,000	728,000,000	640,640,000	560,560,000	543,743,200	581,805,224	622,531,590
% Change Attribution to ⊿ in Property Valuations			10.8%	-5.0%	-3.5%	4.0%	5.0%	5.0%	5.0%
% Change Attribution to ⊿ in Market Share			2.9%	9.0%	6.5%	3.5%	2.0%	2.0%	2.0%
% Change Attribution to ⊿ in Hard/Soft Market Pricing			1.0%	0.0%	-15.0%	-20.0%	-10.0%	0.0%	0.0%
% Change YoY		20.1%	14.8%	4.0%	-12.0%	-12.5%	-3.0%	7.0%	7.0%
Gross Premium Earned		230,000,000	655,000,000	714,000,000	684,320,000	600,600,000	552,151,600	562,774,212	602,168,407
% Change YoY				-8%	4%	14%	9%	-2%	-7%
XOL Return to Market Pricing for ACIC				30,000,000	10,000,000				
Private XOL (Excess of Loss) Reinsurance Expense		(47,083,333)	(127,000,000)	(135,100,000)	(124,739,733)	(115,567,694)	(124,556,293)	(133,275,233)	(142,604,499)
One-Time FORA Price Negotiation				10,000,000					
YoY Change in TIV				4.0%	3.0%	7.5%	7.0%	7.0%	7.0%
FORA/FHCF Reinsurance Expense		(22,916,667)	(100,000,000)	(94,000,000)	(96,820,000)	(104,081,500)	(111,367,205)	(119,162,909)	(127,504,313)
Total XOL Reinsurance Expense		(70,000,000)	(227,000,000)	(219,100,000)	(221,559,733)	(219,649,194)	(235,923,497)	(252,438,142)	(270,108,812)
Quota Share Reinsurance Expense		(23,000,000)	(262,000,000)	(178,500,000)	(102,648,000)	(60,060,000)	-	-	-
% of Gross Premium Earned	18%	10%	40%	25%	15%	10%	0%	0%	0%
Net Premiums Earned		**137,000,000**	**166,000,000**	**316,400,000**	**360,112,267**	**320,890,806**	**316,228,103**	**310,336,070**	**332,059,595**

(Source: Estimates of Sohra Peak Investment Management LLC)

From there, we estimate AmCo's future annual reinsurance ceding costs through both private excess of loss (XOL) and state-offered FORA/FHCF reinsurance channels. Importantly, this June 1st annual cycle, American Coastal is engaging in a 40% quota share agreement with two reinsurers, Berkshire Hathaway and Arch Re, which cedes 40% of all of AmCo's gross premium earned (GPE) to those two reinsurers, and in exchange the reinsurers agree to cover 40% of AmCo's insurance loss costs and a 34% reimbursement for AmCo's policy acquisition costs paid to AmRisc. AmCo engaged in this 40% quota share due to its low equity reserves, which will be a temporary and significant headwind to earnings. As AmCo's equity surplus builds in future years, we forecast its quota share stepping down, which will boost AmCo's profits.

As a sanity check for our reinsurance cost assumptions, we compare our ceding ratio estimates, or premiums ceded to reinsurers divided by gross premiums earned, to those in previous years. Years 2023-2025 are unusually high due to AmCo's quota share agreements given quota share premiums paid to reinsurers are considered ceded premiums. The key sanity check here is to ensure future years are not meaningfully below historical year averages, which would imply unreasonably low reinsurance costs.

American Coastal Insurance Corporation																			
Assumptions	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Income Statement																			
Ceding Ratio (CPE/GPE)	-45%	-48%	-41%	-43%	-44%	-39%	-42%	-44%	-47%	-49%	-60%	-55%	-62%	-63%	-51%	-47%	-44%	-44%	-45%

(Source: Estimates of Sohra Peak Investment Management LLC)

Policy acquisition costs represent AmCo's fixed commission rate paid to AmRisc in exchange for underwriting AmCo's policies and providing other services for policy holders. We then forecast attritional losses, or losses due to run-of-the-mill events such as burst pipes that are anything other than named-storms, based off of historical averages and our forward-looking assumptions for year-on-year changes in property valuation with future benefits of the AOB and one-way attorney fees legal reform.

Core Business P&L Economic Breakdown									
Calendar Year → Fiscal Year	**12 Months Ending 6/1/2022**	**5 Months Ending 6/1/2023**	**12 Months Ending 6/1/2024**	**12 Months Ending 6/1/2025**	**12 Months Ending 6/1/2026**	**12 Months Ending 6/1/2027**	**12 Months Ending 6/1/2028**	**12 Months Ending 6/1/2029**	**12 Months Ending 6/1/2030**
Less: Policy Acquisition Costs to AmRisc		(57,500,000)	(163,750,000)	(178,500,000)	(171,080,000)	(150,150,000)	(138,037,900)	(140,693,553)	(150,542,102)
% of Premium Written (Incl. Regulatory Fees & Tax)		*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Add: Ceding Commissions from QS		13,110,000	89,080,000	60,690,000	34,900,320	20,420,400	-	-	-
% of QS		*57%*	*34%*	*34%*	*34%*	*34%*	*34%*	*34%*	*34%*
Reported Policy Acquisition Costs		**(44,390,000)**	**(74,670,000)**	**(117,810,000)**	**(136,179,680)**	**(129,729,600)**	**(138,037,900)**	**(140,693,553)**	**(150,542,102)**
Change in Property Valuations YoY			10.8%	-5.0%	-3.5%	4.0%	5.0%	5.0%	5.0%
Legal Reform One-Time Reduction of Loss Costs, %			-20.0%	-15.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal Reform One-Time Reduction of Loss Costs, $			11,767,442	8,825,581	-	-	-	-	-
Attritional Losses, Gross before Quota Share (QS)		(58,837,209)	(53,432,124)	(41,934,937)	(40,467,214)	(42,085,903)	(44,190,198)	(46,399,708)	(48,719,693)
Attritional Losses, Losses Borne by QS Reinsurers			21,372,850	10,483,734	6,070,082	4,208,590	-	-	-
Less: Attritional Losses		**(22,000,000)**	**(32,059,275)**	**(31,451,203)**	**(34,397,132)**	**(37,877,312)**	**(44,190,198)**	**(46,399,708)**	**(48,719,693)**
Number of Named Events		-	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)
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)
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)
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
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		**-**	**(18,000,000)**	**(18,750,000)**	**(21,250,000)**	**(22,500,000)**	**(25,000,000)**	**(25,000,000)**	**(25,000,000)**

(Source: Estimates of Sohra Peak Investment Management LLC)

Catastrophe (CAT) losses is the most variable expense line item given the end result has a wide range depending on whether any major hurricanes make landfall on Florida in a given year. Since all direct property damage losses under the company's reinsurance limit are covered by the reinsurance companies, AmCo's CAT losses mainly stem from loss-adjustment expenses (LAEs), which are the costs associated with administering, determining coverage for, settling, or defending claims, and are directly correlated with the magnitude of claims in a given year. To give an example, in 2022, despite Hurricane Ian inflicting $679MM in property losses to AmCo's policy holders, AmCo was only responsible for covering $16.4MM of that figure due to its reinsurance agreements, and paid an additional $27MM in LAEs. Therefore, the net CAT Losses line item might vary anywhere from $0-45MM, though not astronomically high.[1] AmCo also did not have a quota share agreement in 2022, which would have reduced both the $16.4MM and $27MM costs by 40%. We are forecasting an average of $25MM/year in net CAT losses before quota share.

Appendix C: Difference in Policy Coverage & Admitted vs. E&S Insurance Carriers

When an underwriter presents a policy to the broker, there are three main levels of coverage that the underwriter can offer.[1]

1. Basic-form policy: A basic-form policy offers the least coverage for the insured. It states specifically what is covered under the policy. Everything not specifically mentioned in a basic-form policy is not covered by the insurer
2. Broad-form policy: A broad-form policy is similar to a basic-form policy in that it states specifically what is covered under the policy, though offers broader coverage than a basic-form policy.
3. Special-risk policy: A special-risk policy offers the most comprehensive coverage for the insured. It offers coverage for all scenarios except for those which the policy explicitly excludes.

One reason why the post-2005 market was so unattractive to the garden style commercial-residential properties was because over half of all insureds had to resort to Citizen's, the state-owned insurer, for insurance, and Citizen's only offers basic-form coverage.[1] According to direct competitors we spoke with, American Coastal's policies are special-risk which offers insureds the highest level of coverage.[1]

There are also two main types of insurance carriers that operate in any given insurance market, including in this the garden style commercial-residential market:

1. Admitted Carrier: An admitted insurance carrier is licensed and approved by the state's insurance department. The state verifies the carrier's policy forms, rates, and requirements. The carrier is also backstopped by the state which agrees to guarantee coverage for the carrier's insureds should the carrier become insolvent. Insurance brokers are required by law to present admitted carrier policy quotes to their clients before presenting E&S policy quotes.
2. Excess & Surplus (E&S) Lines Carrier: An E&S carrier is not licensed or approved by the state's insurance department and its insureds are not backstopped by the state. Carriers typically opt to sell policies under E&S lines if the target insurance market is perceived as too risky or difficult to underwrite under the state insurance department's coverage requirements. E&S policies are typically more expensive than admitted policies and offer less comprehensive, more flexible coverage terms.

Other key differences between admitted and E&S carriers:

- Many condo and HOA boards have written bylaws that include clauses which require them to only purchase policies from admitted carriers because of their state backstop which guarantees continued coverage for existing policy holders should the admitted carrier become insolvent.
- Brokers are required by law to show admitted policy quotes to their insured customers first before showing them E&S policy quotes, although in practice this rule is not always followed.

- The split between admitted-E&S policies that property owners purchase is typically 80%-20%. During hard markets such as the current one, this split may lean closer to 60%-40%.[1]
- E&S carriers are not required to file policy pricing changes with the state, while admitted carriers typically do and must price within certain boundaries of the state's pricing models. For property TIVs >$5MM, such as American Coastal's average customer, admitted carriers are exempt from having to file pricing changes with the state and having to price within any boundaries.
- E&S policy coverage terms and forms are not reviewed by the state. This removes a layer of protection for customers which means that brokers and insureds generally have a higher degree of responsibility to read and interpret the policies they receive, and to trust that they are being appropriately covered and not taken advantage of by the E&S carrier.
- E&S insurance markets generally serve the purpose of providing alternative policy options for properties who do not receive any quotes from admitted carriers, usually because that particular property is perceived as too risky or challenging to profitably underwrite by any admitted carriers.
- E&S carriers pay a 5% surplus lines tax to the state which admitted carriers don't incur.
- E&S carriers enjoy the freedom of not being beholden by the state, including the freedom to exit a given state's insurance market much more easily should they so choose.
- In Florida, Citizen's insurance is typically considered alongside E&S options if an insured is not offered any policies from admitted carriers. As a Florida rule, if an insured receives either an admitted or E&S quote for a similar policy from a private carrier that is priced either below or less than 20% higher than the Citizen's policy, then that insured must purchase that policy and is not eligible for a Citizen's policy. Citizen's is intended as the insurer of last resort.

Appendix D: Insider Ownership

Dan Peed and his wife together own 48.2% of American Coastal's outstanding shares.

American Coastal's executive officers and board of directors altogether own 55.2% of the company's outstanding shares.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Common Stock Ownership
Directors		
Gregory C. Branch[1]	2,282,099	5.3 %
Alec L. Poitevint, II[2]	1,544,944	3.6 %
Kern M. Davis, M.D.	284,644	*
Michael R. Hogan	338,754	*
William H. Hood, III[3]	955,206	2.2 %
Sherrill W. Hudson	158,403	*
Patrick F. Maroney	69,750	*
Kent G. Whittemore[4]	374,885	*
Named Executive Officers		
R. Daniel Peed[5]	17,326,336	40.0 %
B. Bradford Martz	130,923	*
Brooke Adler	5,000	*
Christopher Griffith	52,662	*
Directors and Executive Officers as a Group (15 persons)	23,876,660	55.2 %

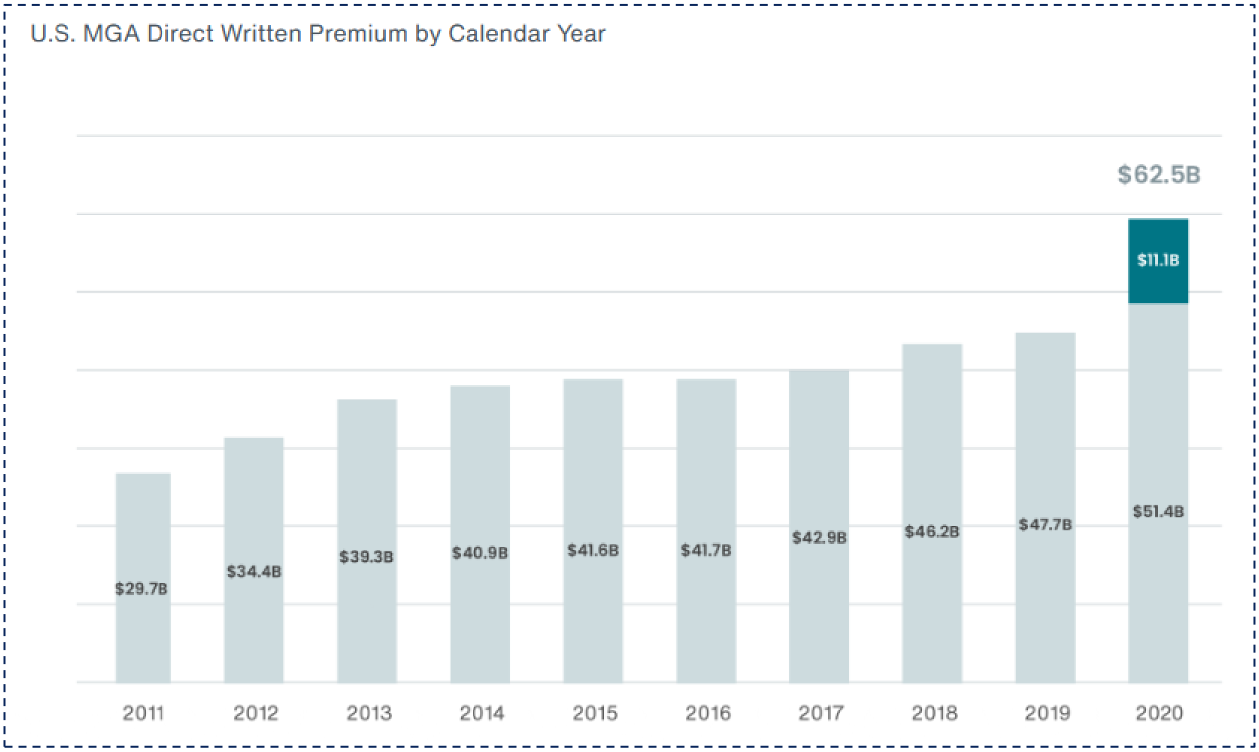
*Represents less than 1%.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Common Stock Ownership
R. Daniel Peed 800 2nd Ave S St. Petersburg, FL 33701	17,331,336	40.1 %
Leah Anneberg Peed[1] 20402 Hwy 249, Ste. 430 Houston, TX 77070	3,487,837	8.1 %
Gregory C. Branch 800 2nd Ave S St. Petersburg, FL 33701	2,282,099	5.3 %

(Source: SEC Filings)

Appendix E: MGA Business Model is Expanding

Growth of MGA Direct Written Premiums in U.S.:



(Source: Aon, The MGA Marketplace and Model of Choice)

"If you read insurance industry publications, the MGA market is growing as opposed to carriers going direct. This is because carriers are learning that, one, employees are learning that you can make more money at an MGA, that's just how it is. They pay better than insurance companies do. And then, two, insurance companies are realizing that this is where all the talent is going. They're going to the MGAs. And they're having difficulty hiring. More and more of the industry is going towards the MGA model." – CEO of Regional MGA

Appendix F: Breakdown of Responsibilities between American Coastal and AmRisc

(Source: American Coastal Insurance Corporation, Investor Presentation, June 2023)

Appendix G: VAR Additional Select Quotes

Below are select additional quotes from our due diligence that we found added value to our analysis:[1]

"Customers do know that AmRisc and American Coastal are who they want to be with. When I was competing against them, I actually on two occasions, I really wanted to win a quote. And as the President of the company this wasn't typical, but I actually went with the broker to present the quote to the insured. It was a management team that I had to go present to. And I had a better quote than American Coastal did. I tried to give every opportunity for them to go with my quote instead of American Coastal's. And the President board really just said, "Look, we like your quote, we like you. But at the end of the day, we just want to be with American Coastal and AmRisc. We feel comfortable with them. We've been with them for a long time. And we know that if something happens, they always pick up the phone, and they pay claims." And so it's tough to compete with. It was annoying, I'll be honest." – Former Head of Commercial-Residential Insurance at UVE

"I think they [American Coastal] know what they're doing and they do a good job of risk selection." – SVP Product Management, American Integrity Insurance Company

"I wouldn't see any scenario in at least the next three years where AmRisc is not controlling the market." – Former Reinsurance Broker

"Brad is a very capable CFO. He was a really good guy. I thought he was extremely capable. I know I'd work for him again. He seemed to really understand the nuts and bolts of things." – Former VP of Underwriting at UPC

"I would have every confidence Dan could recreate every success that he had on the commercial lines. … I think he could do it. On commercial lines, I wouldn't bet against him. I think he knows the market and he knows how to use the resources available to be successful." – Former VP of Underwriting at UPC

"We suspended the dividend during the financial crisis we had with United last year. And as we generate underwriting profits and free cash flows as well as complete the potential sale of Interboro Insurance Company, that's going to reload the war chest. I think the strategy from a strategic capital management perspective, stock buybacks, debt buyback could be a compelling use of money in that situation." – Brad Martz, CFO of American Coastal[3]

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