



HERITAGE<sup>®</sup>  
INSURANCE

# Investor Presentation

(NYSE: HRTG)

March 2020



# SAFE HARBOR

Statements in this presentation that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “approximate,” “plan,” “intend,” “could,” “would,” “estimate,” or similar expressions are intended to identify forward-looking statements. Forward looking statements include, but are not limited to, statements about the Company’s expectations with regard to net investment income, underwriting margins and capital to support future premium growth and expansion initiatives. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause the Company’s actual results to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among other things, risks related to the possibility that actual losses may exceed reserves; the concentration of the Company’s business in coastal states, which could be impacted by hurricane losses or other significant weather-related events such as northeastern winter storms; the Company’s exposure to catastrophic weather events; increased costs of reinsurance, non-availability of reinsurance, and non-collectability of reinsurance; the Company’s failure to effectively manage its growth and integrate acquired companies; increased competition, competitive pressures, and market conditions; the Company’s failure to accurately price the risks it underwrites; the inherent uncertainty of the Company’s models and reliance on such models as a tool to evaluate risk; the failure of the Company’s claims department to effectively manage or remediate claims; low renewal rates and failure of such renewals to meet the Company’s expectations; the Company’s failure to execute its diversification strategy; failure of the Company’s information technology systems and unsuccessful development and implementation of new technologies; a lack of redundancy in the Company’s operations; the Company’s failure to attract and retain qualified employees and independent agents or loss of key personnel; the Company’s inability to generate investment income; the Company’s inability to maintain its financial stability rating; effects of emerging claim and coverage issues relating to legal, judicial, environmental and social conditions; the failure of the Company’s risk mitigation strategies or loss limitation methods; changes in regulations and the Company’s failure to meet increased regulatory requirements; and other matters described from time to time by the Company in its filings with the Securities and Exchange Commission, including, but not limited to, those set forth in its Annual Report on Form 10-K for the year ended December 31, 2018 and subsequent Quarterly Reports on Form 10-Q (or such other reports that may be filed with the SEC). The Company undertakes no obligations to update, change or revise any forward-looking statement, whether as a result of new information, additional or subsequent developments or otherwise, except as required by law.

Non-GAAP Financial Information: This presentation includes financial measures that are not presented in accordance with generally accepted accounting principles in the U.S. (GAAP). A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measure can be found in the Appendix to this presentation on slide 25.

Note: This presentation also contains information regarding securities analyst consensus and other financial professionals’ estimates of certain financial items for Heritage and other industry participants derived from reports of FactSet Research Systems (“FactSet”). These estimates are projections made by securities analysts and other financial professionals who cover Heritage and other industry participants. Any opinions, forecasts, estimates, projections or predictions regarding Heritage’s performance made by such third parties (and, therefore, such estimates) are theirs alone and do not represent the opinions, forecasts, estimates, projections or predictions of Heritage or its management. By providing these estimates, Heritage does not imply its adoption of, endorsement of or concurrence with such information, conclusions or recommendations. Heritage assumes no liability for the accuracy of such estimates and undertakes no liability to update or revise such estimates based on new information or otherwise.





# TABLE OF CONTENTS

## COMPANY OVERVIEW

Company snapshot.....	5
Timeline of events.....	6
Management team.....	7
Corporate structure.....	8
Book of business.....	9
In-force metrics.....	10
Distribution.....	11
Reinsurance program.....	12-13
Investments.....	14

## INVESTMENT CONSIDERATIONS

Value proposition.....	16
Underwriting performance, capital management and underwriting leverage.....	17-19
Diversification strategy.....	20-21
Book value per share growth, ROEs and valuation.....	22-24
Appendix: Reconciliation of GAAP and non-GAAP measures.....	25
Investor relations contact details.....	26

*Note 1: all market data as of the close on 3/6/2020 unless otherwise noted*

*Note 2: all non-market data as of 12/31/2019 unless otherwise noted*







# Company overview

Heritage Insurance





# COMPANY SNAPSHOT

**What we do:** Heritage Insurance Holdings, Inc. is a super-regional property and casualty insurance holding company with over \$900 million of gross personal and commercial residential premium across its multi-state footprint.

## QUICK FACTS

- Personal residential insurer in 12 US states & licensed in 4 additional states
  - 23<sup>rd</sup> largest homeowners' insurer nationwide (as of 12/31/2018)
- Commercial residential insurer in FL & NJ
  - 7<sup>th</sup> largest commercial multiple peril (CMP) insurer in FL (as of 12/31/2018)
- Vertically integrated structure with in-house underwriting, actuarial, customer service, claims processing and adjusting functions (3<sup>rd</sup> parties used as needed)
- 530 employees (525 full-time)
- Founded in 2012, followed by IPO in 2014
- Headquartered in Clearwater, FL

## MARKET/FINANCIAL DATA

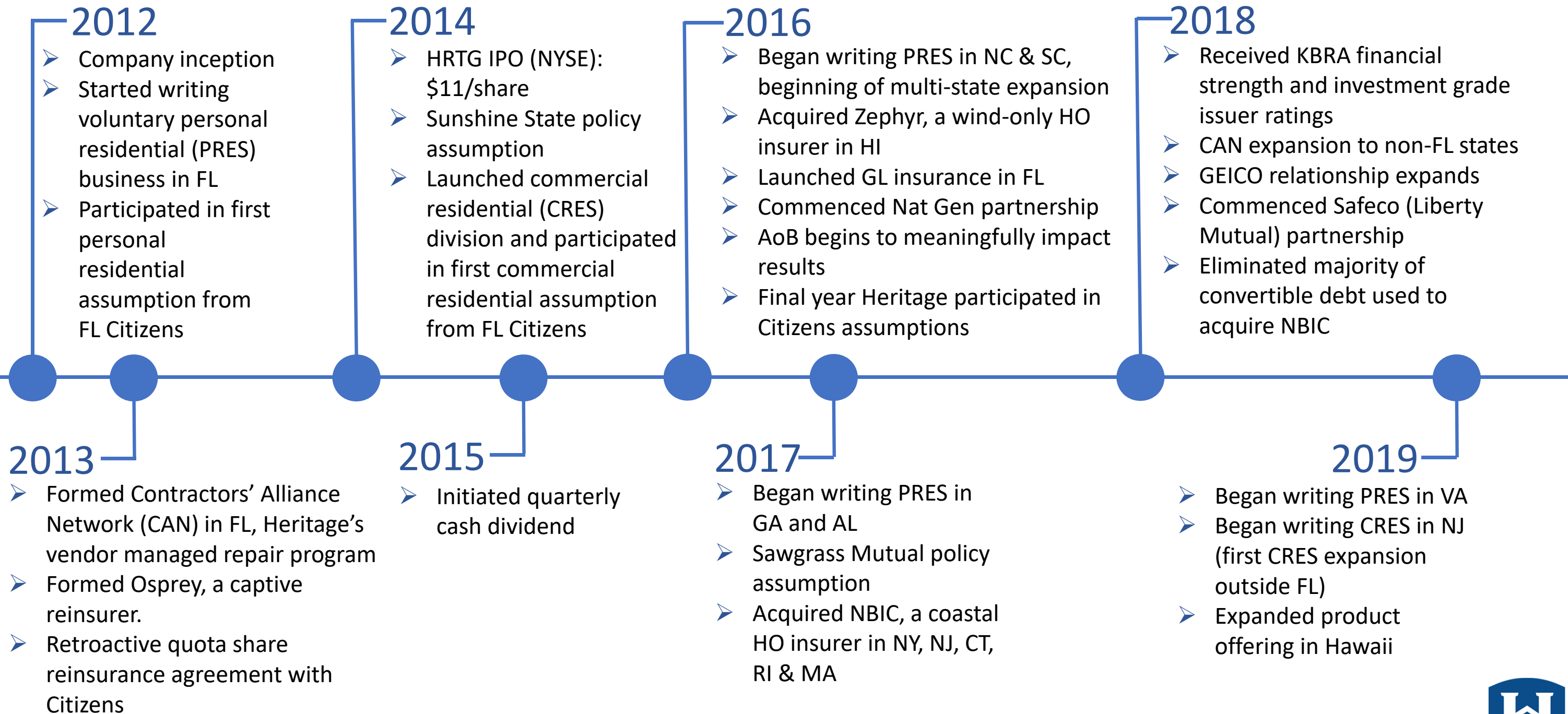
- NYSE: HRTG
- Market Cap/Stock Price: \$352 million/\$12.27
- Annual Dividend/Yield Per Share: \$0.24/2.0%
- Remaining share repurchase authorization: \$33.8 million
- Total Equity/BVPS: \$448.8 million/\$15.66
- Total Assets: \$1.9 billion
- In-Force Gross Premiums: \$940.6 million
- Financial Strength Ratings:
  - Demotech: HPCIC (A), NBIC (A), ZIC (A Prime)
  - Kroll: HPCIC (BBB+), NBIC (A-), ZIC (BBB+)
- Investment grade issuer rating (Kroll: "BBB-")





# THE HERITAGE STORY

Founded in 2012, Heritage has quickly grown into a leading coastal US P&C insurer.





# EXPERIENCED MANAGEMENT TEAM



**Bruce Lucas: Chairman & CEO**

- Co-founded Heritage in 2012 and has been with the company since inception
- Prior to Heritage, Mr. Lucas was CEO of Infinity Investment Funds, a value-oriented hedge fund
- Before that, Mr. Lucas was an attorney with Weil, Gotshal & Manges where he represented large institutional clients such as Enron and GE



**Richard Widdicombe: President**

- Co-founded Heritage in 2012 and has been with the company since inception
- Prior to Heritage, Mr. Widdicombe served as Risk Manager of Homeowners Choice Property & Casualty Insurance Company
- Before that, Mr. Widdicombe was President of People's Trust Insurance Company and previously served as president of FedNat, both of which are Florida-based property insurers



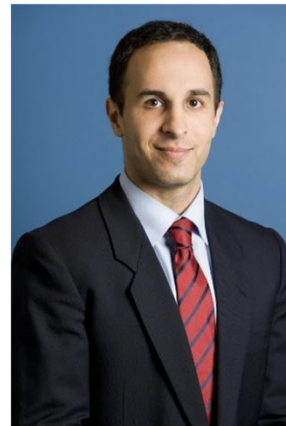
**Ernie Garateix: Chief Operating Officer**

- Has been in his current role since 2014, prior to which he served as Executive Vice President since the company's 2012 founding
- Prior to Heritage, Mr. Garateix served as Vice President of Operations at American Integrity Insurance Group
- Before that, Mr. Garateix was Associate Vice President of IT at FCCI Insurance Group



**Kirk Lusk: Chief Financial Officer**

- Has been in his current role since 2018
- Joined Heritage in 2017 via the acquisition of NBIC Holdings, Inc., where Mr. Lusk was also Chief Financial Officer.
- Before that, Mr. Lusk was International Chief Financial Officer of Aetna, Inc., Chief Financial Officer of Alea Group Holdings Bermuda Ltd. and Chief Financial Officer of GE ERC Global Casualty and GE Capital Auto Warranty Services



**Arash Soleimani: Executive Vice President**

- Has been in his current role since 2018
- Prior to Heritage, Mr. Soleimani was a sell-side equity research analyst covering the P&C insurance sector at Keefe, Bruyette & Woods (KBW) and Stifel Financial
- Before that, Mr. Soleimani worked in Deloitte's Audit & Enterprise Risk Services division
- Mr. Soleimani is a CFA charterholder and a licensed CPA



**Randy Jones: President, Commercial Division**

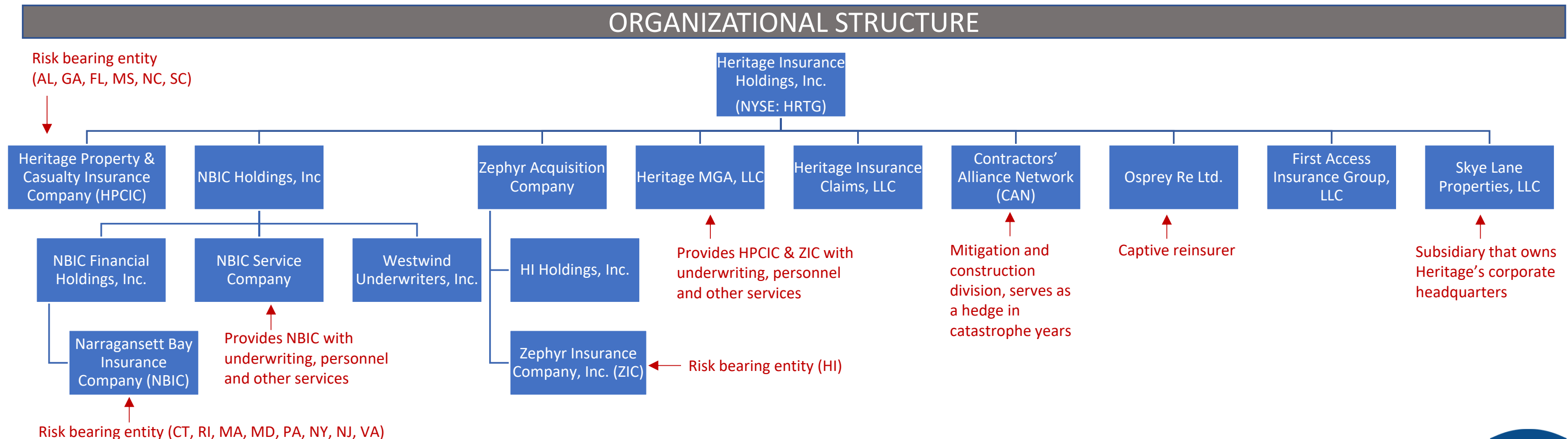
- Has been in his current role since 2014
- Prior to Heritage, Mr. Jones was SVP of American Strategic Insurance's (ASI) commercial division
- Before that, Mr. Jones served in management at other insurance enterprises including Marsh & McLennan Companies
- Mr. Jones holds the American Risk Manager (ARM) and Certified Property Insurance Adviser (CPIA) designations





# VERTICALLY INTEGRATED STRUCTURE

- Unique, vertically integrated structure reduces our reliance on third parties, benefiting our loss, LAE and operating expenses, while also serving as a hedge during catastrophe years.
- Vertically integrated structure reduces our earnings volatility, supporting P/E-based valuation for HRTG.
- MGA structure allows us to meet holding company capital needs (e.g., debt servicing, share repurchases, M&A, etc.)

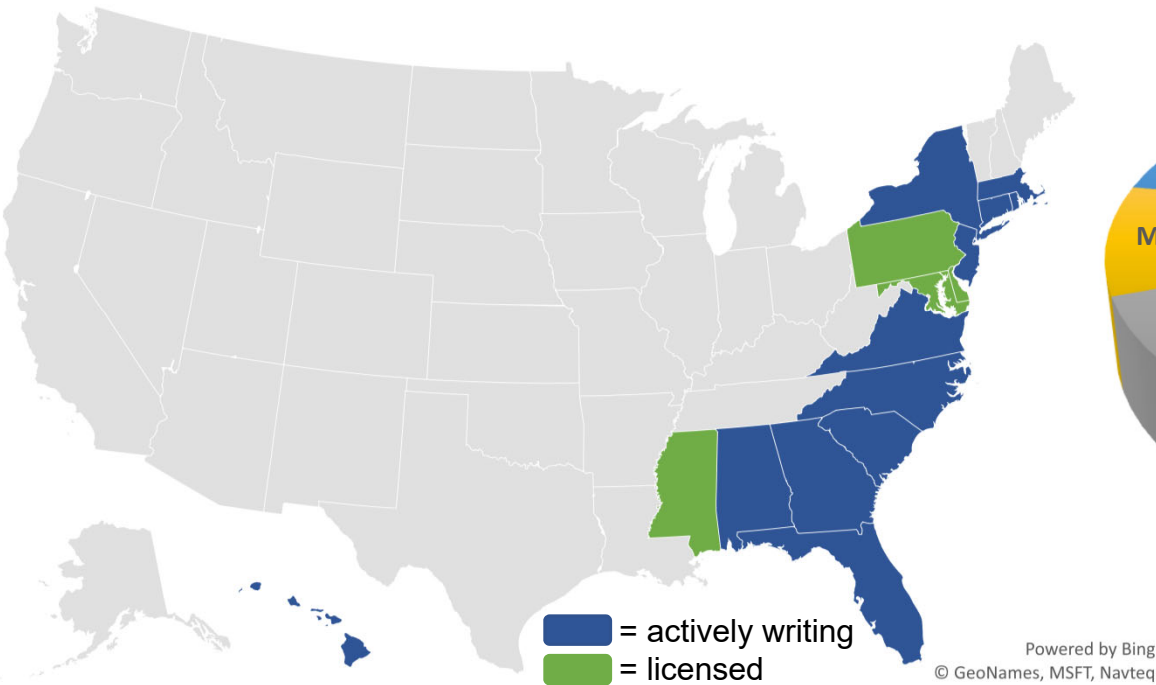




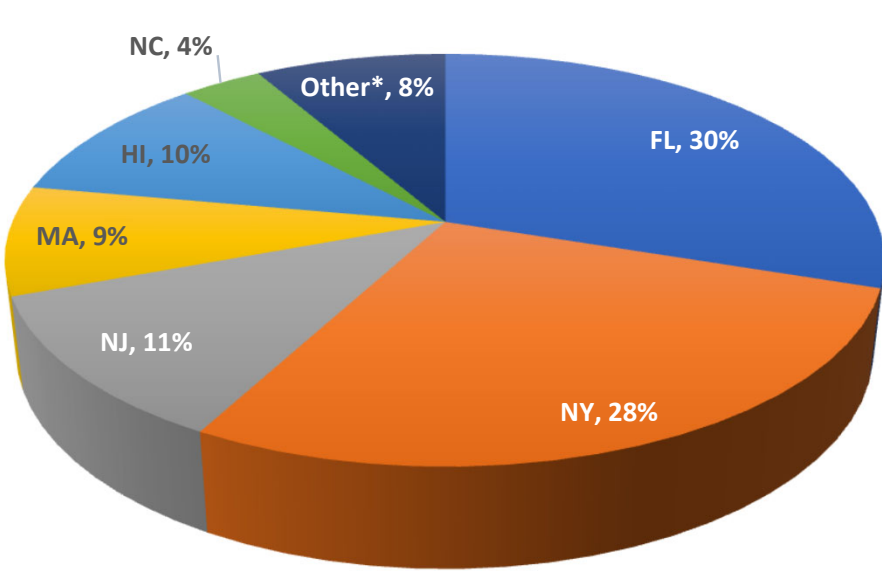
# BOOK OF BUSINESS

Heritage has \$940.6 million of gross premiums in-force across three statutory insurance entities (Heritage/NBIC/Zephyr) and primarily writes personal residential (PRES) insurance. Heritage also writes commercial residential (CRES) insurance and a small amount of commercial general liability (CGL) insurance. Heritage is actively writing in twelve states, but has licenses in sixteen.

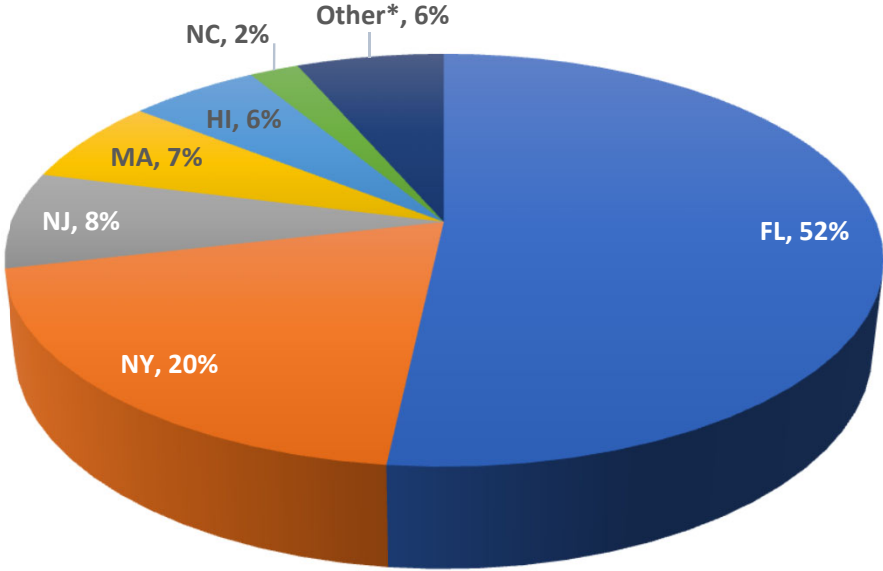
GEOGRAPHIC FOOTPRINT



Total Insured Value (Property)



Gross Premiums In-Force



\*Other includes RI, SC, CT, AL, GA & VA  
PRES = personal residential • CRES = commercial residential • CGL = commercial general liability • TIV = total insured value

3 Statutory Insurance Entities:

AL, FL, GA,  
MS, NC, SC



CT, DE, MA, MD, PA,  
NJ, NY, RI, VA



HI



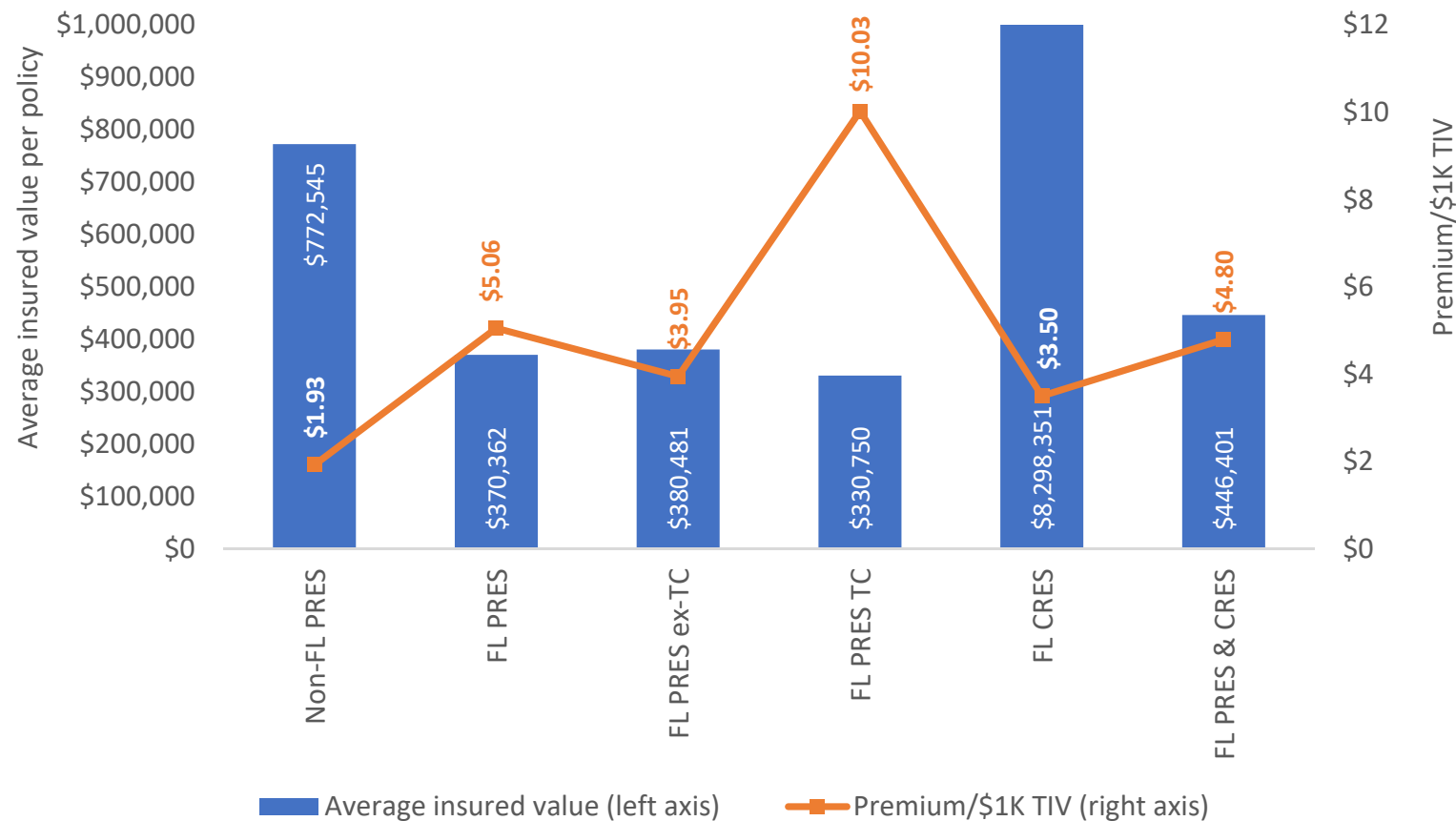




# IN-FORCE METRICS

Florida property insurance only accounts for 30% of Heritage's property total insured value (TIV), but reflects 52% of gross premiums in-force – the \$5.06 Florida personal residential (PRES) insurance average premium per \$1,000 of TIV is almost triple the \$1.93 non-Florida average (Florida's more expensive policies reflect its higher hurricane and litigation risk), while the \$370,362 Florida PRES average insured value is well below the \$772,545 average for non-Florida states (property values in Florida trail those in Heritage's northeast US states).

TIV Metrics (Property)



TIV = total insured value • PRES = personal residential • CRES = commercial residential • TC = Tri-County (FL)

IN-FORCE METRICS (\$ in millions)

Gross Premiums In-Force					
	YE2015	YE2016	YE2017	YE2018	YE2019
PRES	\$478	\$516	\$850	\$837	\$861
CRES	\$113	\$119	\$90	\$83	\$73
CGL	\$0	\$1	\$2	\$4	\$6
<b>Total</b>	<b>\$592</b>	<b>\$635</b>	<b>\$942</b>	<b>\$924</b>	<b>\$941</b>

Policies In-Force					
	YE2015	YE2016	YE2017	YE2018	YE2019
PRES	253,726	318,824	518,957	508,424	522,442
CRES	3,405	3,625	3,100	2,973	2,533
CGL	0	852	2,393	4,289	6,970
<b>Total</b>	<b>257,131</b>	<b>323,301</b>	<b>524,450</b>	<b>515,686</b>	<b>531,945</b>

Total Insured Value (Property)					
	YE2015	YE2016	YE2017	YE2018	YE2019
PRES	\$72,102	\$109,888	\$289,974	\$296,432	\$316,075
CRES	\$22,764	\$26,367	\$22,832	\$23,038	\$20,958
<b>Total</b>	<b>\$94,866</b>	<b>\$136,256</b>	<b>\$312,806</b>	<b>\$319,470</b>	<b>\$337,033</b>





# DISTRIBUTION

## Overview

- Robust organic growth engine via independent agency relationships and auto carrier partnerships across our multi-state platform

## HPCIC

- Over 2,400 actively writing independent agents
- 27% of voluntary premium is written by agents affiliated with eight large agency networks that have master agency agreements with HPCIC
- CRES policies are written through roughly 400 independent agents in FL
- Relationships with multiple auto carriers

## NBIC

- Roughly 225 retail independent agents representing approximately 600 agency locations
- 8 wholesale relationships that have access to 1,500 retail locations

## Zephyr

- Relationships with 70 actively writing independent agencies
- 52% of voluntary premium is written by agents affiliated with three large agency networks





# CATASTROPHE REINSURANCE PROGRAM

Heritage has a conservative 2019-2020 catastrophe reinsurance program, protecting the Company against hurricanes and severe weather events and reducing earnings volatility.

- Substantial severity and frequency protection.
- Significantly increased return period to the highest level in the Company's history.
- \$1.5 billion first event reinsurance exhaustion point in the southeast.
- Heritage's first event retentions in the southeast and Hawaii remain at \$20 million, accounting for 4.6% of second quarter 2019 GAAP equity (pre-tax), down from 5.2% in the prior year. First event retention increases slightly in the northeast to \$13.8 million from \$12.8 million in the prior year, but accounts for just 3.1% of second quarter 2019 GAAP equity (pre-tax), down 20 basis points year-over-year.
- Reduced catastrophe reinsurance spend by \$10 million vs. prior year. Total cost to Heritage of \$249.2 million (27.0% of second quarter 2019 premiums-in-force), down from \$259.5 million (27.9% of second quarter 2018 premiums-in-force) in the prior year.
- Heritage's third-party reinsurers are rated "A-" or higher by A.M. Best or S&P or are fully collateralized.

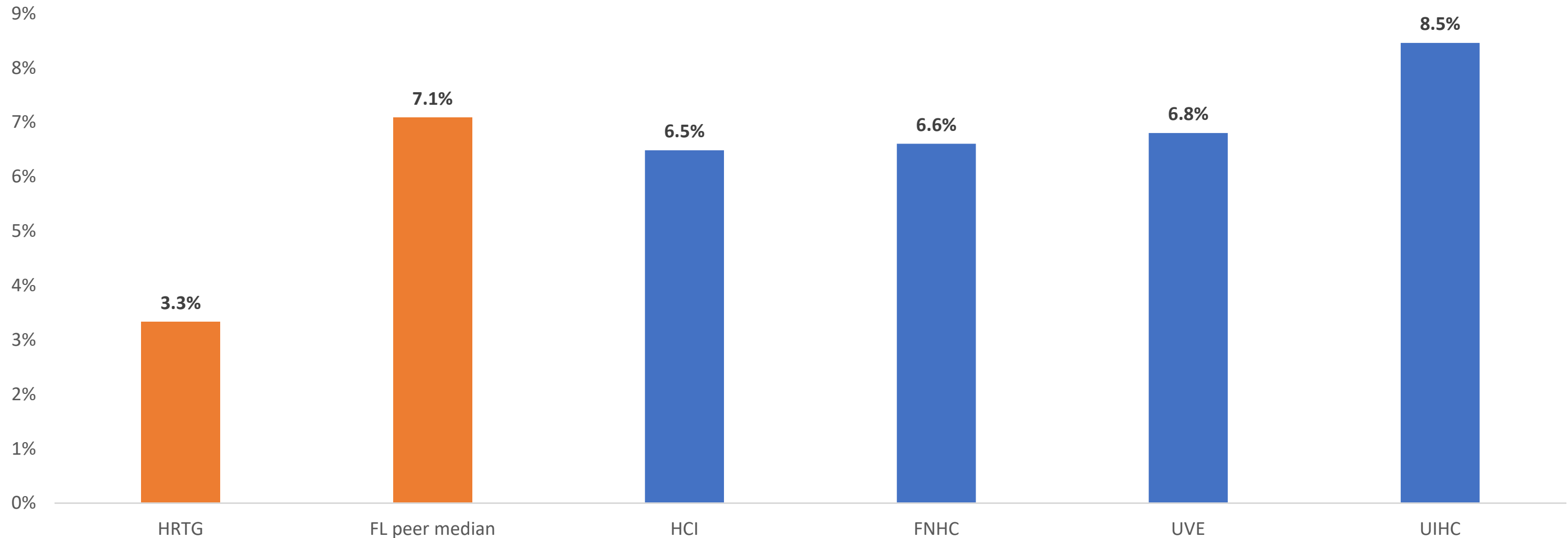
*Note 1: 2019-2020 catastrophe reinsurance program commentary based on 8/31/2019 projections (AIR v6, hurricane only, long term view with demand surge).*





# CONSERVATIVE REINSURANCE RETENTION

AFTER-TAX FIRST EVENT FLORIDA RETENTION AS % OF 2019\* GAAP EQUITY



*Note 1: Based on 2019-2020 catastrophe reinsurance programs.*

*Note 2: Assumes a modeled 1-in-50-year first event for HPCIC based on 8/31/2019 projections (AIR v6, hurricane only, long term view with demand surge).*

*Note 3: Excludes reinsurance reinstatement premiums and income from vertically integrated operations.*

*Note 4: UVE retention includes both UPCIC & APPCIC and FNHC retention includes both FNIC and MNIC, but excludes PIH.*

*Note 5: Calculation based on 21.0% and 5.5% US federal and Florida statutory corporate income tax rates, respectively.*

*Source: Peer company reports.*

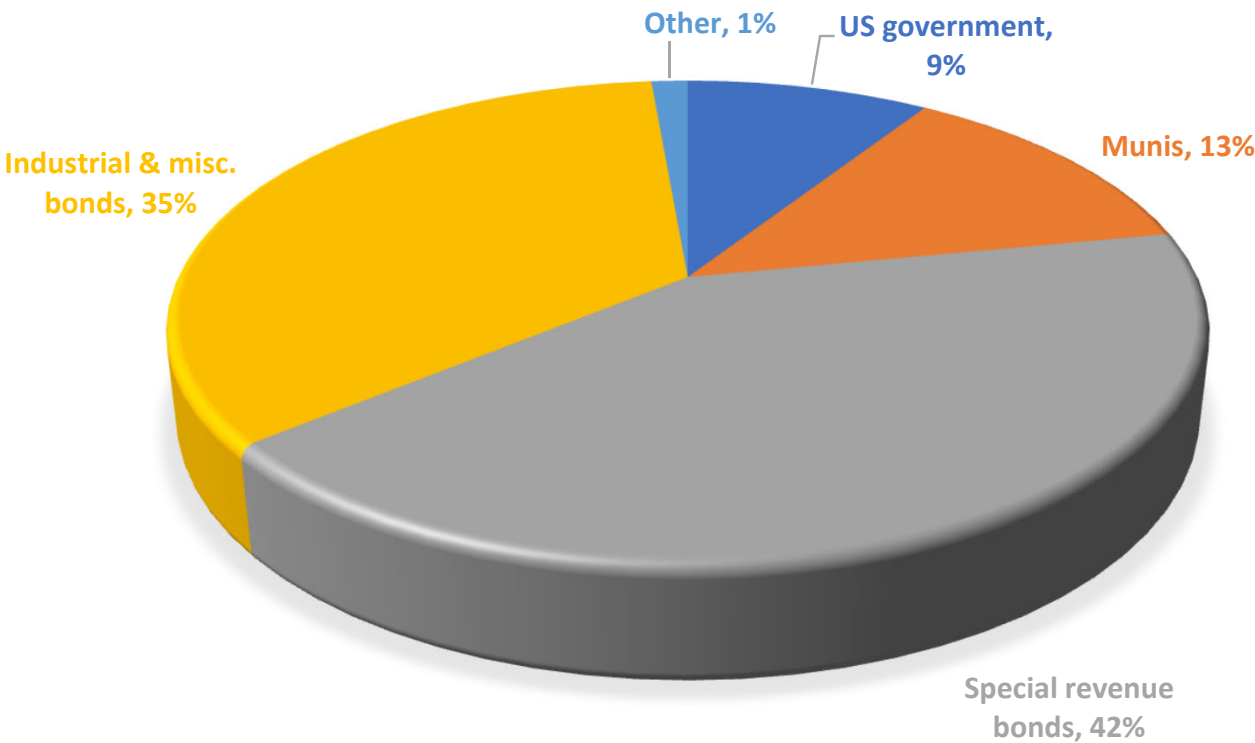




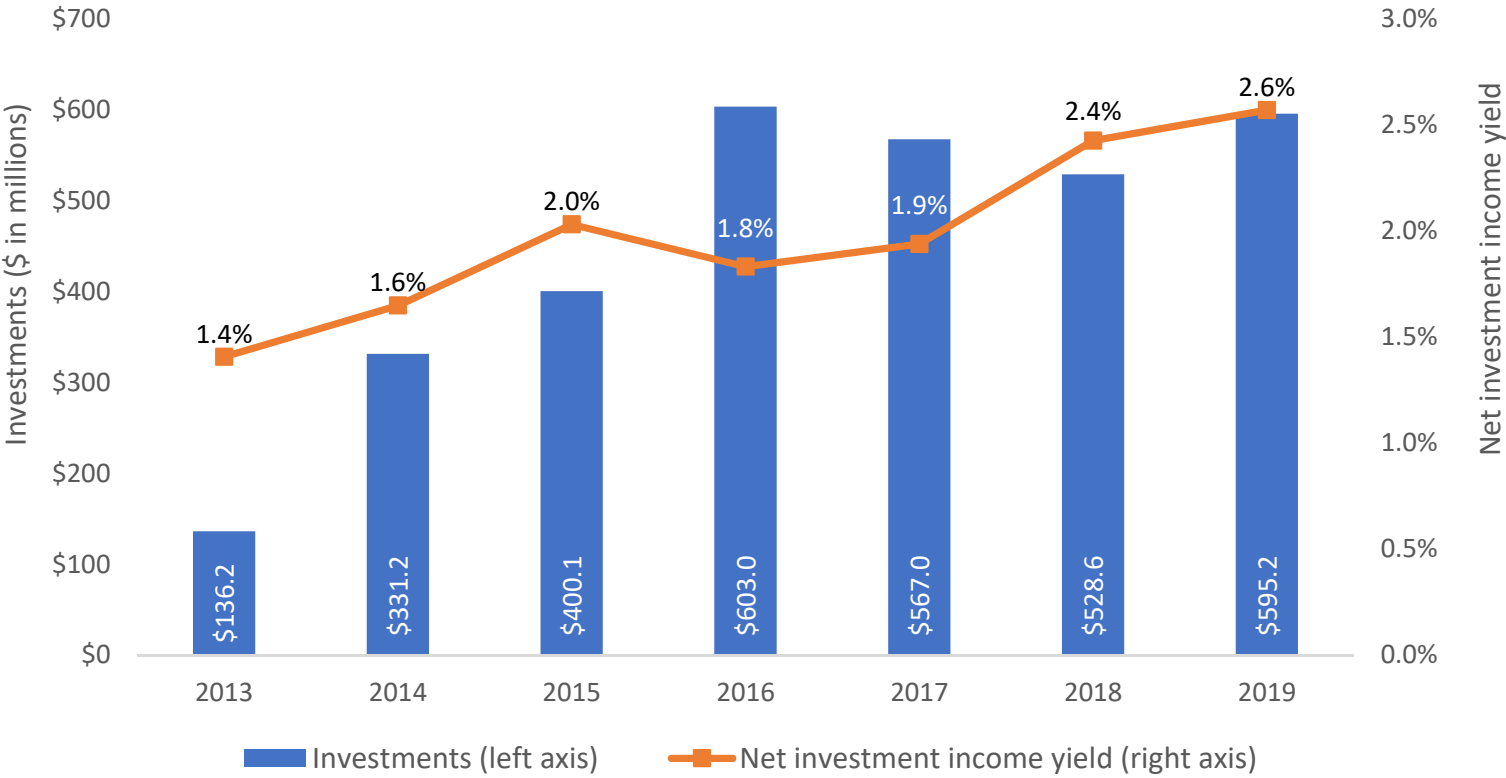
# INVESTMENT PORTFOLIO

Heritage has a very conservative investment portfolio, consisting predominantly of low duration, fixed income securities. As of 4Q2019, duration was 3.4 years, 0.1 years below 3Q2019 and 4Q2018.

INVESTMENT PORTFOLIO BREAKDOWN (YE2019)



NET INVESTMENT INCOME PERFORMANCE







# Investment considerations

Heritage Insurance





# VALUE PROPOSITION

## Compelling financial metrics

- Currently trading at significant discount to peers, despite attractive relative ROE and income metrics
- Consistent track record of double-digit book value growth

## Business model designed to reduce earnings volatility

- Vertically integrated structure provides a hedge in catastrophe years, reducing loss retention and further reducing earnings volatility, supporting use of P/E-based valuation for HRTG
- Solid reinsurance program, including lowest reinsurance retention in FL peer group as a % of equity; protects against hurricanes and other severe events, reducing earnings volatility

## Growth & underwriting outlooks improving

- Organic premium growth, fueled by relationships with independent agents and auto carriers
- Diversification initiatives and re-underwriting efforts in Florida's Tri-County – including rate increases, policy form enhancements and conservative policy selection – should benefit underwriting margins
- Commercial residential business serves as an AoB-hedge in Florida and provides us with additional growth opportunities

## Prudent capital management

- Investment grade debt rating provides easy access to capital, allowing nimble response to market opportunities as they arise
- Below-peer operating leverage = ample capital to fuel our growth
- Track record of capital return via share repurchases and regular dividend
- Successful M&A execution provides synergies and access to new markets

## Management has significant skin in the game

- Significant insider ownership aligns management's interest with shareholders
  - CEO owns 2.8% of outstanding shares
  - President owns 2.4% of outstanding shares
  - Total insider ownership = 13.0% of outstanding shares

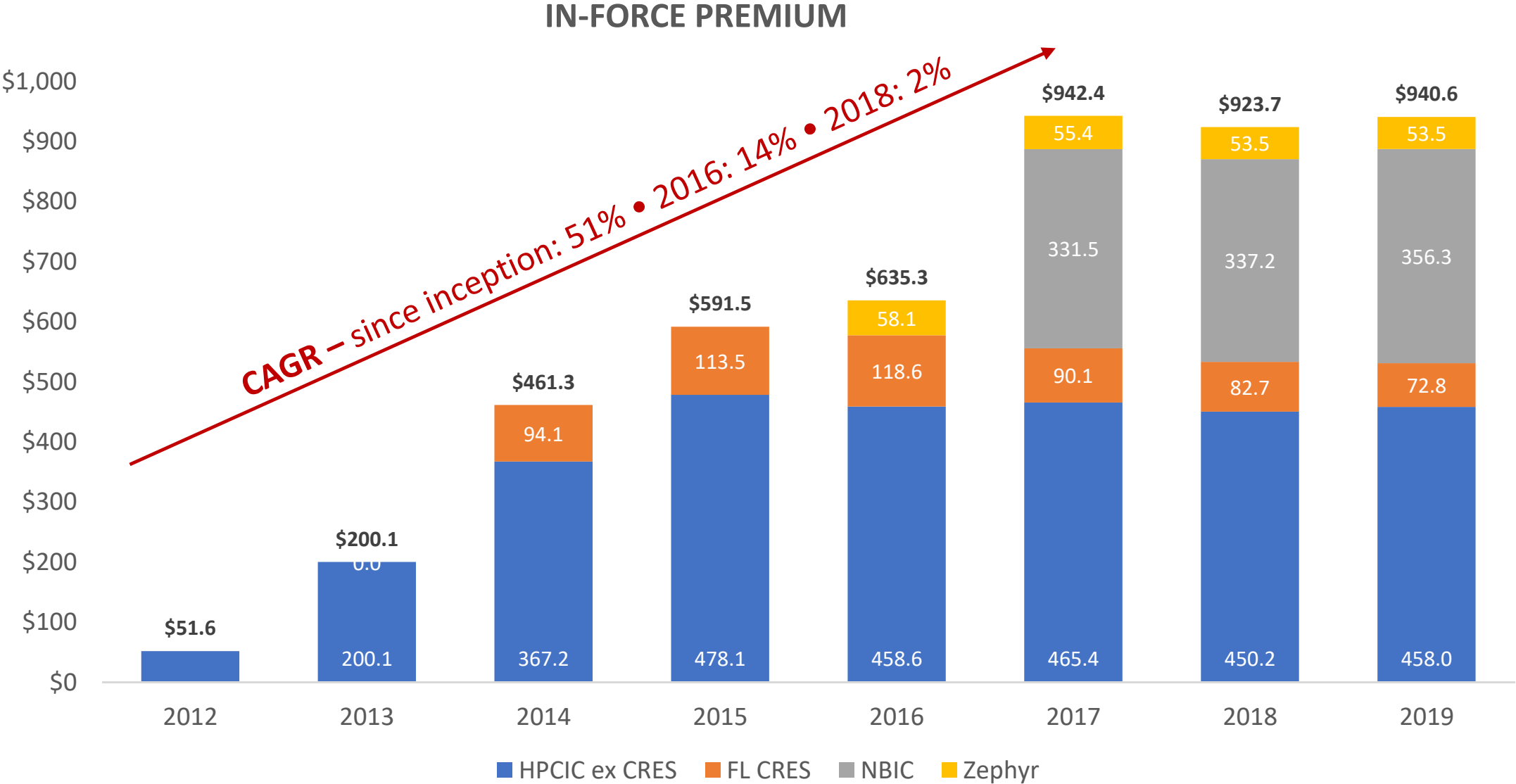




# UNDERWRITING PERFORMANCE

Heritage has experienced significant premium growth since inception, stemming primarily from Citizens depopulation transactions through 2015 and from M&A and organic growth in subsequent years.

Heritage’s premium growth is unprecedented, reaching almost \$1 billion of gross in-force premiums 5 years after the company’s founding. The modest premium decline in 2018 and modest premium growth in 2019 stemmed from Tri-County FL exposure reduction efforts in response to litigation abuse (these efforts were basically completed in 3Q2019).

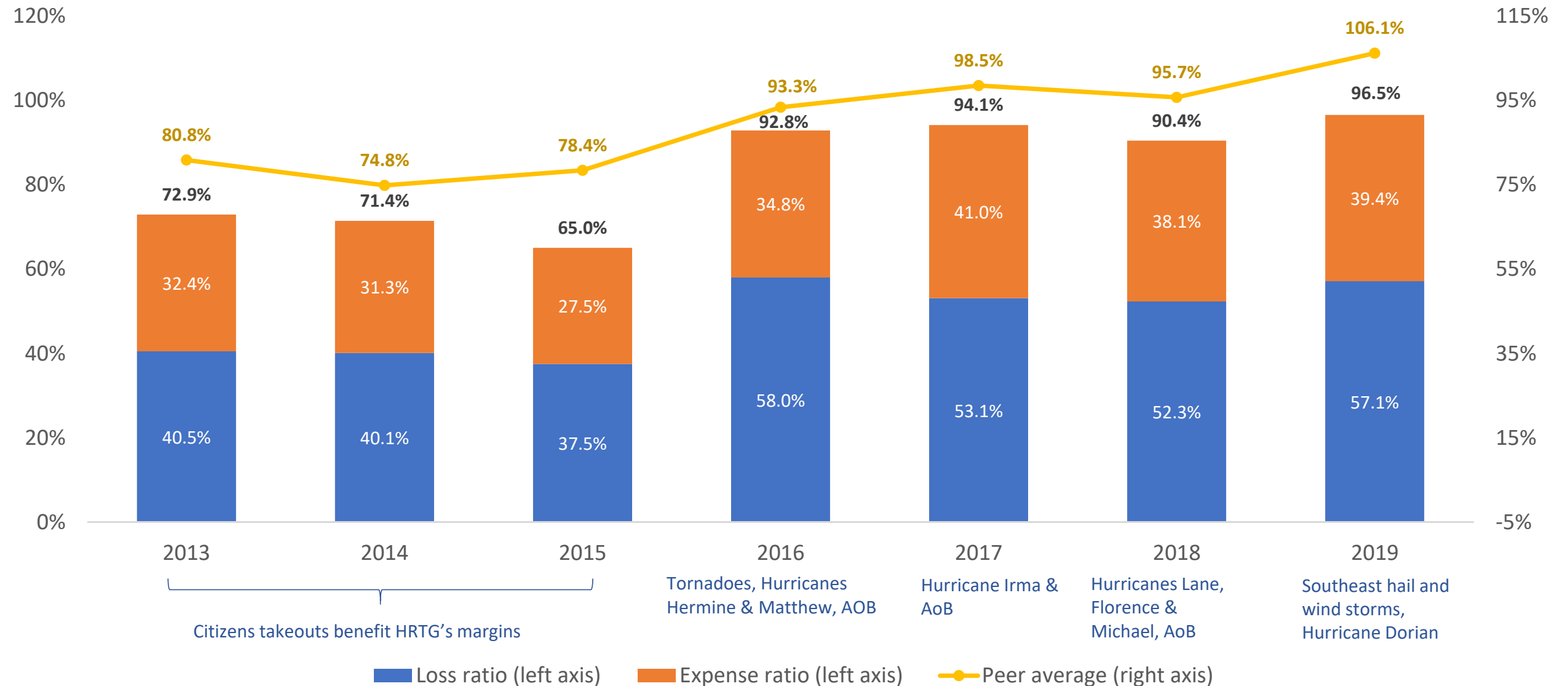




# UNDERWRITING PERFORMANCE (CONTINUED)

Heritage's underwriting operation has outperformed peers every year since inception.

## SOLID UNDERWRITING MARGINS



Note 1: Peers include FNHC, HCI, KINS, UIHC & UVE; KINS' 2019 combined ratio reflects 3Q2019 YTD.

Source: FactSet and peer company reports



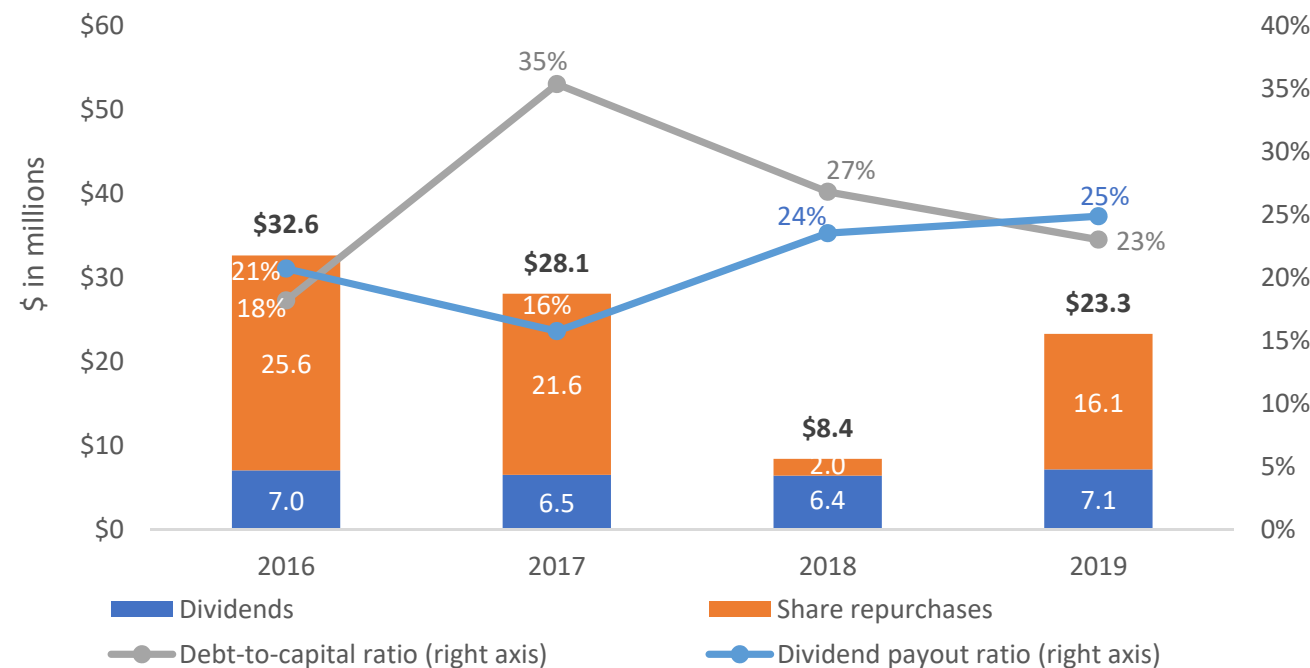


# CAPITAL MANAGEMENT & OPERATING LEVERAGE

Heritage has been a responsible steward of shareholder capital and currently has \$33.8 million remaining on its share repurchase authorization. Since 2016, the Company has returned \$92.3 million to shareholders through common share repurchases and dividends.

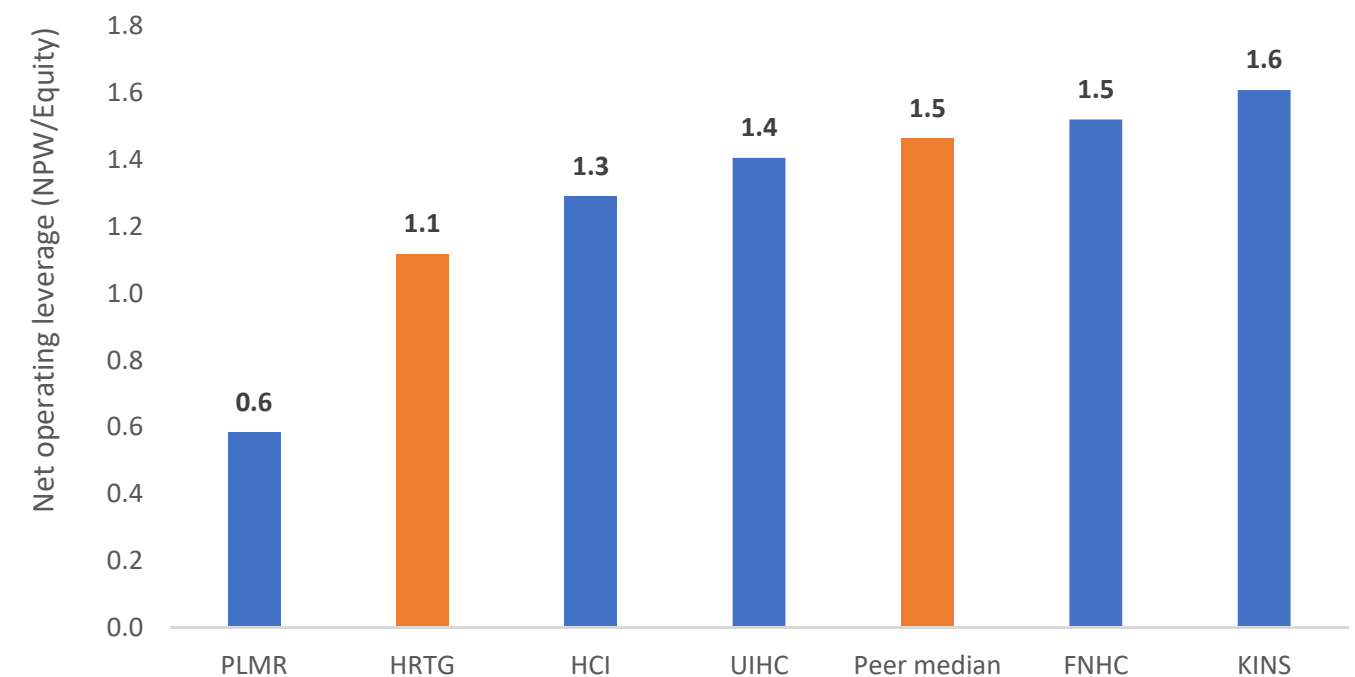
Heritage's ratio of trailing-twelve-month (TTM) net premiums written to 4Q2019 equity is only 1.1x, among the lowest in its peer group, which is indicative of its conservative balance sheet. Looking ahead, Heritage has adequate capital to fuel its premium growth and multi-state expansion initiatives.

## DISCIPLINED CAPITAL MANAGEMENT



Note: Debt-to-capital calculated as debt principal divided by the sum of debt principal and stockholders' equity

## CONSERVATIVE NET OPERATING LEVERAGE



Note 1: Based on 2019 net premiums written (NPW) for all carriers except KINS, which reflects trailing-twelve-month (TTM) NPW as of 3Q2019.

Note 2: Based on GAAP NPW for all carriers except UIHC. UIHC's NPW reflects the sum of its regulated insurance companies' statutory NPW.

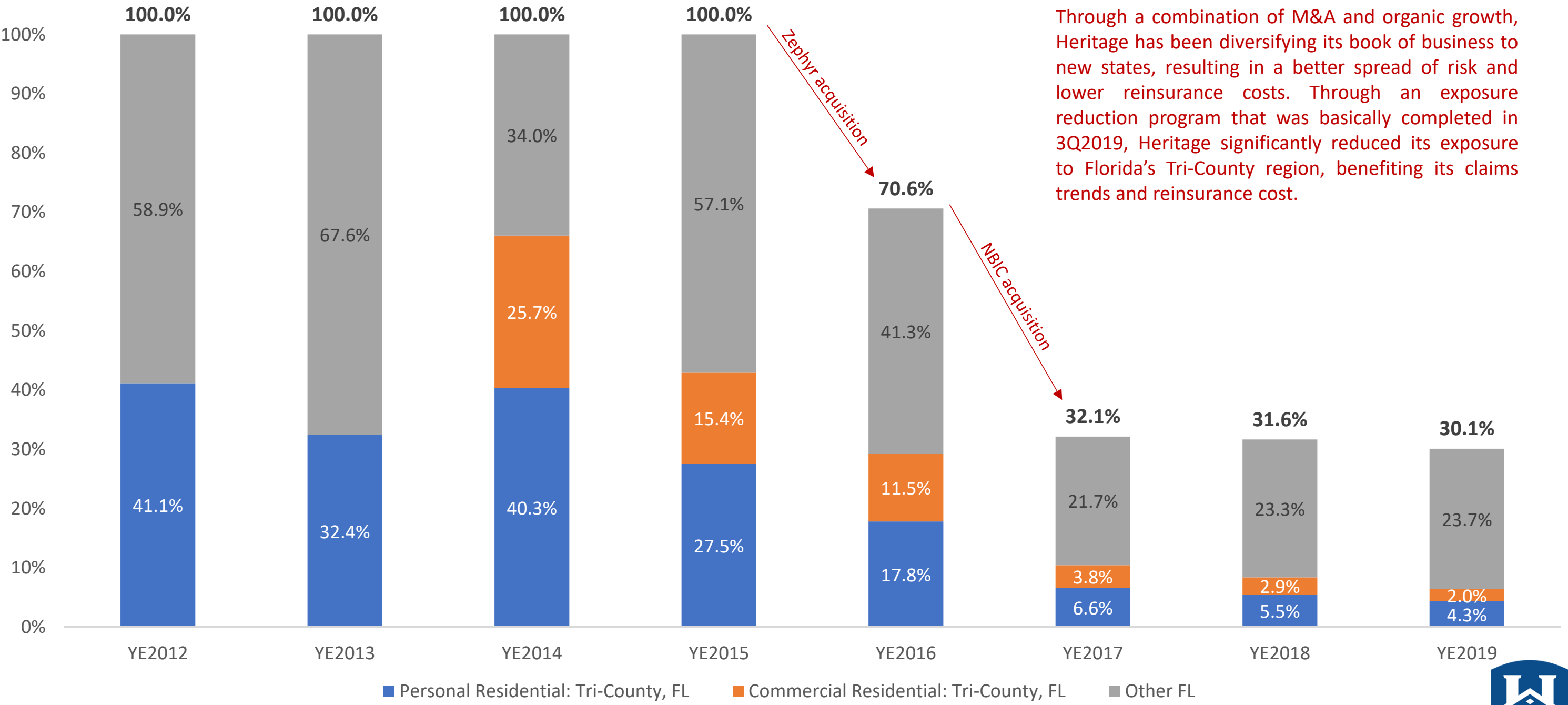
Source: Peer company reports.





# DIVERSIFICATION STRATEGY UNDERWAY

% OF CONSOLIDATED PROPERTY TOTAL INSURED VALUE (TIV) IN FLORIDA



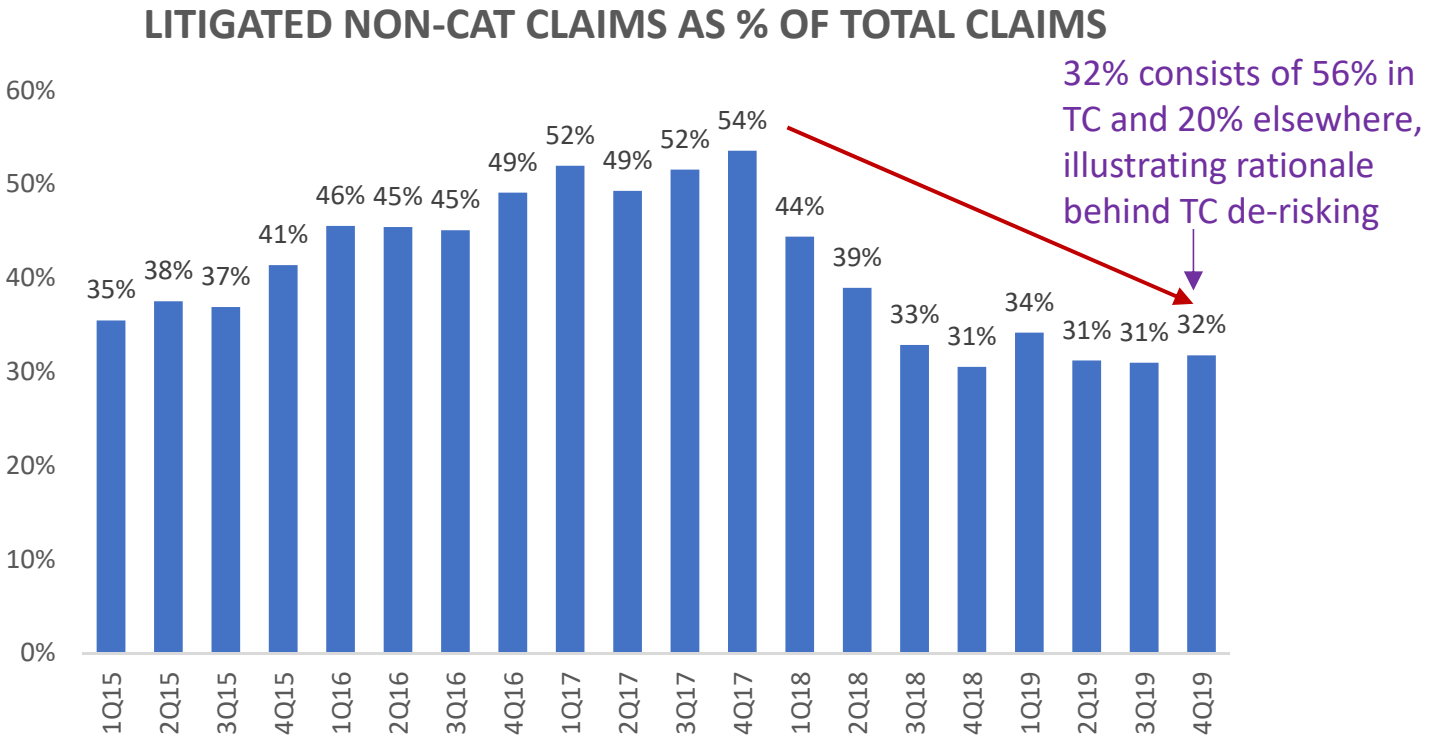
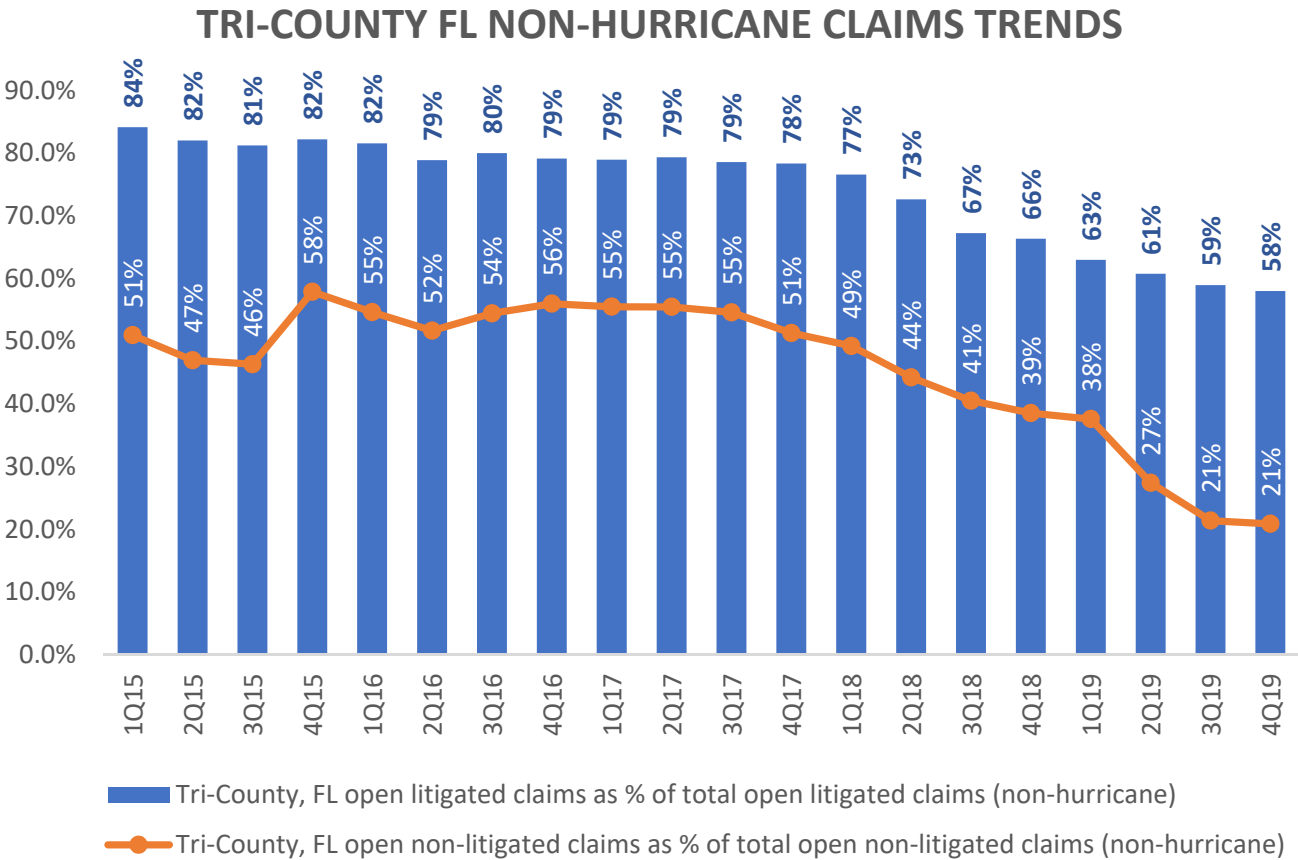


# FAVORABLE CLAIMS TRENDS

Heritage's Tri-County, FL (TC) exposure reduction efforts have benefited claims trends, as the region's contribution to open non-hurricane claim counts has declined for both litigated and non-litigated claims. This is benefiting overall claims trends – beginning with 1Q18, litigated claims have generally been accounting for a smaller percentage of Heritage's non-hurricane open claims inventory.

Tri-County, FL (TC) claims are typically more expensive given the prevalence of assignment of benefits and litigation abuse in the region

A decline in litigated claims should benefit underwriting margins, given that litigated claims are typically more expensive to resolve



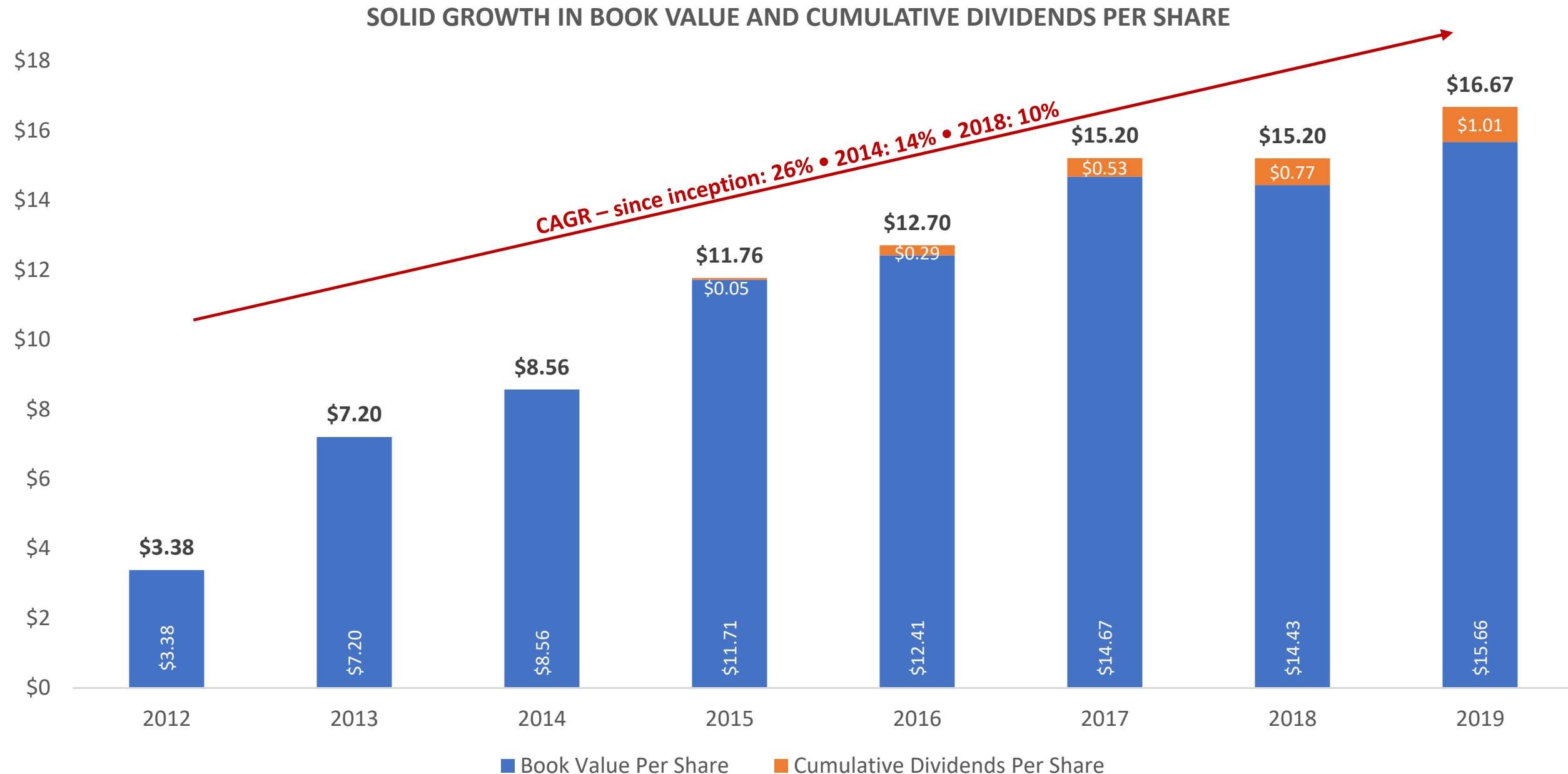
Note: Excludes NBIC.





# SOLID BOOK VALUE PER SHARE GROWTH

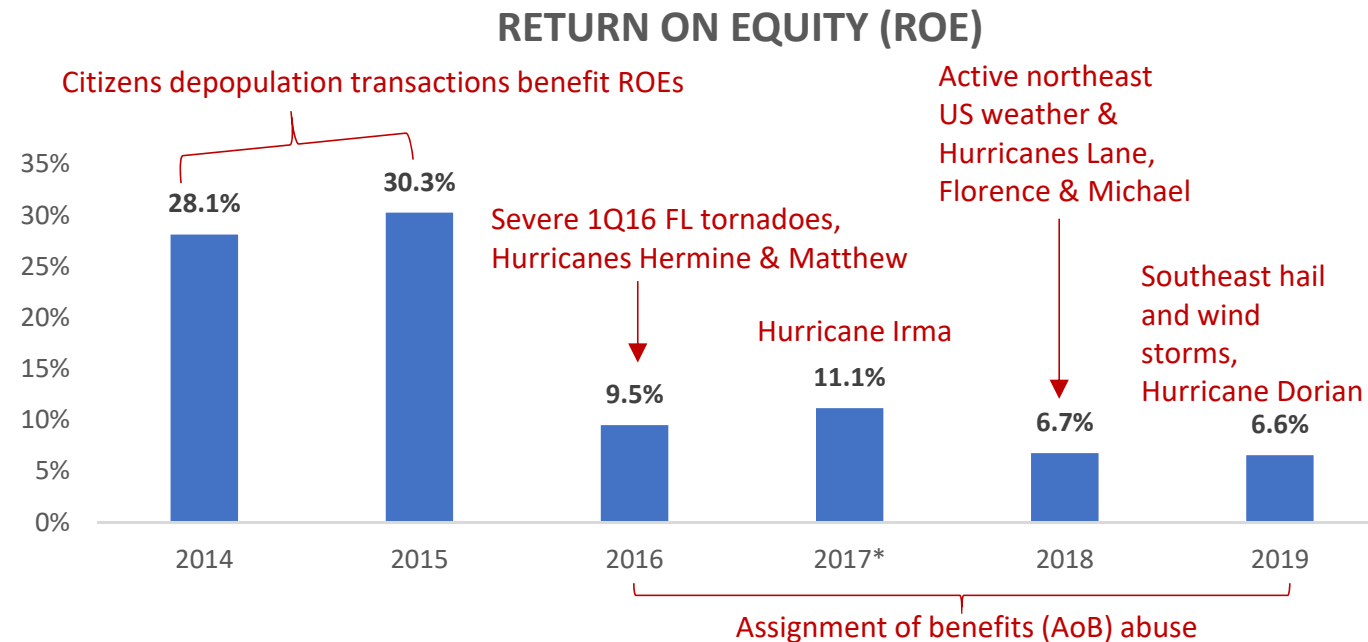
Since inception, Heritage has provided investors with solid book value per share growth. Including cumulative dividends declared, Heritage's book value per share compound annual growth rate (CAGR) is 26% since the Company's 2012 inception.



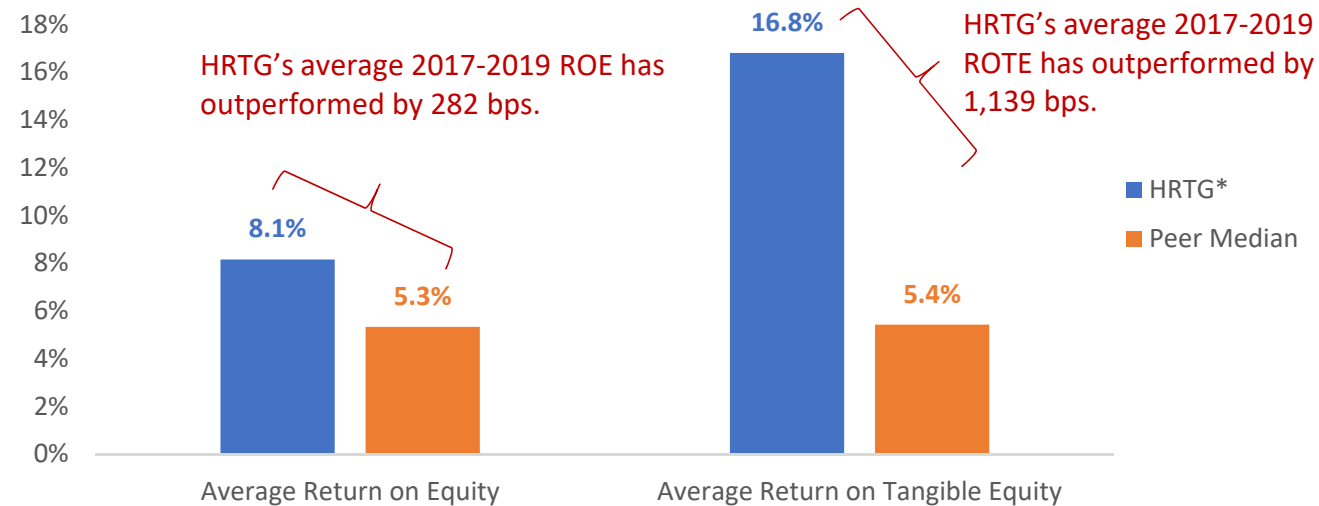


# ABOVE-PEER ROE, BUT BELOW-PEER VALUATION

SOLID ROE PERFORMANCE, EVEN IN HURRICANE YEARS

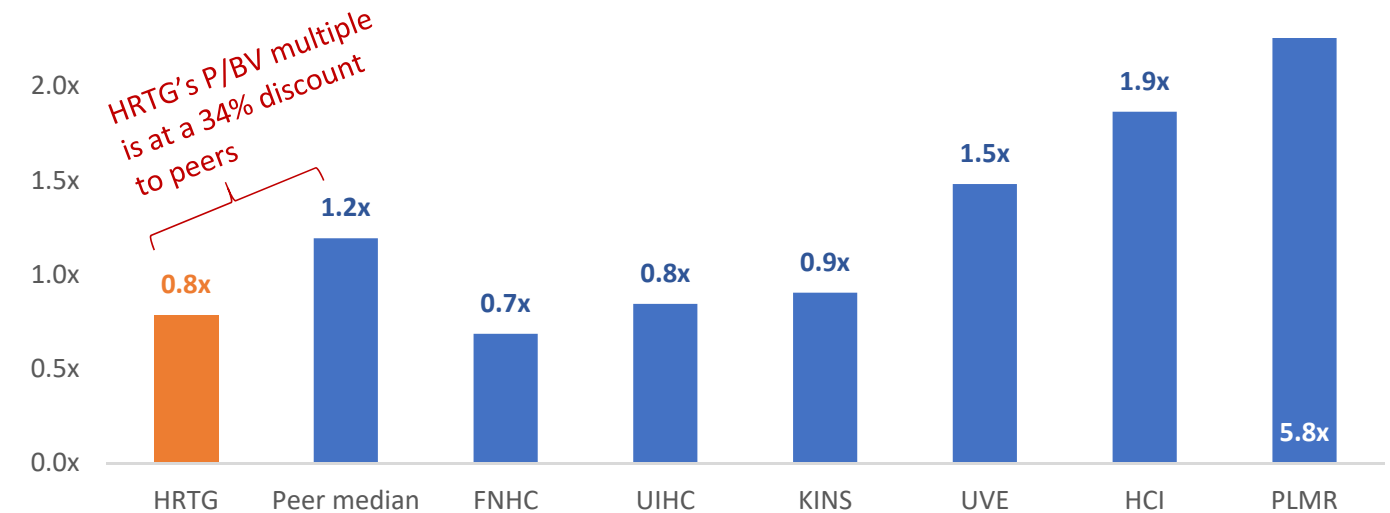


## 2017-2019 AVERAGE RETURN ON EQUITY VS. PEERS

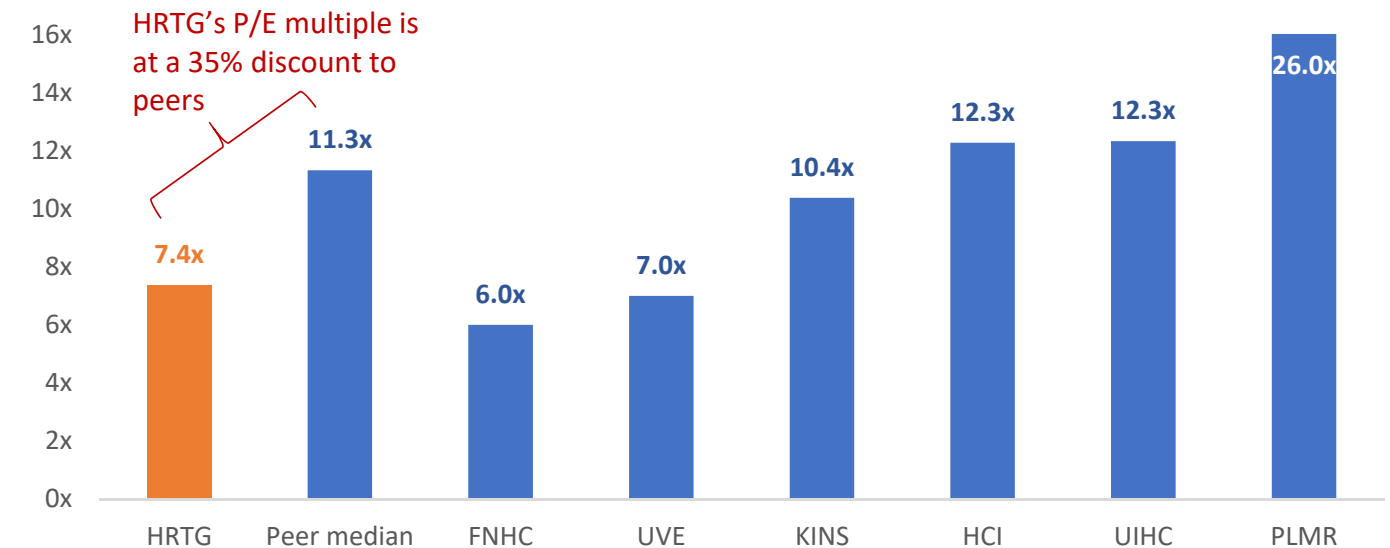


TRADING AT A MEANINGFUL DISCOUNT TO PEERS

## PRICE/BOOK VALUE



## PRICE/2020E EPS



\*HRTG's 2017 return on equity (ROE) and return on tangible equity (ROTE) metrics are non-GAAP and adjusted to exclude a \$42.2 million non-cash, non-tax deductible charge related to the mark-to-market of a derivative liability associated with the Company's convertible debt. The derivative liability was reclassified to equity in 4Q17.

Note: ROE represents net income for the period (annualized for 3Q2019 YTD) divided by average stockholders' equity during the period. The ROTE calculation excludes goodwill and other intangible assets from equity.

Source: FactSet and peer company reports





# HIGHLY ATTRACTIVE VALUATION RELATIVE TO PEERS

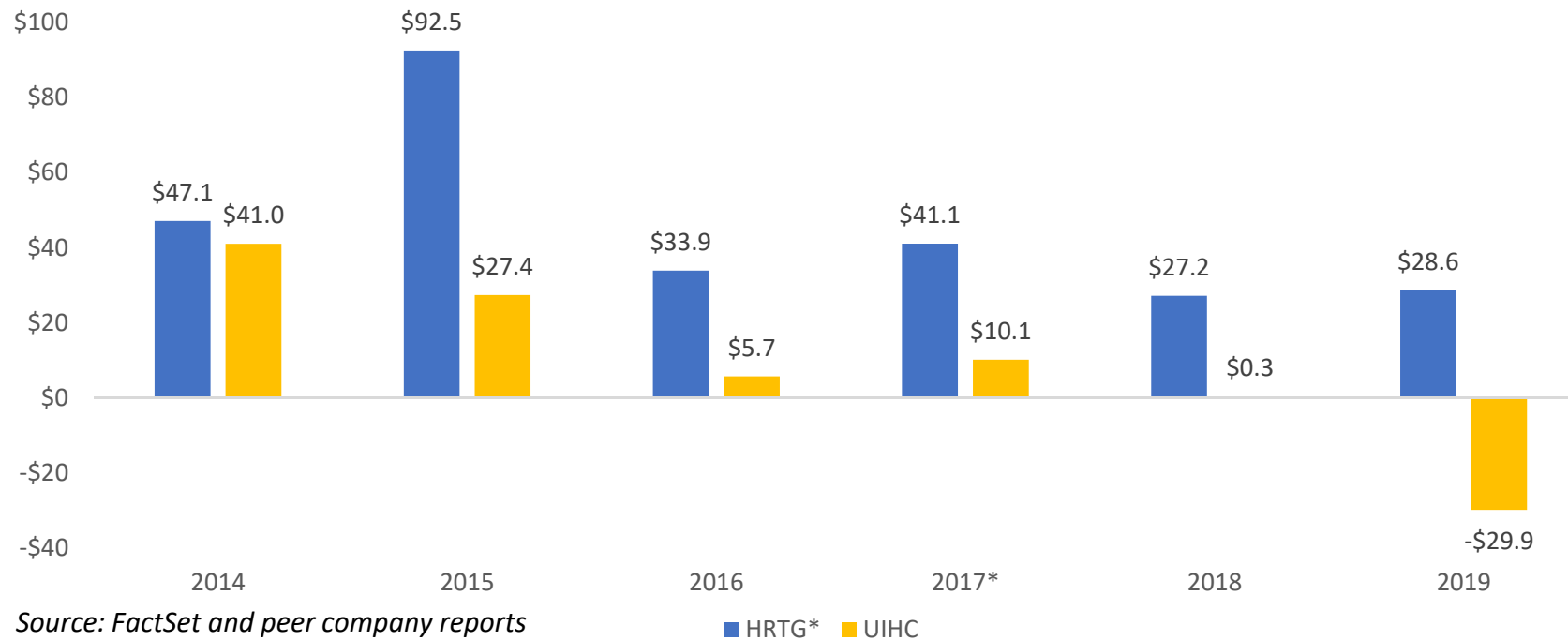
Ticker Company	P/E		Current	P/BV		Return on Equity					Return on Tangible Equity			
	2020E	2021E		2020E	2021E	2016	2017*	2018	2019	2020E	2016	2017*	2018	2019
HRTG Heritage Insurance Holdings, Inc.	7.4	6.7	0.8	0.7	0.7	9.5%	11.1%	6.7%	6.6%	10.3%	10.7%	20.0%	16.9%	13.5%
FNHC FedNat Holding Company	6.0	4.9	0.7	0.6	0.6	0.5%	3.7%	7.0%	0.4%	11.0%	0.5%	3.7%	7.0%	0.4%
HCI HCI Group, Inc.	12.3	10.1	1.9	2.0	NA	12.1%	-3.1%	9.4%	14.5%	19.9%	12.2%	-3.2%	9.7%	14.8%
UIHC United Insurance Holdings Corp.	12.3	9.3	0.8	0.8	0.8	2.4%	2.6%	0.1%	-5.8%	6.8%	2.5%	3.2%	0.1%	-7.3%
UVE Universal Insurance Holdings, Inc.	7.0	6.2	1.5	NA	NA	29.9%	26.4%	24.9%	9.3%	NA	30.0%	26.5%	25.0%	9.4%
KINS Kingstone Companies, Inc.	10.4	7.7	0.9	0.9	0.8	17.5%	13.2%	3.4%	-11.3%	8.5%	18.0%	13.4%	3.4%	-11.4%
PLMR Palomar Holdings, Inc.	26.0	21.2	5.8	4.6	3.8	9.0%	5.0%	20.9%	6.7%	19.8%	9.1%	5.0%	21.0%	6.8%
<b>Coastal Property Peer Median</b>	<b>11.3</b>	<b>8.5</b>	<b>1.2</b>	<b>0.9</b>	<b>0.8</b>	<b>10.6%</b>	<b>4.4%</b>	<b>8.2%</b>	<b>3.6%</b>	<b>11.0%</b>	<b>10.7%</b>	<b>4.4%</b>	<b>8.3%</b>	<b>3.6%</b>

Note 1: Year-to-date (YTD) return on equity (ROE) and return on tangible equity (ROTE) metrics are annualized.

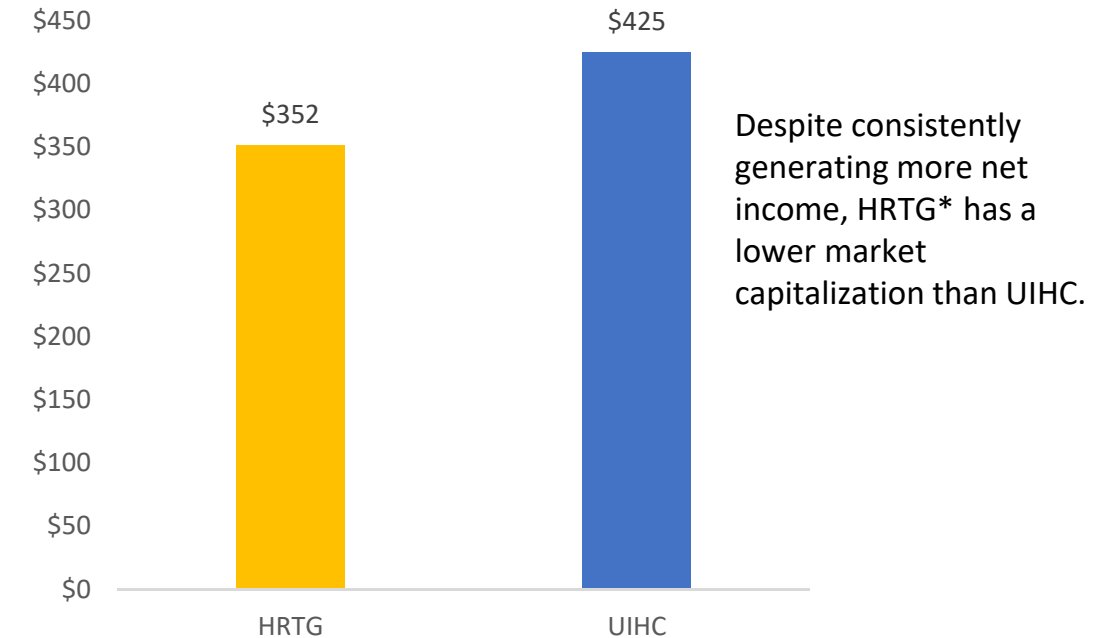
Note 2: KINS' 2019 ROE and ROTE reflect 3Q2019 YTD annualized.

Source: FactSet and peer company reports

NET INCOME (\$ in millions)



MARKET CAP (\$ in millions)



Source: FactSet and peer company reports

\*HRTG's 2017 net income and ROE are non-GAAP and adjusted to exclude a \$42.2 million non-cash, non-deductible charge related to the mark-to-market of a derivative liability associated with the Company's convertible debt. The derivative liability was reclassified to equity in 4Q17. Please see slide 24 for a reconciliation of HRTG's non-GAAP measures to their comparable GAAP measures.





# APPENDIX: NON-GAAP RECONCILIATIONS

## RECONCILIATION OF GAAP AND NON-GAAP MEASURES

*\$ in millions*

	2017
<b>GAAP Net income (loss)</b>	<b>\$ (1.1)</b>
Conversion option liability fair value	42.2
Non-recurring business acquisition related expenses	-
Tax impact	-
<b>Adjusted net income</b>	<b>\$ 41.1</b>

	2017
<b>GAAP ROE</b>	<b>-0.3%</b>
Conversion option liability fair value	11.4%
Non-recurring business acquisition related expenses	0.0%
Tax impact	0.0%
<b>Adjusted ROE (non-GAAP)</b>	<b>11.1%</b>





ADDITIONAL INFORMATION

Arash Soleimani, CFA, CPA

Executive Vice President

[asoleimani@heritagepci.com](mailto:asoleimani@heritagepci.com)

727.871.0206

Website: [investors.heritagepci.com](http://investors.heritagepci.com)

