

## Heritage Reports Fourth Quarter and Full-Year 2019 Results

CLEARWATER, Fla., Feb. 27, 2020 /PRNewswire/ -- Heritage Insurance Holdings, Inc. (NYSE: HRTG) ("Heritage" or the "Company"), a super-regional property and casualty insurance holding company, today reported fourth quarter 2019 financial results.

### Fourth Quarter 2019 Highlights

- Net income for the quarter was \$12.8 million, or \$0.44 per diluted share.
- Book value per share increased to \$15.66, up 8.5% from year-end 2018.
- Gross premiums written were \$235.4 million, up 6.2% year-over-year, including 9.4% growth outside Florida and 3.5% growth in Florida, reflecting positive organic growth across all states and lines of business.
- Favorable prior year reserve development of \$1.4 million, representing the sixth consecutive quarter of favorable prior year reserve development.
- Net current accident quarter weather losses of \$15.3 million, including \$5.1 million of net current accident quarter catastrophe losses. In the prior year quarter, net current accident quarter weather and catastrophe losses were \$23.3 million and \$16.8 million, respectively.
- Repurchased 312,923 shares for \$4.3 million at an average price of \$13.71 per share, 12.5% below fourth quarter 2019 book value per share. Total capital returned to shareholders was \$6.0 million, including \$0.06 per share regular quarterly dividend.
- Percentage of litigated non-hurricane claims stemming from Tri-County, Florida declined by 830 basis points year-over-year.

Bruce Lucas, the Company's Chairman and CEO, said, "I'm really proud of our fourth quarter results, which included an acceleration to 6.2% organic gross premiums written growth, as our de-risking efforts are basically complete, while our new business generation and retention remain strong. Underwriting performance was solid and we reported our sixth consecutive quarter of favorable reserve development. I believe we are well positioned for 2020 and look forward to the year ahead."

### Results of Operations

The following table summarizes our results of operations for the three and twelve months ended December 31, 2019 and 2018 (amounts in thousands, except percentages and per share amounts):

|                                    | Three Months Ended December 31, |              |           | Year Ended December 31, |              |           |
|------------------------------------|---------------------------------|--------------|-----------|-------------------------|--------------|-----------|
|                                    | 2019                            | 2018         | Change    | 2019                    | 2018         | Change    |
| <b>Revenue</b>                     | \$ 138,502                      | \$ 124,878   | 11%       | \$ 511,304              | \$ 480,171   | 6%        |
| <b>Net income</b>                  | \$ 12,818                       | \$ 3,928     | 226%      | \$ 28,636               | \$ 27,155    | 5%        |
| <i>Per share</i>                   | \$ 0.44                         | \$ 0.15      | 193%      | \$ 0.98                 | \$ 1.04      | (6)%      |
| <b>Book value per share</b>        | \$ 15.66                        | \$ 14.43     | 9%        | \$ 15.66                | \$ 14.43     | 9%        |
| <b>Return on equity*</b>           | 11.5%                           | 3.9%         | 7.6 pts   | 6.6%                    | 6.7%         | (0.1) pts |
| <b><u>Underwriting summary</u></b> |                                 |              |           |                         |              |           |
| Gross premiums written             | \$ 235,446                      | \$ 221,706   | 6%        | \$ 937,937              | \$ 923,349   | 2%        |
| Gross premiums earned              | \$ 234,082                      | \$ 234,028   | 0%        | \$ 924,247              | \$ 926,326   | (0)%      |
| Ceded premiums earned              | \$ (103,005)                    | \$ (115,396) | (11)%     | \$ (445,534)            | \$ (472,144) | (6)%      |
| Net premiums earned                | \$ 131,077                      | \$ 118,632   | 10%       | \$ 478,713              | \$ 454,182   | 5%        |
| Ceded premium ratio                | 44.0%                           | 49.3%        | (5.3) pts | 48.2%                   | 51.0%        | (2.8) pts |

## Ratios to Net Premiums Earned:

|                |       |       |         |       |       |         |
|----------------|-------|-------|---------|-------|-------|---------|
| Loss ratio     | 51.0% | 50.3% | 0.7 pts | 57.1% | 52.3% | 4.8 pts |
| Expense ratio  | 38.3% | 36.1% | 2.2 pts | 39.4% | 38.1% | 1.3 pts |
| Combined ratio | 89.3% | 86.4% | 2.9 pts | 96.5% | 90.4% | 6.1 pts |

\*Return on equity represents annualized net income for the period divided by average stockholders' equity during the period.

## Ratios

*Ceded premium ratio* represents ceded premiums earned as a percentage of gross premiums earned.

*Net loss ratio* represents net losses and loss adjustment expenses (LAE) as a percentage of net premiums earned.

*Net expense ratio* represents policy acquisition costs (PAC) and general and administrative expenses (G&A) as a percentage of net premiums earned. Ceding commission income is reported as a reduction of policy acquisition costs and G&A expenses.

*Net combined ratio* represents the sum of net losses and LAE, PAC and G&A expenses as a percentage of net premiums earned. The net combined ratio is a key measure of underwriting performance traditionally used in the property and casualty insurance industry. A net combined ratio under 100% generally reflects profitable underwriting results.

## Quarterly Financial Results

Fourth quarter 2019 net income was \$12.8 million, up from \$3.9 million in the prior year quarter. The increase primarily reflects \$11.3 million of non-core pre-tax charges in the prior year quarter associated with debt refinancing.

Gross premiums written were \$235.4 million in fourth quarter 2019, up 6.2% from \$221.7 million in the prior year quarter. The increase reflects 9.4% growth outside Florida and 3.5% growth in Florida, reflecting positive organic growth across all states and lines of business.

Premiums-in-force were \$940.6 million, representing a 6.1% compound annual growth rate from third quarter 2019. The increase stems from the same items impacting gross premiums written.

Gross premiums earned were \$234.1 million in fourth quarter 2019, basically in line with \$234.0 million in the prior year quarter.

The ceded premium ratio was 44.0% in fourth quarter 2019, down 5.3 points from 49.3% in the prior year quarter. The decrease is primarily attributable to a reduction in overall quota share reinsurance coverage and reinsurance synergies, partly offset by additional catastrophe excess-of-loss reinsurance coverage. Effective December 31, 2019, net quota share reinsurance coverage, which only applies to a portion of the Company's business, increased from 52.0% to 56.0%.

The net loss ratio was 51.0% in fourth quarter 2019, up 70 basis points from 50.3% in the prior year quarter. The increase primarily reflects higher attritional current accident year losses and lower income from vertically integrated operations, partly offset by lower weather-related losses.

The net expense ratio was 38.3% in fourth quarter 2019, up 2.2 points from 36.1% in the prior year quarter. The increase primarily stems from the timing of variable compensation accruals and higher expenses associated with insurance licenses and fees, partly offset by a lower ceded premium ratio.

The net combined ratio was 89.3% in fourth quarter 2019, up 2.9 points from 86.4% in the prior year quarter. The increase primarily stems from a higher net expense ratio, as described above.

## Full Year Financial Results

Full-year 2019 net income was \$28.6 million, compared to \$27.2 million for the prior year. The increase primarily reflects higher non-core pre-tax charges in the prior year and lower interest expense in the current year, mostly associated with debt refinancing, partly offset by higher net loss and expense ratios in the current year.

## Book Value Analysis

Book value per share increased to \$15.66 at December 31, 2019, up 8.5% from year-end 2018.

| Book Value Per Share | As Of                |                      |                      |
|----------------------|----------------------|----------------------|----------------------|
|                      | December 31,<br>2019 | December 31,<br>2018 | December 31,<br>2017 |

|                             |            |            |            |
|-----------------------------|------------|------------|------------|
| Numerator:                  |            |            |            |
| Common stockholders' equity | \$ 448,799 | \$ 425,333 | \$ 379,816 |
| Denominator:                |            |            |            |
| Total Shares Outstanding    | 28,650,918 | 29,477,756 | 25,885,004 |
| Book Value Per Common Share | \$ 15.66   | \$ 14.43   | \$ 14.67   |

**Conference Call Details:**

Friday, February 28, 2020 – 8:30 a.m. ET  
Participant Dial-in Numbers Toll Free: 1-888-346-3095  
Participant International Dial In: 1-412-902-4258  
Canada Toll Free: 1-855-669-9657

**Webcast:**

To listen to the live webcast, please go to <http://investors.heritagepci.com/>. This webcast will be archived and accessible on the Company's website.

**HERITAGE INSURANCE HOLDINGS, INC.**  
**Condensed Consolidated Balance Sheets**  
**(Amounts in thousands, except share amounts)**  
**(Unaudited)**

|   | <i>December 31,</i> |                     |
|---|---------------------|---------------------|
|   | <i>2019</i>         | <i>2018</i>         |
| <b>ASSETS</b>   |                     |                     |
| Fixed maturities, available-for-sale, at fair value   | \$ 587,256          | \$ 509,649          |
| Equity securities, at fair value  | —                   | 15,034              |
| Other investments   | 7,993               | 3,910               |
| Total investments   | 595,249             | 528,593             |
| Cash and cash equivalents   | 268,351             | 250,117             |
| Restricted cash   | 14,657              | 12,253              |
| Accrued investment income   | 4,377               | 4,468               |
| Premiums receivable, net  | 63,685              | 57,000              |
| Reinsurance recoverable on paid and unpaid claims   | 428,903             | 317,930             |
| Prepaid reinsurance premiums  | 224,102             | 233,071             |
| Income taxes receivable   | 3,171               | 35,586              |
| Deferred policy acquisition costs, net  | 77,211              | 73,055              |
| Property and equipment, net   | 20,753              | 17,998              |
| Intangibles, net  | 68,642              | 76,850              |
| Goodwill  | 152,459             | 152,459             |
| Other assets  | 18,110              | 9,333               |
| <b>Total Assets</b>   | <b>\$ 1,939,670</b> | <b>\$ 1,768,713</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Unpaid losses and loss adjustment expenses  | \$ 613,533          | \$ 432,359          |
| Unearned premiums   | 486,220             | 472,357             |
| Reinsurance payable   | 156,351             | 166,975             |
| Long-term debt, net   | 129,248             | 148,794             |
| Deferred income tax   | 12,623              | 7,705               |
| Advance premiums  | 16,504              | 20,000              |
| Accrued compensation  | 5,347               | 9,226               |
| Accounts payable and other liabilities  | 71,045              | 85,964              |
| <b>Total Liabilities</b>  | <b>\$ 1,490,871</b> | <b>\$ 1,343,380</b> |
| <b>Commitments and contingencies</b>  |                     |                     |
| <b>Stockholders' Equity:</b>  |                     |                     |
| Common stock, \$0.0001 par value, 50,000,000 shares authorized, 28,996,452 shares issued and 28,650,918 outstanding at December 31, 2019 and 30,083,559 shares issued and 29,477,756 outstanding at December 31, 2018 | 3                   | 3                   |
| Additional paid-in capital  | 329,568             | 325,292             |
| Accumulated other comprehensive loss  | 7,330               | (6,527)             |
| Treasury stock, at cost, 8,349,483 shares and 7,214,797 shares  | (105,368)           | (89,185)            |

|   |                     |                     |
|---|---------------------|---------------------|
| Retained earnings                                 | 217,266             | 195,750             |
| <b>Total Stockholders' Equity</b>                 | <u>448,799</u>      | <u>425,333</u>      |
| <b>Total Liabilities and Stockholders' Equity</b> | <u>\$ 1,939,670</u> | <u>\$ 1,768,713</u> |

**HERITAGE INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income and Other Comprehensive Income**  
(Amounts in thousands, except per share and share amounts)  
(Unaudited)

|   | <i>Three Months Ended</i> |                   | <i>Year Ended</i>   |                   |
|---|---------------------------|-------------------|---------------------|-------------------|
|   | <i>December 31,</i>       |                   | <i>December 31,</i> |                   |
|   | <u>2019</u>               | <u>2018</u>       | <u>2019</u>         | <u>2018</u>       |
| <b>REVENUE:</b>   |                           |                   |                     |                   |
| Gross premiums written  | \$ 235,446                | \$ 221,706        | \$ 937,937          | \$ 923,349        |
| Change in gross unearned premiums   | (1,364)                   | 12,322            | (13,690)            | 2,977             |
| Gross premiums earned   | 234,082                   | 234,028           | 924,247             | 926,326           |
| Ceded premiums  | (103,005)                 | (115,396)         | (445,534)           | (472,144)         |
| Net premiums earned   | 131,077                   | 118,632           | 478,713             | 454,182           |
| Net investment income   | 3,275                     | 3,576             | 14,432              | 13,280            |
| Net realized and unrealized gains (losses)                                  | 1,031                     | (1,242)           | 4,163               | (2,477)           |
| Other revenue   | 3,119                     | 3,912             | 13,997              | 15,186            |
| <b>Total revenue</b>  | <u>138,502</u>            | <u>124,878</u>    | <u>511,305</u>      | <u>480,171</u>    |
| <b>EXPENSES:</b>  |                           |                   |                     |                   |
| Losses and loss adjustment expenses   | 66,798                    | 59,650            | 273,288             | 237,425           |
| Policy acquisition costs  | 28,113                    | 26,499            | 107,906             | 84,666            |
| General and administrative expenses   | 22,079                    | 16,377            | 80,544              | 88,544            |
| <b>Total expenses</b>   | <u>116,990</u>            | <u>102,526</u>    | <u>461,738</u>      | <u>410,636</u>    |
| <b>Operating income</b>   | <u>\$ 21,512</u>          | <u>\$ 22,352</u>  | <u>\$ 49,567</u>    | <u>\$ 69,536</u>  |
| Interest expense, net   | 2,021                     | 4,584             | 8,523               | 20,015            |
| Other non-operating loss, net   | —                         | 11,069            | 48                  | 10,527            |
| Income before taxes   | <u>\$ 19,491</u>          | <u>\$ 6,699</u>   | <u>\$ 40,996</u>    | <u>\$ 38,994</u>  |
| Provision for income taxes  | 6,673                     | 2,771             | 12,360              | 11,839            |
| <b>Net income</b>   | <u>\$ 12,818</u>          | <u>\$ 3,928</u>   | <u>\$ 28,636</u>    | <u>\$ 27,155</u>  |
| <b>OTHER COMPREHENSIVE INCOME:</b>  |                           |                   |                     |                   |
| Change in net unrealized (losses) gains on investments                      | 232                       | 1,904             | 19,765              | (5,700)           |
| Reclassification adjustment for net realized investment losses (gains)      | (2,025)                   | 2,170             | (1,734)             | 163               |
| Income tax benefit (expense) related to items of other comprehensive income | 573                       | (1,017)           | (4,174)             | 2,232             |
| <b>Total comprehensive income</b>   | <u>\$ 11,598</u>          | <u>\$ 6,985</u>   | <u>\$ 42,493</u>    | <u>\$ 23,850</u>  |
| <b>Weighted average shares outstanding</b>                                  |                           |                   |                     |                   |
| Basic   | <u>28,871,197</u>         | <u>26,350,098</u> | <u>29,213,910</u>   | <u>25,941,253</u> |
| Diluted   | <u>28,878,440</u>         | <u>26,363,457</u> | <u>29,232,981</u>   | <u>26,095,874</u> |
| <b>Earnings per share</b>   |                           |                   |                     |                   |
| Basic   | \$ 0.44                   | \$ 0.15           | \$ 0.98             | \$ 1.05           |
| Diluted   | \$ 0.44                   | \$ 0.15           | \$ 0.98             | \$ 1.04           |

**About Heritage**

Heritage Insurance Holdings, Inc. is a super-regional property and casualty insurance holding company headquartered in Clearwater, Florida. Through its insurance subsidiaries and a large network of experienced agents, the Company writes over

\$900 million of gross personal and commercial residential premium across its multi-state footprint.

### **Forward-Looking Statements**

Statements in this press release 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," "intend," "could," "would," "estimate," "or" "continue" or the other negative variations thereof or comparable terminology are intended to identify forward-looking statements. This release includes forward-looking statements relating to (i) being well-positioned for solid organic growth in 2020, (ii) the level of de-risking in future quarters, (iii) impact of steps taken regarding pricing and underwriting, (iv) our go-forward ceded premium run rate (v) expected positive impact of rates on the P&L, (vi) trends with respect to growth, pricing and reserves, (vii) the potential reinsurance rate increase and (viii) our share repurchase program. The risks and uncertainties that could cause our actual results to differ from those expressed or implied herein include, without limitation: our ability to comply with our obligations under the new credit facilities, including the financial and other covenants contained therein, the success of the Company's marketing initiatives; inflation and other changes in economic conditions (including changes in interest rates and financial markets); the impact of new federal and state regulations that affect the property and casualty insurance market; the costs of reinsurance and the collectability of reinsurance; assessments charged by various governmental agencies; pricing competition and other initiatives by competitors; our ability to obtain regulatory approval for requested rate changes, and the timing thereof; legislative and regulatory developments; the outcome of litigation pending against us, including the terms of any settlements; risks related to the nature of our business; dependence on investment income and the composition of our investment portfolio; the adequacy of our liability for losses and loss adjustment expense; our ability to build and maintain relationships with insurance agents; claims experience; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); changes in loss trends; acts of war and terrorist activities; court decisions and trends in litigation; and other matters described from time to time by us in our filings with the Securities and Exchange Commission, including, but not limited to, the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on March 12, 2019. 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.

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