

Heritage Reports Third Quarter 2022 Results

Tampa, FL – November 8, 2022: Heritage Insurance Holdings, Inc. (NYSE: HRTG) (“Heritage” or the “Company”), a super-regional property and casualty insurance holding company, today reported third quarter of 2022 financial results.

Third Quarter 2022 Result Highlights

- Third quarter net loss of \$48.2 million or \$1.83 per diluted share, compared to a net loss of \$16.4 million or \$0.59 per diluted share in the prior year quarter.
- Gross premiums written of \$304.5 million, up 11.1% from \$274.2 million in the prior year quarter.
- Gross premiums earned of \$308.0 million, up 4.6% from \$294.4 million in the prior year quarter.
- Net earned premiums of \$159.7 million, down 1.7% from \$162.4 million in the prior year quarter.
- Net current accident year weather losses of \$63.8 million, up 24.2% from \$51.4 million in the prior year quarter. Current accident year catastrophe weather losses are \$40.0 million up 150.5% from \$16.0 million in the prior year quarter. Current accident year other weather losses are \$23.8 million, down 32.8% from \$35.4 million in the prior year quarter.
- Ceded premium ratio of 48.1%, up 3.3 points from 44.8% in the prior year quarter.
- Net loss ratio of 97.6%, 17.8 points higher than the prior year quarter of 79.8%.
- Net expense ratio of 35.7%, up 3.0 points from the prior year quarter amount of 32.7%.
- Net combined ratio of 133.3%, up 20.8 points from 112.5% in the prior year quarter.
- Repurchased 632,744 shares for \$1.7 million.

“Hurricane Ian made landfall in Florida on September 28th. Our highest priority is our policyholders and all those who continue to be affected by Hurricane Ian remain in our thoughts. We are committed to fair and timely claim handling for our customers,” said Heritage CEO Ernie Garateix. At the same time, we are focused on managing exposure and achieving rate adequacy throughout the book of business. We continue to de-risk products or geographies which are not producing appropriate margins, which includes being more selective on both new and renewal business. While I am disappointed with the loss in the quarter, the strategies outlined below are having a positive impact, as demonstrated by the Supplemental Information table included in this earnings release, and I expect that improvement to continue and be reflected in future quarters.”

Strategic Profitability Initiatives

The following provides an update to the Company’s strategic initiatives that we expect will enable Heritage to achieve consistent long-term quarterly earnings and drive shareholder value. The Supplemental Information table included in this earnings release demonstrates progress made since third quarter 2021.

- **Generate underwriting profit though rate adequacy and more selective underwriting.**
 - o Premiums-in-force of \$1.24 billion are up 5.8% from the prior year quarter, while policy count is down 6.9%, driven by higher rates.
 - o Average premium per policy throughout the book increased 13.6% over the prior year quarter.
 - o Continued focus on tightening underwriting criteria while also restricting new business, for policies written in over-concentrated markets or products.
- **Optimize capital allocation toward products and geographies that maximize long-term returns.**
 - o Reduction of policy count for Florida personal lines product is a key focus and will continue if meaningful legislation to reduce abusive claims practices does not occur. Policy count for Florida personal lines business intentionally declined by 18.8% as compared to the prior year period.
 - o Continued offering of Florida commercial lines product with 18.2% growth in annual premium while total insured value (“TIV”) increased only 4.2%.
- **Improve portfolio diversity.**
 - o Diversification efforts led to a premium in-force growth of 14.1% in other States.

- o Overall premium-in-force increase of 5.8%, despite an 8.5% reduction in Florida admitted personal lines business.
- o TIV in other states improved to 74.8%, compared to 71.3% as of the third quarter of 2021.

Capital Management

Given that Heritage's stock is trading below tangible book value and the loss in the quarter, Heritage's Board of Directors has decided to temporarily suspend the quarterly dividend to shareholders. The Board of Directors will re-evaluate dividend distribution and stock repurchases on a quarterly basis.

Results of Operations

The following table summarizes results of operations for the three and nine months ended September 30, 2022 and 2021 (amounts in thousands, except percentages and per share amounts):

	<u>Three Months Ended September 30,</u>			<u>Nine Months Ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>
Revenue	\$ 165,493	\$ 167,408	(1.1) %	\$ 487,872	\$ 464,849	5.0 %
Net loss	\$ (48,240)	\$ (16,410)	194.0 %	\$ (166,864)	\$ (25,509)	554.1 %
Adjusted net loss ^[1]	\$ (48,240)	\$ (16,410)	194.0 %	\$ (76,090)	\$ (25,509)	198.3 %
Loss per share	\$ (1.83)	\$ (0.59)	210.1 %	\$ (6.29)	\$ (0.91)	587.8 %
Adjusted net loss ^[1]	\$ (1.83)	\$ (0.59)	210.1 %	\$ (2.87)	\$ (0.91)	213.6 %
Book value per share	\$ 4.54	\$ 14.57	(68.8) %	\$ 4.54	\$ 14.57	(68.8) %
Adjusted book value ^[1]	\$ 6.65	\$ 14.55	(54.3) %	\$ 6.65	\$ 14.55	(54.3) %
Return on equity	(129.4) %	(15.8) %	(113.6) pts	(96.6) %	(8.0) %	(88.6) pts
Adjusted return on equity ^[1]	(129.4) %	(15.8) %	(113.6) pts	(44.0) %	(8.0) %	(36.0) pts
<u>Underwriting summary</u>						
Gross premiums written	\$ 304,501	\$ 274,178	11.1 %	\$ 952,981	\$ 886,059	7.6 %
Gross premiums earned	\$ 307,959	\$ 294,409	4.6 %	\$ 891,539	\$ 850,466	4.8 %
Ceded premiums earned	\$ (148,266)	\$ (131,964)	12.4 %	\$ (420,645)	\$ (399,323)	5.3 %
Net premiums earned	\$ 159,693	\$ 162,445	(1.7) %	\$ 470,894	\$ 451,143	4.4 %
Ceded premium ratio	48.1 %	44.8 %	3.3 pts	47.2 %	47.0 %	0.2 pts
Ratios to Net Premiums Earned:						
Loss ratio	97.6 %	79.8 %	17.8 pts	84.4 %	72.8 %	11.6 pts
Expense ratio	35.7 %	32.7 %	3.0 pts	36.3 %	35.8 %	0.5 pts
Combined ratio	133.3 %	112.5 %	20.8 pts	120.7 %	108.6 %	12.1 pts

^[1] Represents a non-GAAP financial measure. Information regarding non-GAAP financial measures, including required reconciliations, are set forth below under the "Non-GAAP Financial Measures" section of this release.

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

Note: Percentages and sums in the table may not recalculate precisely due to rounding.

Ratios

Ceded premium ratio represents ceded premiums 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 ("G&A") expenses as a percentage of net premiums earned. Ceding commission income is reported as a reduction of PAC 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 industry. A net combined ratio under 100% generally reflects profitable underwriting results.

Third Quarter 2022 Results

- Third quarter net loss of \$48.2 million or \$1.83 per diluted share, compared to a net loss of \$16.4 million or \$0.59 per diluted share in the prior year quarter driven primarily by current accident year weather losses, including a \$40 million net retention for Hurricane Ian. In addition, the Company recorded a \$10.7 million valuation allowance against our net deferred tax asset related to certain tax elections made by Osprey Re, our captive reinsurer domiciled in Bermuda.
- Gross premiums written of \$304.5 million, up 11.1% from \$274.2 million in the prior year quarter, reflecting a 4.8% rate related increase in Florida, despite a policy count reduction of approximately 40,000, and 15.4% growth in other states primarily due to rate increases. Rate increases continued to meaningfully benefit written premiums throughout the book of business.
- Gross premiums earned of \$308.0 million, up 4.6% from \$294.4 million in the prior year quarter, reflecting higher gross premiums written over the last twelve months driven by higher average premium per policy.
- Net earned premiums are down 1.7% reflecting a 12.4% increase in contract year reinsurance cost with higher ceded premium outpacing the increase in gross earned premiums for the quarter.
- Net current accident year weather losses of \$63.8 million, up 24.2% from \$51.4 million in the prior year quarter. Current accident year catastrophe weather losses are \$40.0 million up 150.5% from \$16.0 million in the prior year quarter. The catastrophe loss for the current quarter represents a \$40.0 million retention for Hurricane Ian. Current accident year other weather losses are \$23.8 million, down 32.8% from \$35.4 million in the prior year quarter.
- Ceded premium ratio of 48.1%, up 3.3 points from 44.8% in the prior year quarter driven by a higher cost of the 2022-2023 catastrophe excess of loss program, stemming from both higher costs and higher TIV.
- Net loss ratio of 97.6%, 17.8 points higher than the prior year quarter of 79.8%, driven by higher losses incurred and slightly lower net earned premium than the prior year quarter.
- Net expense ratio of 35.7%, up 3.0 points from the prior year quarter amount of 32.7%, mostly driven by the reduction of net earned premium from the prior year quarter, with a small portion of the increase related to higher underwriting costs associated with an increase in gross premiums written.
- Net combined ratio of 133.3%, up 20.8 points from 112.5% in the prior year quarter, driven by a higher net loss ratio and net expense ratio as described above.
- Effective tax rate was 2.2% compared to 6.4% in the prior year quarter, driven by the impact of permanent differences in relation to the pre-tax loss each quarter, as well as a \$10.7 million valuation allowance as described above in the current period quarter.

Supplemental Information:

	At September 30,		% Change
	2022	2021	
Policies in force:			
Florida	188,383	228,572	-17.6%
Other States	352,989	352,714	0.1%
Total	541,372	581,286	-6.9%
Premiums in force:			
Florida	\$ 569,589,537	\$ 584,994,491	-2.6%
Other States	672,812,875	589,527,230	14.1%
Total	\$ 1,242,402,412	\$ 1,174,521,721	5.8%
Total Insured Value:			
Florida	\$ 102,784,056,201	\$ 114,537,338,974	-10.3%
Other States	304,657,398,158	284,498,624,168	7.1%
Total	\$ 407,441,454,359	\$ 399,035,963,142	2.1%

Book Value Analysis

Book value per share decreased to \$4.54 at September 30, 2022, down 64.6% from fourth quarter 2021. The decrease from December 31, 2021 is attributable to a year-to-date net loss, driven primarily by a non-cash goodwill impairment charge of \$90.8 million made in the second quarter of 2022, and higher weather losses as described above, as well as unrealized losses on the Company's available-for-sale fixed income securities portfolio. The unrealized losses were due to the sharp decline in bond prices during 2022 as a result of the higher interest rate environment. The Company's fixed income portfolio average credit rating is A+ with a duration of 3.4 years at September 30, 2022.

Book Value Per Common Share	As Of				
	Sept 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Numerator:					
Common stockholders' equity	\$ 117,697	\$ 180,546	\$ 281,766	\$ 343,051	\$ 405,025
Denominator:					
Total Shares Outstanding	25,898,930	26,544,096	26,444,720	26,753,511	27,802,626
Book Value Per Common Share	\$ 4.54	\$ 6.80	\$ 10.65	\$ 12.82	\$ 14.57
Adjusted Book Value Per Common Share	\$ 6.65	8.35	11.75	12.99	14.55

Conference Call Details:

Wednesday, November 9, 2022– 9:00 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.