REPRINTED FROM MAY 9, 2016

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

1347 Property Insurance Holdings, Inc. (NASDAQ:PIH)

DOUG N. RAUCY is Chief Executive Officer and President of 1347 Property Insurance Holdings, Inc. Mr. Raucy serves as the Chief Executive Officer of Maison Insurance Company and President of Maison Insurance Company at Kingsway Financial Services Inc. Mr. Raucy has been the Chief Executive Officer and President at 1347 Property Insurance Holdings, Inc., since October 2, 2012. He served as the Chief Executive Officer and President and Director of Access Home Holdings LLC, Access Home Insurance Company and Access Home Managers LLC from August 2011 to October 2012. He also served as the Chief Executive Officer and President and Director of Prepared Holdings LLC, Prepared Insurance Company and Prepared Managers LLC. From January 2001 to August 2008, he served as the Chief Operating Officer of the Institute of Business and Home Safety — IBHS — a property mitigation firm that focuses on disaster-resistance property research and education. His prior executive experience also includes positions held during his 20-year tenure at Allstate Insurance Company, including his role as the Director and Founder of the National Catastrophe Team and National Catastrophe Center from 1995 to 2001, where he led the Allstate Insurance Company efforts for every major national catastrophe. He has been a director at 1347 Property Insurance Holdings, Inc., since October 2, 2012. He served as a member of the advisory board for Marshall Swift/Boech and a consultant to the Ocean Research & Resources Advisory Panel, a U.S. federal advisory committee studying the effects of the ocean on global weather patterns. Mr. Raucy obtained a bachelor's degree from Utah State University.

SECTOR — INSURANCE

TWST: Can you provide an overview of the company and talk a little bit about your history with it?

Mr. Raucy: The company started back in October 2012. I partnered with Larry Swets, the CEO of Kingsway Financial Services, which put up the capital to start the company. In December of 2012, we performed a depopulation from Louisiana Citizens of wind/hail-only policies. After that, we entered the voluntary organic market in April of 2013 in Louisiana. Midyear 2013, a few months after we launched in the voluntary market, we conducted a renewal rights deal with American Modern to renew about 6,000 manufactured home policies. We converted around 4,000 of the 6,000 policies to our books during the next one-year renewal cycle.

Subsequent to that, we did takeouts every year in Louisiana. Those takeouts occur every December 1, and we have participated in those for four years. We have always only taken out wind and hail policies; all are underwritten by one of three companies: State Farm, Allstate or Farm Bureau. In March of 2014, we took the company public in order to raise capital and continue to grow the company. We did an initial offering and raised $17 million, and then, in June of 2014, we did a follow-on offering and raised another $23 million.

We trade on Nasdaq under the symbol PIH, for Property Insurance Holdings. In 2015, we expanded into Texas and started writing business by the end of 2015. Today, we are looking at expansion into other states, including Florida and Mississippi. Currently, we have about 30,000 policies, 9,000 of those are depopulation policies, and the other 21,000 are those that we have written organically, including the manufactured homes that we assumed from American Modern.

We have a partnership with Brotherhood Mutual that started in June of 2015, through which we assumed wind and hail coverage from their Southern Baptist churches in the state of Texas. That partnership has performed very well for us. We like the idea of partnerships and are looking for future partnerships. We have approximately $50 million in premium from those 30,000 policies on the books today. We are slowly expanding into Texas through the partnerships and the voluntary/organic market with a similar strategy to what we use in Louisiana.

TWST: You had about $27.1 million in revenue in 2015. Can you talk about how that breaks down by mix and whether that mix is likely to change in the next year or two?

Mr. Raucy: About a third of our book came from our depopulation policies and about two-thirds came from the policies that we wrote in the organic market, some of which includes the manufactured home policies we renewed from American Modern. We anticipate that mix staying similar. Again, we have about 30,000 policies, 9,000 of which are wind-and-hail-only, 4,000 are manufactured home and around 17,000 are homeowners policies.

The mix will probably stay the same but change just slightly in Texas. Instead of 30%, we will probably end up writing somewhere around 40% to 45% wind and hail, and the rest of the book will be manufactured home and homeowners policies. We will write homeowners and manufactured home and dwelling fire and probably add a couple of lines to that as we grow.

TWST: Who are your competitors, and what are your competitive advantages relative to them?

Mr. Raucy: We are a small, new Demotech-rated company and are not A. M. Best-rated. Other smaller, newer Demotech-rated companies are our competitors, although in Louisiana we do tend to compete in different parts of the state with some of the big companies — Allstate, State Farm and Farm Bureau — but mainly for the coastal risk. We have a multifaceted competitive advantage.

First, we are solid on the strategy of the right mixture of policies. For example, we know that if we write enough wind and hail on the coast, and then write the rest of our homeowners, our manufactured home and our dwelling fire products inland, we are really not exposing all of our book to one certain peril. Along the coast, we are looking at more hurricane risk, and inland, we are looking at more tornado/hail risk.

Second, we are a company that is managed/run by insurance people. For example, our underwriter is Dean Stroud, who has been in the insurance business over 40 years. He used to be the President of Audubon Insurance, with most of his time spent in Louisiana and other Gulf Coast states. I have been in insurance for 35 years, with most of my years in claims. I was with Allstate for 20 years.

1347 PIH is a company that is run by seasoned insurance professionals, and we tend to do things kind of old school. We are very disciplined. We have rigid underwriting guidelines, and handle and pay claims as well as anybody. In sum, we are an experienced company run by insurance people, and in today's world, that's not always the case.

Additionally, contrary to what some people believe, we think we can grow the business organically. As I mentioned earlier, 70% of our book was gained organically, and our growth rate has been phenomenal. In three years, we have gone from zero to 30,000 policies in a single state: Louisiana. Our loss ratios tend to reflect the difference in underwriting and claims. For example, in 2014, we ran a 13% loss ratio. In 2015, we ran a 24% loss ratio, which is better than the industry average in Louisiana, despite a few storms that hit our sweet spots. We have outperformed the industry's loss ratios, and that comes from having experienced employees.

The growth really comes from knowing the agents and putting together a product that the agents need. For example, last year was the first year you could take a look at us and draw some conclusions about growth because the first couple of years we were just doubling all the time off a low base. Last year, we grew about 35%, and that was despite the low-base effect tailing off. We anticipate growing somewhere between 40% and 45% this year. Again, a majority of that will be organic growth. We feel like there is opportunity in the organic voluntary market for the right carrier out there, and that is how we are positioning the company.

TWST: In your company literature, you talk about having regional expertise. What exactly do you mean by that?

Mr. Raucy: That expertise comes from our management team. At Allstate, I was the Founder of its National Catastrophe Team/Division. That enabled me to understand catastrophe exposure very well and become adept at managing it appropriately. I spent substantive time in Florida during my career. I was down here for about five years at Allstate. Dean, our underwriter, spent his entire career in the Gulf Coast states, with the majority of that time in Louisiana.

Since I came back to Florida, after I left Allstate, I've been here now about 14 years. So altogether, I have spent about 20 years in Florida. That is important because Florida, just based on geography, is a bellwether state for the insurance industry. We understand the coastal risk, especially the Gulf coastal and Atlantic Gulf coastal risks. That has been what we have done most of our careers. We understand how to underwrite it, how to handle claims, and prepare and handle catastrophes. When I was at Allstate from 1995 to 2001, I managed all the catastrophes that the company had nationally, including hurricanes.

"1347 PIH is a company that is run by seasoned insurance professionals, and we tend to do things kind of old school. We are very disciplined. We have rigid underwriting guidelines, and handle and pay claims as well as anybody. In sum, we are an experienced company run by insurance people, and in today's world, that's not always the case."

TWST: What are the metrics you use to evaluate the performance of the company, and also, what are the ones that you think are most vital in terms of underwriting?

Mr. Raucy: We use all the traditional measurements, like expense, loss and reinsurance ratio. Being a public company, we constantly monitor our growth rate. We review our renewal ratios, and we model our books so our probable maximum loss to premium is appropriate. We look at all the traditional measurements that everybody does, but some of the things we do are different. For example, when I say we really have an expertise in underwriting, we inspect every house that we write and then go through metrics on those inspections, specifically age of roof, type of roof and age of construction. We don't just underwrite the property; we also underwrite the insured or occupant by running credit and loss history. We have a good sense for exactly what kind of risks that we're obtaining based on the modeling and metrics.

TWST: You had a management services agreement terminate in 2015. Can you talk a little bit about what that was about?

Mr. Raucy: Kingsway started us, as they put up the initial capital. We are about three years old today. When we decided to go public, we put the management service agreement in place because we were still getting some assistance in managing the business from Kingsway. We put that management service agreement in place, which called for consolidating some back-office work, such as human resources. Then, we terminated that agreement and moved away from Kingsway to be the completely independent company we are today.

We are doing all of our own accounting, our own human resources and all of our own reinsurance, and don't utilize Kingsway Financial Services anymore. When we made the decision, it was a good time to terminate the agreement because the buyout clause was based on total premium. We wanted to buy it out when we were small and the fees would not be excessive. It was a matter of us evolving to the point where we were able to bring everything we needed in-house.

TWST: You talked about the alliance you started in 2015 with Brotherhood Mutual and mentioned wanting other ones. What exact type of agreements or partnerships are you seeking, and is that also an important piece of how you intend to grow along with the organic growth?

Mr. Raucy: We do expect that to be an important aspect of our growth strategy. For the Brotherhood piece, we reviewed the company's underwriting practices. We are interested in the wind and hail, but we want to make sure that the church properties have been underwritten properly. In Texas, we want to make sure that the fundamental underwriting of any partner meets our standards. Brotherhood has an outstanding underwriting process and overall strong underwriting. We know they are sharing the risk with us as they have the liability/fire and all the other coverages for the Southern Baptist churches.

What we're seeking are similar partnerships where we can assume the wind and hail risk, and the partner will keep the rest of the risk. It is very important in a partnership to be comfortable with the basic underwriting of the partners. For example, in Louisiana, we do take the wind and hail from Allstate, State Farm and Farm Bureau. The reason we limit it to those three companies is because we are very comfortable that their underwriting is solid. With that in mind, we feel comfortable that we can take the wind and hail.

We are looking for similar partnerships in other states. It could be with some other companies like Brotherhood, and we will take them through a rigorous due-diligence process to make sure that we are comfortable with the quality of risk that they are bringing on. There are a lot of companies that are more comfortable with the nonwind and don't want as much wind exposure. We have been talking to a few of those companies about partnerships.

For some perspective, we worked the Brotherhood piece for about 18 months before we actually launched the partnership. There was so much due diligence that had to be done before we were comfortable with each other. A partnership goes both ways. They also need to believe we are the right partner for them. While it takes time, it's a great strategy to augment our organic growth.

When you stop and you think about the way we grow organically, it takes us a lot of time and effort to go into a state and build up an independent agency network to the point where they are getting quality risks. We are not going to do that just in every state. It has to be a fairly large state like Texas or Louisiana. There are going to be some states where it makes more sense for us to go in with a partner and not build out an agent network like we would in other states. That is where the partnership makes sense to us.

We don't want to ignore any states; however, we want to spend the resources and the time building up that agent network in a state where we may get a maximum return on investment. There will be some states in which we dedicate resources and other states that will be better for us to have partnerships. We are in the process of modeling out and mapping out those states today.

TWST: What trends, including but not limited to regulations and also macro weather patterns, are you monitoring closely, and why?

Mr. Raucy: We monitor regulatory changes and additions or deletions on a continual basis for the states we are presently in and the states we are considering entering. It's important for us to know and understand how regulatory changes affect our company as well as our customers and that we are in compliance with all regulations. In addition, we track all the trends.

This year has been an El Nino year. In an El Nino year, typically, the Southern states will have more of an active spring. This happened to us this year with active weather in Louisiana and Texas. We also will monitor typical weather forecasts, including hurricane forecasting and modeling. We monitor all that to see whether we are in the right spot and we are doing the things today that are going to be helpful to us or make us profitable down the road.

When we look at Louisiana, for example, in this year they had a tornado just outside of New Orleans. It is very unusual to have a tornado that was that strong that is so close to the coast, because typically, the Gulf Coast waters are moderating. It's more probable to get strong tornadoes like that inland. We are trying to determine: Are these a common trend, or is it an unusual occurrence that we are going to start seeing? Is what we have here just an anomaly, or is it a trend? We can make, then, some decisions based on those weather patterns.

Our reinsurance broker has a meteorologist on staff that we work with, and every day, we get weather reports and determine how that weather has impacted our book. We know first thing in the morning if we have severe weather and in what zip codes. We also know how many of our policies are possibly affected and the total insurance value of those policies. We continually monitor regulatory and weather, and make the best decisions we can based on what is happening in those arenas.

TWST: What do you want a potential investor in 1347 Property Insurance Holdings to know today?

Mr. Raucy: As a public company, there is a lot of pressure to grow, and we grew 35% last year in a single state. However, we have some unused capital that we need for expansion because we are expanding into Texas and, later this year, into other states. The world

"When you stop and you think about the way we grow organically, it takes us a lot of time and effort to go into a state and build up an independent agency network to the point where they are getting quality risks. We are not going to do that just in every state. It has to be a fairly large state like Texas or Louisiana."

is different today when it comes to avenues for expansion. Back four to five years ago, you could expand into a state like Florida and take out 100,000 policies from Florida Citizens in a matter of months. That world is not out there today, and so the world that we are in is one in which we are going to have to grow organically or through M&A activity. We continue to look at M&A possibilities, but we haven't seen anything that has stimulated us to action.

Our investors know we are going to grow this organically. There are a couple of items they need to know about organic growth. The greatest benefit of writing policies organically is that we get to underwrite each individual risk. We get a chance to underwrite, inspect, and make sure that we bring on and retain good risk. The downside is it takes a little bit longer to grow that way, and so we always try to tell our investors that we're bringing on long-term profitable growth, we're doing it organically and through partnerships, and that it is going to take a little longer to grow, and they need to remain patient.

Today, we're close to $50 million in premium, and by the end of 2017, our goals are to be at $100 million in premium, which would be good for a company our age. We continue to grow the operation organically with good long-term profitable growth. We even made a profit last year outside of that MSA buyout. What was notable about last year is that our storm losses consisted of multiple small events. None of those were significant enough to get into our reinsurance layer, even though, in aggregate, the total losses were above that trigger level. Even though we are today overwhelmingly just a single-state operator, relative to our 2015 results, we still made a profit last year despite many storm claims.

It is not a big deal for a national company because they have 49 other states to balance the losses they may get in a single state. The reason we have remained profitable is because of our overall strategy, and specifically, because of the way we underwrite and handle claims. If our investors stay patient with us, we will deploy the capital and grow, but we're going to grow it the right way, and that means patiently. We're not going to get impatient and start writing risks that are unprofitable.

We see a lot of our competition coming into the market today with lower prices than ours, which is fine. We are not ever going to lower our underwriting standards just to bring on new business. We are looking for quality business. We have told our agents all along, "This is the kind of risk we want. If you want to write that kind of risk in our company, we want to have a long-term association with you." We have a limited amount of agents, and it is an exclusive club to be a Maison Insurance Company-appointed agent.

TWST: Is there anything else you wanted to add that we haven't covered?

Mr. Raucy: No.

TWST: Thank you. (KJL)

DOUG N. RAUCY
CEO & President
1347 Property Insurance Holdings, Inc.
1511 N. Westshore Blvd.
Suite 870
Tampa, FL 33607
(813) 579-6213
www.1347pih.com