
PHASE 2 PARTNERS, LLC

Research Sample

Unlocking A Flood of Value

TypTap + HCI = \$300+

June 2021

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Executive Summary

- **We believe HCI Group (NYSE: HCI) is worth approximately \$300 to \$400 / share or 3 to 4x its publicly traded price today¹, as the market has not appropriately valued its TypTap InsurTech subsidiary. We believe TypTap could be worth \$2-4B on a standalone basis versus HCI's current market cap of \$740 million¹.**
- **We expect value to be unlocked this year through the monetization of TypTap via IPO or SPAC. Management has indicated its eagerness to monetize this asset and unlock shareholder value.**
- **We believe TypTap, an AI based homeowner insurance underwriter, has superior growth and profitability to public peers such as Lemonade, Hippo, and Upstart.**
- **Its proprietary technology and use of alternative data, we believe will sustain superior growth and returns and justify a premium multiple.**
- **Seemingly validating our thesis, private equity firm Centerbridge recently invested in the TypTap subsidiary at a valuation greater than all of HCI.**

Footnote:

1. HCI's stock price (\$87.43) & market cap as of 6/9/21.

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Background: HCI

- **HCI is a \$740 million market cap¹ insurance company consisting of two main subsidiaries.**
 - 1) **TypTap – This division was started in 2016 and uses automated pricing, algorithmic underwriting, and alternative data sets. TypTap expects to grow gross written premium by 100% in 2021 with growth accelerating from the recent expansion into four more states. Management targets \$1B of written premiums in 2025 implying a 50%+ CAGR².**
 - 2) **Homeowners Choice – This is a traditional Florida based homeowners insurance business that was started in 2006 to take advantage of pricing disruption following the 2004 and 2005 weather events in Florida.**
- **HCI management has significant share ownership in the company, and we believe have aligned interest to maximize shareholder value. HCI's CEO Patel Paresh owns 13% of the company.**

Footnote:

1. Market Cap is as of 6/9/21

2. \$1B premium target comment is made by management team (Source [here](#)).

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Background: TypTap

- **Similar to Upstart in personal lending, TypTap uses nontraditional data sets (such as relative elevation, building materials, fire hydrant locations, etc.) to make faster and more predictive underwriting decisions. Price quotes are instantaneous rather than days, and loss ratios are below industry averages.**
- **TypTap's growth trajectory exceeds InsurTech peers and we expect annualized growth of 100% from 2018 to 2022.**
- **Technology stack and valuation has been validated by private equity firm, Centerbridge who recently placed a valuation on TypTap, the HCI subsidiary, that exceeds all of HCI's market capitalization today.**
- **Private Equity firms such as Centerbridge usually invest when they see a path to return at least 3x their investment with visibility to a monetization event in the near future.**
- **Public statements by HCI management indicate a willingness to further monetize TypTap.**

“the markets are looking to these kinds of businesses at the moment and when you see the numbers that TypTap is putting up, it has to be a very desirable partner for a number of SPACs” - HCI's CEO

TypTap is Homeowner InsurTech

- **Homeowner / Renter InsurTech trades at a higher multiple than Auto InsurTech competitors.**

	Mkt Cap/ 22E Gross written
Auto Insurance Tech	4.1x
Homeowner Insurance Tech	7.8x
Homeowner Premium (%)	89%

- **Homeowner / Renter peers expect 46% growth in 2022, while we expect TypTap will grow at twice that rate**
- **HCI would be worth \$322/share if TypTap trades at the average InsurTech multiple and \$440/share if TypTap trades at the average Homeowner InsurTech multiple.**
 - **TypTap is growing faster and is more profitable than its peer group.**

Source:

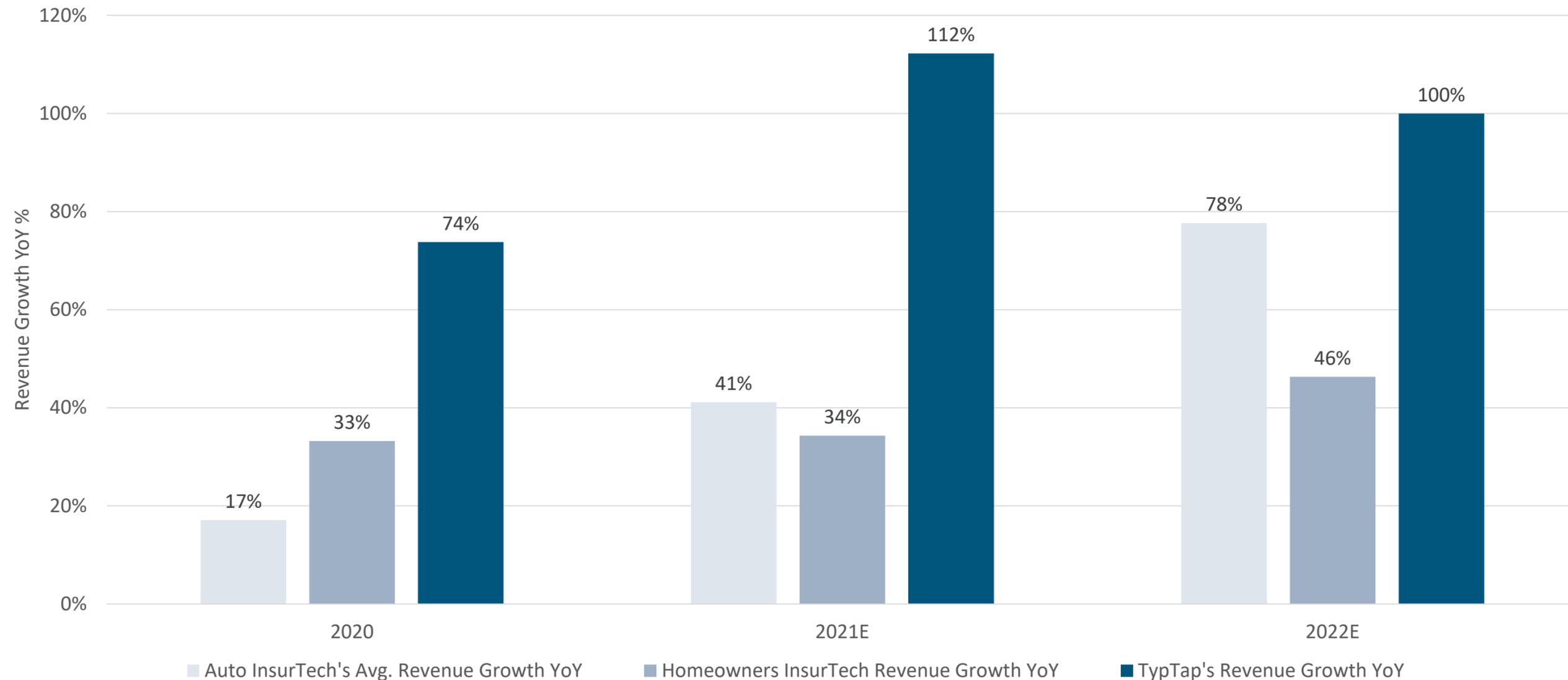
Visible Alpha – Consensus Estimates

Please refer to page 16 for comp table and multiples used.

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TypTap's Expected Growth Exceeds Public Peers



Source:

Visible Alpha – Consensus Estimates

Our estimates assuming TypTap achieves its 2025 targets

Please refer to page 15-16 for comp table.

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Paths to Value Maximization

- **We believe Centerbridge's investment into TypTap (as opposed to the parent) signals HCI's commitment to separate the high growth TypTap into a separate public company.**
- **Given TypTap's profitability and growth prospects relative to industry peers, we believe TypTap would be well received as a stand-alone public company.**
- **Market conditions remain favorable and a traditional IPO of TypTap seems realistic.**
- **It's reasonable to assume the ~100 SPACs in the market for FinTech or InsurTech would find TypTap an attractive partner. Hippo and Metromile both went public via SPAC.**

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TypTap's Technology and Competitive Advantage

- **TypTap's technology scrapes publicly available data about houses down to the property level, effectively underwriting everything prior to taking an application. This allows the company to:**
 - Better understand risk by knowing things like relative elevation, building materials, proximity to fire hydrants
 - Compare what it knows vs what the insured claims on an application
 - Consistently underwrite to an underlying loss ratio ~15 points better than the industry
 - Pay lower rates on reinsurance, which the company uses to increase coverage and reduce tail risk
- **TypTap's competitive advantage¹ in underwriting provides a marketing upper hand**
 - Pay higher commissions to insurance brokers
 - Provide virtually immediate underwriting decisions
 - This incentivizes brokers to check TypTap first
 - Then move on if a property doesn't meet the stringent underwriting standards
 - Increases customer retention due to competitive pricing
- **As a result, we estimate the company's TAM is actually ~1/4th the \$100B homeowners industry**
 - The company's 2025 GWP target is \$1B
 - We believe TypTap's long-term (~10 year) opportunity is closer to \$5B
 - That implies 20% market share in the target market

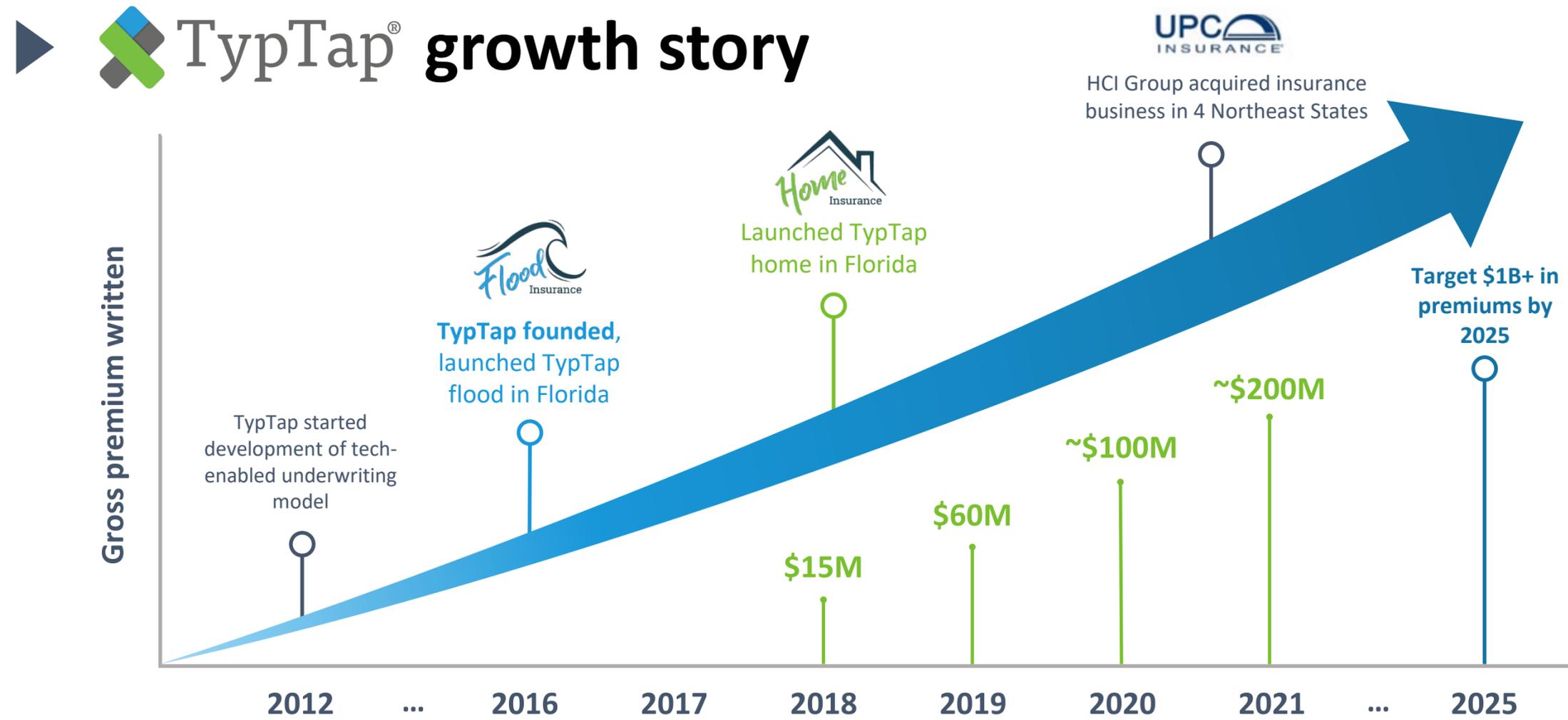
Footnote:

1. TypTap's competitive advantage (Source [here](#)).

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TypTap Growth



Source:
Company investor slides.

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Appendix

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Background: HCI Capital Structure

- **HCI's current equity market capitalization¹ is ~\$740M. The company went public during the summer of 2008 at \$7.00 and completed its only secondary in April of 2012 at \$11.75.**
- **HCI's latest share price¹ is \$87.43 w/ ~11mm fully diluted shares outstanding.**
- **Aside from WC-related payables, the company's only debt² is ~\$140M of 4.25% convertible notes due in 2037. The notes convert at ~\$60/share with a mandatory feature up 30% (HCI share price of \$78) and are callable in March of 2022. We assume full conversion for our share count assumption.**
- **CEO Paresh Patel is the company's founder and second largest shareholder at ~13%; other insiders account for an additional ~12% of basic shares outstanding.**
- **Homeowners Choice GWP had averaged ~\$375M annually leading up to TypTap's launch. Since then, TypTap's top line has grown to \$106M in GWP w/ a combined mid-teens ROE.**

Footnote:

1. HCI's latest share price & market cap is as of 6/9/21

2. HCI's 4.25% convertible notes due information based on latest company's quarter report (Source [here](#)).

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TypTap: Centerbridge Investment

- **In early 2021, Centerbridge invested \$100M in TypTap at an \$850M post-money valuation**
- **Terms:**
 - **11.75% ownership**
 - **Preferred Equity**
 - **6% initial dividend yield w/ a 4 year ratchet to 9.5%**
 - **One HCI Board seat (Eric Hoffman) and discretion over two seats on the TypTap Board of Directors**
 - **750M 4-year HCI warrants striking at \$54.40**
 - **Consent requirements on capital structure and management compensation**
 - **Registration rights after 4 years**
 - **Mandatory conversion to common in a qualified TypTap IPO:**
 - 1) an offering of \$250M or more in proceeds AND**
 - 2) at 1.5x the valuation of Centerbridge's investment (~\$1.3B)**

Source:

Company filings by HCI.

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TypTap's Anticipated Growth Exceeds Public Peers

Ticker	Product	GWP Description	2019	2020	2021E	2022E	2023E
MILE	Auto	Direct written premium	103.3	100.6	145.0	260.1	489.5
<i>% YoY Change</i>				-3%	44%	79%	88%
ROOT	Auto	Direct written premium	451.1	617.1	852.5	1,499.4	2,204.4
<i>% YoY Change</i>				37%	38%	76%	47%
Average % YoY Change	Auto			17%	41%	78%	68%

RTPZ	Homeowners	Total written premium	304.0	405.0	544.0	796.0	1,145.0
<i>% YoY Change</i>				33%	34%	46%	44%
LMND	Renters	Gross written premium	115.8	214.4	378.6	548.5	713.3
<i>% YoY Change</i>				85%	77%	45%	30%
Average % YoY Change	Homeowners/Renters			59%	55%	46%	37%

TypTap	Homeowners	Total Written Premium	61.0	106.0	225.0	450.0	750.0
<i>% YoY Change</i>				74%	112%	100%	67%

Source:

- Visible Alpha – Consensus Estimates
- LMND GWP is avg of MS, Autonomous, Piper, Barclays estimates
- MILE's estimates from Piper Sandler & Cantor Fitzgerald
- RTPZ – This is a SPAC merging with Hippo, which will have EV of \$5.0 Billion, and \$1.2B in cash.
- TypTap's projected total written premium is based on Phase 2 Partner's estimates.

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TypTap Comparable Public Company Multiples

Ticker	Product	GWP Description	Market Cap (mil)	Mkt Cap / 2021E GWP	Mkt Cap / 2022E GWP	Mkt Cap / 2023E GWP
MILE	Auto	Direct written premium	\$1,524	10.5x	5.9x	3.1x
ROOT	Auto	Direct written premium	\$3,407	4.0x	2.3x	1.5x
RTPZ	Homeowners	Total written premium	\$6,200	11.4x	7.8x	5.4x
LMND	Renters	Gross written premium	\$6,457	17.1x	11.8x	9.1x
Average - All				10.7x	6.9x	4.8x
Average - Homeowners/Renters				10.8x	9.8x	5.6x

Ticker	Product	GWP Description	Current EV ¹	2021E EV	2022E EV	2023E EV
TypTap	Homeowners	Total written premium	\$364	\$2,417	\$3,116	\$3,586

HCI implied stock price at the "Average - All" multiple	\$257.43	\$321.81	\$365.17
HCI implied stock price at the "Average - Homeowners/Renters" multiple	\$259.17	\$440.24	\$423.36

Source:

- Visible Alpha – Consensus Estimates
- LMND GWP is avg of MS, Autonomous, Piper, Barclays estimates
- MILE's estimates from Piper Sandler & Cantor Fitzgerald
- RTPZ - This is a SPAC merging with Hippo, which will have EV of \$5.0 Billion, and \$1.2B in cash.

Footnote:

1. TypTap's Current Enterprise Value is simply the difference between HCI's market cap & legacy Homeowners Choice business. HCI's market cap is ~740M, and within that is ~\$370M of equity value from legacy Homeowners Choice business (assuming full exercise of ITM warrants and full conversion of mandatory converts).

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