

# 21st Century Holding Company TCHC (NAS)

Last Close	Industry	Sector
4.57 USD	Insurance - Property & Casualty	Financial Services

## Profile

Pricing data through 17 Mar 2010

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21st Century Holding Company is an insurance holding company which, through its subsidiaries and its contractual relationships with its independent agents and general agents, controls nearly all aspects of the insurance underwriting, distribution and claims processes. It is authorized to underwrite fire, allied lines, homeowners' property and casualty insurance, commercial general liability insurance, commercial multi-peril, inland marine, personal automobile insurance and commercial automobile insurance in various states with various lines of authority through its wholly owned subsidiaries, Federated National Insurance Company and American Vehicle Insurance Company.

Federated National is authorized to underwrite fire, allied lines, personal automobile, and homeowners' property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite commercial multi peril, inland marine and personal and commercial automobile insurance in Florida as an admitted carrier.

# 21st Century Holding Company TCHC

**Sales USD Mil** 62    **Mkt Cap USD Mil** 37    **Industry** Insurance - Property & Casualty    **Sector** Financial Services

21st Century Holding is the holding company for several major insurance companies, including Federated Premium Finance, Federated National Insurance Company, and Federated Agency Group. Through its subsidiaries, 21st Century Holdings underwrites standard and nonstandard personal, automobile, property, and casualty insurance, in addition to providing an array of insurance-related services.

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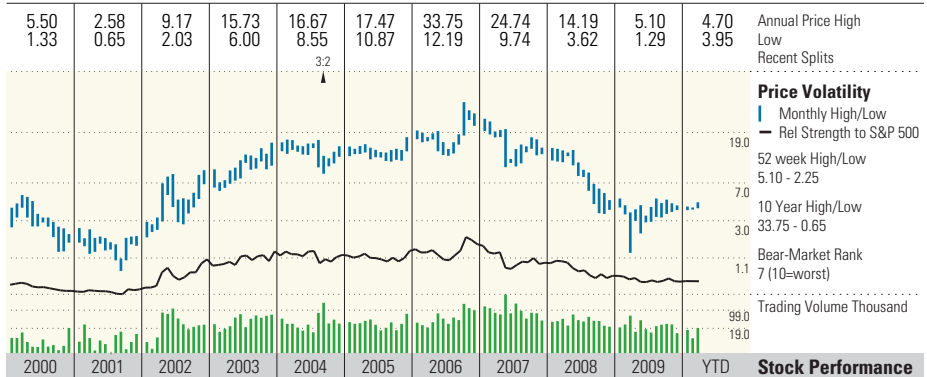
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-43.5	-10.7	2.3	12.5	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	0.0	31.0	27.5	—	
Book Value/Share %	-4.3	14.3	8.4	12.3	
Stock Total Return %	37.4	-29.9	-11.3	5.7	
+/- Industry	-65.5	-17.8	-7.2	7.8	
+/- Market	-12.5	-24.3	-10.9	7.8	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-7.3	10.1	-0.2
Return on Assets %	-2.8	2.3	0.0	7.3
Revenue/Employee USD K	559.6	885.1	—	669.6

Financial Position	12-08 USD Mil	09-09 USD Mil
	Total Investments	26
Cash	125	48
Receivables	6	11
Def Policy Acquisition Cost	7	8
Accrued Inv Income	—	—
Other Assets	33	125
Total Assets	197	204
Claims Reserve	65	66
Unearned Premiums	41	46
Debt	9	11
Other Liabilities	6	6
Total Liabilities	121	129
Total Equity	76	75

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	—
Forward P/E	—	—	—	14.4
Price/Cash Flow	—	—	6.0	7.2
Dividend Yield %	5.3	—	1.1	1.8
Price/Book	0.5	1.6	1.0	2.3
Price/Sales	0.6	1.0	1.0	1.3
PEG Ratio	—	—	—	1.7

**Morningstar Rating** —    **Last Price** 4.57    **Fair Value** —    **Uncertainty** —    **Economic Moat™** —    **Stewardship Grade** —  
 per share prices in USD



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
Annual Price High	5.50	2.58	9.17	15.73	16.67	17.47	33.75	24.74	14.19	5.10	4.70	Annual Price High
Low	1.33	0.65	2.03	6.00	8.55	10.87	12.19	9.74	3.62	1.29	3.95	Low
Recent Splits					3:2							Recent Splits
Price Volatility												Price Volatility
Monthly High/Low												Monthly High/Low
Rel Strength to S&P 500												Rel Strength to S&P 500
52 week High/Low												52 week High/Low
10 Year High/Low												10 Year High/Low
Bear-Market Rank												Bear-Market Rank
Trading Volume Thousand												Trading Volume Thousand
Total Return %	-26.8	7.7	338.1	66.8	-0.6	19.4	41.6	-40.4	-60.2	-5.4	15.2	Total Return %
+/- Market	-16.7	20.7	361.5	40.4	-9.6	16.4	28.0	-43.9	-21.7	-28.8	10.6	+/- Market
+/- Industry	-47.2	24.9	364.6	57.5	-8.2	8.1	31.2	-30.3	-7.0	-49.7	9.7	+/- Industry
Dividend Yield %	0.7	2.5	0.8	1.4	2.2	1.9	2.0	5.4	15.6	9.0	5.3	Dividend Yield %
Market Cap USD Mil	10	10	41	76	88	110	184	110	37	32	37	Market Cap USD Mil

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
Premiums	13	20	20	29	45	66	83	89	99	65	53	Premiums
Investment Income	—	1	1	1	2	3	4	6	8	6	3	Investment Income
Fees & Other	12	16	14	10	14	7	8	9	12	-4	6	Fees & Other
Total Revenue	25	38	35	41	60	77	95	104	119	67	62	Total Revenue
Operating Income USD Mil	—	-1	-3	8	13	-21	17	22	33	-4	-8	Operating Income USD Mil
Operating Margin %	—	-2.6	-7.9	19.4	21.4	-27.6	18.1	21.1	27.4	-5.6	-13.1	Operating Margin %
Net Income	2	-1	-1	5	8	-11	12	14	21	-2	-6	Net Income
Earnings Per Share USD	—	-0.10	-0.21	1.01	1.67	-1.86	1.83	1.72	2.65	-0.31	-0.71	Earnings Per Share USD
Dividends USD	—	0.01	0.05	0.07	0.21	0.32	0.32	0.48	0.72	0.72	0.48	Dividends USD
Shares Mil	—	5	4	4	5	5	6	8	8	7	8	Shares Mil
Book Value/Share USD	2.97	3.12	4.04	6.35	4.16	6.37	8.53	9.93	9.50	9.37	9.37	Book Value/Share USD

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
Return on Assets %	—	-1.1	-1.8	7.0	9.2	-8.0	5.3	5.5	9.9	-1.2	-2.8	Return on Assets %
Return on Equity %	—	-3.4	-6.8	28.3	33.4	-38.1	36.9	26.0	28.9	-3.1	-7.3	Return on Equity %
Net Margin %	6.2	-1.4	-2.8	11.3	13.9	-14.2	12.8	13.4	17.9	-3.7	-9.2	Net Margin %
Asset Turnover	—	0.80	0.64	0.62	0.66	0.57	0.42	0.41	0.55	0.32	0.31	Asset Turnover
Financial Leverage	—	3.7	4.0	4.2	3.3	6.5	7.1	3.2	2.7	2.6	2.7	Financial Leverage

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
Book Value/Prem	117.01	73.62	70.14	61.59	71.41	37.71	49.14	74.08	81.90	116.92	143.07	Book Value/Prem
Long-Term Debt USD Mil	—	8	7	4	11	19	12	4	0	—	—	Long-Term Debt USD Mil
Total Equity USD Mil	16	15	14	18	32	25	41	66	81	76	75	Total Equity USD Mil
Debt/Equity	—	0.54	0.47	0.24	0.34	0.76	—	0.06	—	—	—	Debt/Equity

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
Price/Earnings	—	—	9.0	9.0	—	10.3	13.8	5.1	—	—	—	Price/Earnings
P/E vs. Market	—	—	0.5	0.4	—	0.6	0.8	0.3	—	—	—	P/E vs. Market
Price/Sales	0.3	0.3	1.0	1.3	1.1	1.1	1.8	0.9	0.6	0.5	0.6	Price/Sales
Price/Book	0.7	0.7	2.3	2.4	3.5	2.7	2.8	1.4	0.5	0.4	0.5	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	15.9	15.6	17.1	12.9		
Prior Year Period	29.5	20.0	15.4	16.0		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-46.0	-22.1	11.0	-19.4		
Prior Year Period	35.9	-21.7	-55.3	-46.0		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.35	0.04	0.10	-0.50		
Prior Year Period	1.01	0.54	-0.31	-0.19		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
21st Century Holding	37	62	—	-7.3
Zurich Financial Ser	36099	32349	11.7	12.2
Zurich Financial Ser	36099	32349	11.7	12.2

Major Fund Holders		% of shares
DFA US Small Cap Value I		2.04
Vanguard Extended Market Idx		1.59
DFA US Micro Cap I		0.93

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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### Management & Ownership

#### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

#### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Small Cap Value I	QQ	2.04	0.01	0	30 Nov 2009
Vanguard Extended Market Idx	QQ	1.59	0.00	0	31 Dec 2009
DFA US Micro Cap I	QQ	0.93	0.01	0	30 Nov 2009
RBC Microcap Value S	QQ	0.88	0.16	0	30 Sep 2009
DFA Tax-Managed US Targeted Value	QQ	0.71	0.01	0	30 Nov 2009

#### Concentrated Holders

NA	NA	NA	NA	NA
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#### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA	NA	NA	NA	NA	NA

#### Top 5 Sellers

DFA Tax-Managed US Small Cap	QQ	0.21	0.01	-3	30 Nov 2009
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### Industry Focus: Insurance - Property & Casualty

#### Our Top Pick in a Soft Insurance Market

24 February 2010

Drew Woodbury  
Stock Analyst

**W.R. Berkley will benefit when the market hardens.**

The property-casualty insurance industry is cyclical, fluctuating between states of increasing prices (hard market) and decreasing prices (soft market) based on levels of industry capital and capacity. When capital is abundant, as we have seen over the past couple of years, insurers compete viciously for the best opportunities, driving prices downward. Without fail, the soft market eventually leads to irrational pricing. Because insurance is essentially a commodity product, most of the market is forced to match these irrational prices or risk sacrificing market share and growth. Eventually a catalyst, often a catastrophe, occurs that forces market participants to re-evaluate previous loss assumptions and companies begin to realize that they have less capital to cover their losses than they previously believed. The insurers that were most aggressive during the soft market are forced to scale back their underwriting or, in some cases, exit the market completely. This then sets the stage for harder pricing.

That leads us to the current state of the market, where insurance prices have been declining for a number of years. While a turn in the cycle is inevitable, the question is when that change will happen. We previously thought the hit to capital that many insurers felt during the financial crisis coupled with a strong hurricane season in 2008 might be the catalyst to push prices higher. However, government support of troubled institutions, the rally in the capital markets, and a benign hurricane season in 2009 has allowed many of the most financially strapped companies to claw their way back.

Earlier in 2009 we had begun to see signs of differentiation between the companies hardest hit by the financial crisis and those that made it through with their balance sheets largely intact. We thought that customers might increasingly search out more stable companies in a flight to quality. But

government support to a number of insurers including AIG and Hartford Financial Services Group allowed some of these distressed competitors to continue writing business at irrational prices. In some cases, we have heard competitors talk about distressed carriers cutting prices dramatically on renewal business in order to keep business and cash flow coming in the door. Additionally, the insurers whose investment portfolios were hit hardest by widening spreads during the financial crisis benefited the most when the markets rallied in 2009, allowing them to largely mend otherwise stressed balance sheets, growing book value disproportionately in the process, and restore their capital losses.

As 2009 progressed, we'd thought a hard market could still be on the horizon if another event, such as a difficult catastrophe season, would allow for differentiation among companies. But the 2009 hurricane season was essentially a nonevent, giving struggling companies a reprieve from further stresses to capital.

While we have seen a few carriers, including Travelers TRV and Chubb CB, able to pass along rate increases, widespread price spikes that accompany a hardening market have largely been absent. Most carriers cite the weak economy as the culprit in their inability to pass along rate increases to financially strained customers, making us believe that, barring a large natural catastrophe, the economy will need to show meaningful signs of improvement before widespread rate increases will be possible.

In the interim, we think investors would be best served sticking with the highest-quality names. Another fall in the capital markets remains a risk, and we think the strongest names provide relative downward protection in that scenario and are also best poised to exploit a hardening market when it occurs.

Along this theme, a high-quality insurance company whose stock looks cheap to us is W.R. Berkley WRB. The first

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### Industry Focus: Insurance - Property & Casualty

thing we like about Berkley is its business model. Rather than offering standard lines of insurance--a commodity--the company offers specialized property-casualty insurance to niche segments of the market. Berkley's staff of expert underwriters has deep experience in their respective markets, many of which have less competition than traditional insurance products. Because the risks are so unique, customers often don't shop on price alone. This strategy has allowed Berkley to generate excess returns over its history, a trend we expect to continue into the future. Due to its strong business model and superior returns, we believe the firm should trade at a premium to its property-casualty insurance peers. The current market price, equivalent to less than 1.1 times end of 2009 book value, ignores these returns and lumps Berkley in with more traditional insurers.

Due to its long-term focus, W.R. Berkley incentivizes its underwriters to decline business when prices aren't favorable. As a consequence, during the soft market, premiums at Berkley have been declining more rapidly than peers. What's more, given that it compensates its employees for the long-term value they generate, the firm continues to pay underwriters regardless of the stage of the market cycle. As premiums decline, the largely fixed nature of its compensation structure has caused W.R. Berkley's combined ratio (insurance expenses/earned premiums) to tick upward. We are not concerned by this trend, however, as the firm's loss ratio (claims divided/earned premiums) has remained low, indicating that the company continues to underwrite profitably. Given that W.R. Berkley has preserved capital during the soft market, it will have more capacity to write very profitable business when the pricing cycle turns. This was the case during the previous hard market, during which earned premiums increased 44% in a single year.

The company was founded more than 40 years ago by Bill Berkley, who serves as chairman and CEO to this day. His vast industry experience and unique long-term perspectives on the insurance markets are closely monitored by market participants. Berkley has been one of the most unwavering

executives calling for a turn in the pricing cycle after many years of price declines. As insurance earnings are based on estimates of future losses, he believes that the industry is turning a deaf ear to the unprofitability of business currently written. His prediction originally called for price changes to turn upward at the end of 2009 or the beginning of 2010. Since then, he has backed off a little bit but still predicts that the hard market will come at the end of 2010 when prices will increase 8%-10%.

We're not convinced Berkley has the time right, but we do believe a hardening market isn't too far away, although rate increases will be more muted than previous cycle turns. We believe that price increases in the near future will be more subdued than they otherwise might have been as a result of a more gradual market recovery. Regardless of the magnitude of the cycle turn, Berkley's shares look undervalued and we believe they represent a good opportunity for investors interested in the insurance space.