

21st Century Holding Company TCHC (NAS)

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

Profile

Pricing data through 10 Feb 2012

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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21st Century Holding Company was incorporated in the state of Florida. It is an insurance holding company, which, through its subsidiaries and its contractual relationships with its independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. It is authorized to underwrite homeowners' multi-peril, commercial general liability, personal and commercial automobile, fire, allied lines, surety, commercial multi-peril and inland marine in various states on behalf of its wholly owned subsidiaries, Federated National Insurance Company (Federated National) and American Vehicle Insurance Company (American Vehicle) and other insurance carriers. It markets and distributes its own and third-party insurers' products and its other services through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 300 actively sell and service its products. It also utilizes a select number of general agents for the same purpose. The Company's reinsurance strategy serves to smooth the liquidity requirements imposed by most severe insurable events and for all other insurable events it manages, at a micro and macro perspective, in the normal course of business. American Vehicle is also licensed as an admitted carrier in Alabama, Louisiana and Texas, and underwrites commercial general liability insurance in those states. American Vehicle operates as a non-admitted carrier in Arkansas, California, Georgia, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee, and Virginia, and could underwrite commercial general liability insurance in all of these states.

21st Century Holding Company TCHC

Sales USD Mil 58 **Mkt Cap USD Mil** 26 **Industry** Insurance **Sector** Financial Services
- Property & Casualty

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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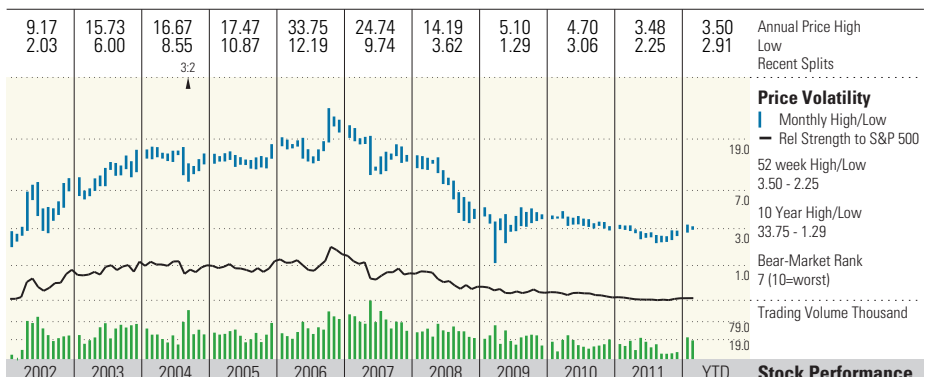
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	3.0	-20.2	-8.5	4.9	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	-66.7	-45.0	-17.8	24.6	
Book Value/Share %	-14.0	-9.8	2.7	9.4	
Stock Total Return %	5.1	-2.4	-25.9	9.9	
+/- Industry	-1.4	-21.8	-26.9	3.4	
+/- Market	3.5	-19.9	-24.5	8.4	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-9.9	4.9	5.2
Return on Assets %	-3.2	1.0	1.2	9.5
Revenue/Employee USD K	455.1	525.3	—	1049.9

Financial Position	12-10 USD Mil	09-11 USD Mil
	Total Investments	122
Cash	16	15
Receivables	8	7
Def Policy Acquisition Cost	8	8
Accrued Inv Income	—	—
Other Assets	30	20
Total Assets	184	179
Claims Reserve	67	62
Unearned Premiums	47	47
Debt	7	8
Other Liabilities	5	6
Total Liabilities	126	123
Total Equity	58	56

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	18.8
Forward P/E	—	—	—	13.5
Price/Cash Flow	—	—	11.4	7.4
Dividend Yield %	—	—	1.9	2.0
Price/Book	0.5	0.6	1.0	2.0
Price/Sales	0.5	0.6	1.0	1.2
PEG Ratio	—	—	—	1.4

Morningstar Rating — **Last Price** 3.31 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —
per share prices in USD



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
338.0	66.8	-0.6	19.4	41.6	-40.4	-60.2	-5.4	-17.9	-6.9	11.8	Total Return %	
361.4	40.4	-9.6	16.4	28.0	-43.9	-21.7	-28.8	-30.7	-6.9	5.0	+/- Market	
346.9	37.7	-15.9	0.6	26.6	-37.9	-37.3	-11.7	-35.0	-12.7	7.7	+/- Industry	
0.8	1.4	2.2	1.9	2.0	5.4	15.6	9.0	3.8	—	0.0	Dividend Yield %	
41	76	88	110	184	110	37	32	25	24	26	Market Cap USD Mil	

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
20	29	45	66	83	89	99	65	48	45	47	Premiums	
1	1	2	3	4	6	8	6	3	4	4	Investment Income	
14	10	14	7	8	9	12	-4	7	12	7	Fees & Other	
35	41	60	77	95	104	119	67	59	61	58	Total Revenue	
-3	8	13	-21	17	22	33	-4	-16	-12	-9	Operating Income USD Mil	
-7.9	19.4	21.4	-27.6	18.1	21.1	27.4	-5.6	-27.5	-19.7	-15.6	Operating Margin %	
-1	5	8	-11	12	14	21	-2	-10	-8	-6	Net Income	
—	1.01	1.67	-1.86	1.83	1.72	2.65	-0.31	-1.29	-1.01	-0.73	Earnings Per Share USD	
—	0.07	0.21	0.32	0.32	0.48	0.72	0.72	0.36	0.12	0.00	Dividends USD	
—	5	5	6	7	8	8	8	8	8	8	Shares Mil	
4.04	6.35	4.16	6.37	8.53	9.92	9.51	8.48	7.29	7.01	7.01	Book Value/Share USD	

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
—	7.0	9.2	-8.0	5.3	5.5	9.9	-1.2	-5.1	-4.1	-3.2	Return on Assets %	
—	28.3	33.4	-38.1	36.9	26.0	28.9	-3.1	-14.3	-12.8	-9.9	Return on Equity %	
-2.8	11.3	13.9	-14.2	12.8	13.4	17.9	-3.7	-17.5	-13.2	-10.1	Net Margin %	
—	0.62	0.66	0.57	0.42	0.41	0.55	0.32	0.29	0.31	0.32	Asset Turnover	
—	4.2	3.3	6.5	7.1	3.2	2.7	2.6	3.0	3.2	3.2	Financial Leverage	

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
70.14	61.59	71.41	37.71	49.14	74.08	81.90	116.92	140.56	128.56	117.89	Book Value/Prem	
7	4	11	19	12	4	0	—	—	—	—	Long-Term Debt USD Mil	
14	18	32	25	41	66	81	76	67	58	56	Total Equity USD Mil	
—	0.24	0.34	0.76	—	0.06	—	—	—	—	—	Debt/Equity	

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
9.0	9.0	—	10.3	13.8	5.1	—	—	—	—	—	—	Price/Earnings
—	—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
1.0	1.3	1.1	1.1	1.8	0.9	0.6	0.6	0.4	0.4	0.5	0.5	Price/Sales
2.3	2.4	3.5	2.7	2.8	1.4	0.5	0.5	0.4	0.4	0.5	0.5	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	14.3	13.1	14.2	16.2		
Prior Year Period	13.2	15.8	15.0	15.5		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	8.2	-16.8	-5.7	4.6		
Prior Year Period	-16.9	1.0	-12.3	20.2		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-0.43	-0.25	-0.10	0.05		
Prior Year Period	-0.93	-0.12	-0.30	-0.16		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
21st Century Holding	26	58	—	-9.9
PICC Property and Ca	—	—	—	—
ACE Ltd	24643	16764	13.6	7.9

Major Fund Holders		% of shares
		—
		—
		—

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
MR. RICHARD W. WILCOX, JR	Director	75,250	13 May 2009	-
MR. STEPHEN C. YOUNG	President, Subsidiary/Vice President, Divisional	34,500	01 Jun 2007	-
MR. MICHAEL H. BRAUN	CEO/Director/President/President, Subsidiary, Director	17,900	30 May 2008	-
MR. PETER J. PRYGELSKI III	CFO/Chief Accounting Officer/Director/Treasurer, Director	1,200	20 May 2010	-
MS. JENIFER G. KIMBROUGH	Director	910	17 Aug 2010	-
MR. CHARLES B. HART, JR	Director	0	22 May 2008	-
MR. CARL DORF	Director	0	15 May 2008	-

*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 U.S. Small Cap Value II		2.09	0.01	0	30 Nov 2011
Vanguard Extended Market Idx Inv	QQQQ	1.65	0.00	0	30 Sep 2011
DFA US Micro Cap I	QQQ	0.95	0.01	0	30 Nov 2011
RBC Microcap Value S	QQQ	0.88	0.15	0	30 Sep 2011
DFA Tax-Managed US Targeted Value	QQ	0.70	0.01	0	30 Nov 2011
Concentrated Holders					
RBC Microcap Value S	QQQ	0.88	0.15	0	30 Sep 2011
Wilshire Micro-Cap ETF	Q	0.03	0.06	0	02 Feb 2012
DFA Tax-Managed US Targeted Value	QQ	0.70	0.01	0	30 Nov 2011
DFA U.S. Small Cap Value II		2.09	0.01	0	30 Nov 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Vanguard Total Stock Mkt Idx		0.15	0.00	8	30 Sep 2011
DFA Global 60/40 I	QQQ	0.01	0.00	0	30 Nov 2011
DFA Global Equity I	QQQ	0.01	0.00	0	30 Nov 2011
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011
DFA Global 25/75 I	QQQ	0.00	0.00	0	30 Nov 2011
Top 5 Sellers					
DFA VA US Targeted Value	QQ	0.03	0.01	0	30 Nov 2011
Wilshire 5000 Index Instl	QQQQ	0.00	0.00	0	31 Dec 2011

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Industry Focus: Insurance - Property & Casualty

Improving P&C Insurance Pricing Doesn't Make Us Bullish

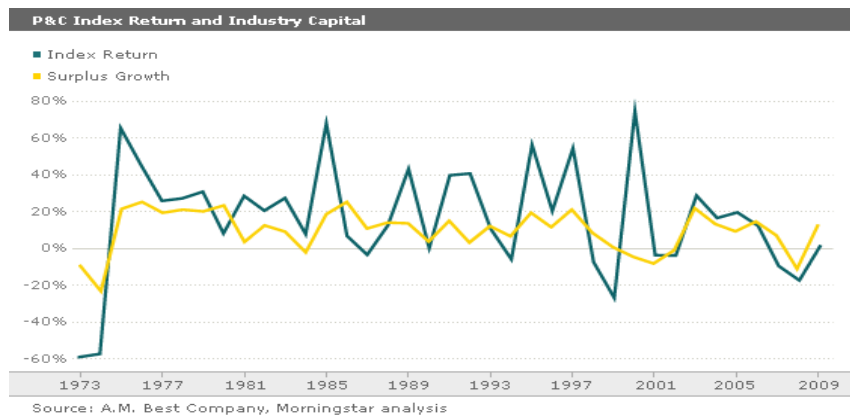
29 July 2011

Brett Horn
Associate Director

Profitability is what really matters, and the forward outlook on this front is balanced.

We've heard chatter among investors and in the media that the insurance pricing cycle is about to break upward, with this view used as a support for a bullish stance on the property-casualty (PC) insurance industry. While we agree on the outlook for the direction of the pricing cycle, our view is that the industry in aggregate is only mildly undervalued. In order to investigate whether our valuations are too conservative given the outlook on pricing, we analyzed the historical relationship between industry pricing and stock returns. Our conclusion is that pricing is just one factor that drives stock returns, and investors are best served focusing on profitability. Our belief that the industry is not far from fair value is in sync with our balanced view on profitability going forward. To test whether our valuations are too conservative, we analyzed historical industry returns to see if there is a correlation between pricing increases and PC insurance stock returns. To do so, we used Morningstar Direct to create an equal-weighted PC insurance index. Our index is not meant to be comprehensive; we focused on the largest and highest-quality PC insurance names and those

with a long trading history in attempt to best match our industry pricing data. We also limited the index to U.S.-domiciled insurers to match our domestic industry data and excluded those with large non-PC operations. The fact that our index achieves a 12.4% annualized total return from 1973 to 2010, compared with a 9.8% annualized total return for the SP 500 during the same time frame does imply a survivorship bias and maybe even a "success" bias, as the largest PC insurers today are likely the companies that have outperformed the industry over time. However, we don't feel that this skews our regression results, as we would tend to focus on higher-quality names at any point of the cycle. If anything, we take encouragement that this result suggests that high-quality PC insurers can be good long-term investments. Our regression analysis suggests PC insurance industry returns are at best weakly correlated with the pricing cycle, and the market appears to anticipate pricing improvements. To test the relationship between the pricing cycle and PC insurance returns, we regressed the relationship between annual premium growth and the relative return on our PC insurance index (the amount by which our index's return beat or lagged the SP 500). When comparing current pricing trends with current stock returns, the regression did not return a meaningful relationship. However, when comparing stock returns with pricing trends in the following year, we did detect a better but still weak relationship, which is only significant using a 90% confidence level. This suggests the market may have some limited ability to foresee improvements in the pricing cycle and price in those improvements before they occur. However, even if we accept the relationship between pricing and returns as significant, the explanatory power of pricing changes is very low, suggesting that a bullish thesis on PC insurance based solely on the direction of the pricing cycle is overly simplistic. Applying this to the current situation, this implies that any improvement in pricing could already be factored into PC insurer stock values. The graph below shows the relationship between pricing and relative returns. As can be seen, strong outperformance in PC insurance appears to follow strong underperformance, which implies mean reversion in industry results, at least for franchises



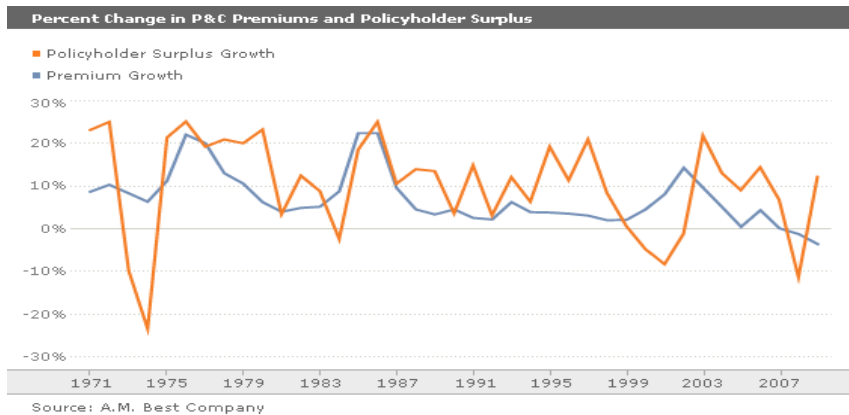
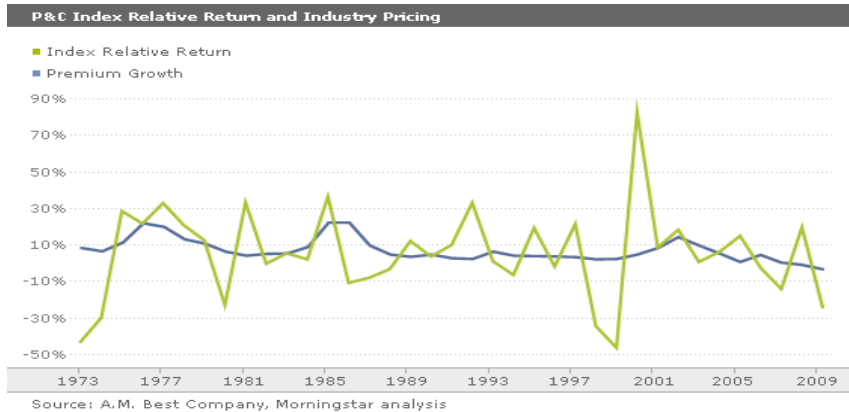
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Industry Focus: Insurance - Property & Casualty

strong enough to survive difficult periods. Total profitability (as measured by changes in industry capital) is a much better indicator of industry returns. To test this relationship, we regressed changes in policyholder surplus and current PC index returns with no lag. The regression returns a significant relationship with a much higher explanatory power. The chart below also illustrates this relationship. The relationship can be seen visually, although it does appear that the stock returns are magnified relative to the changes in industry capital. This suggests that the market tends to overreact to current results or to extrapolate current results into the future. The conclusion we would draw is

that the best investment opportunities in PC insurance typically come at points when industry profitability is low, which is not the case at the moment. This all suggests that investors looking to play near-term trends in PC insurance are much better off focusing on trends in reported profitability, as opposed to just pricing changes. On one hand, this seems fairly obvious, as insurance companies are typically valued on a price/book basis and the primary determinant of changes in book value is reported profitability. But we think this serves as a reminder that investors need to view the whole picture when assessing insurance companies, which would encompass not just current pricing, but also underwriting results on the existing book of policies and investment results. Our stance that the industry is only mildly undervalued, in aggregate, is in sync with our view that the forward outlook on reported profitability is balanced. Going forward, we do see an improvement in pricing as a potential positive for the industry, but when looking at the whole picture, our view on the trend in reported profitability is balanced, if not weighted toward the negative. A number of headwinds could offset the positive of improved pricing. First, with pricing declining during the past few years, we are skeptical that pricing on insurers' existing books is attractive on an economic basis. Recent reported results have been buoyed by a benign disaster environment and the resulting reserve releases, which have masked the true profitability of existing business. Additionally, a low interest rate environment should put increasing pressure on investment yields as portfolios are rolled. In this light, pricing increases might be necessary just to support an acceptable level of reported profitability, rather than a catalyst for excess returns. As always, the level of natural disasters is an additional wild card. While we don't see the industry as undervalued, we do think Allstate ALL is fairly attractive at current levels. Our stance on Allstate is supported by our analysis above and reflects our view on the industry. Allstate's stock has been punished due to a string of relatively unprofitable quarters, driven in part by freak occurrences such as hailstorms in Arizona. A more valid concern is that Allstate's captive agent network potentially



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looks obsolete given the growth in online policy shopping. However, while this might affect growth, we believe that a sufficient number of policyholders, especially those with multiple policy needs, value the high-touch service an agent provides. This should keep Allstate's business model viable in the long run. As a result, we expect mean reversion to more respectable results over time for this solid franchise. A market price that equates to only 0.8 times book value puts the odds in investors' favor, and the stock trades at only about 65% of our fair value estimate.