

Mossberg's Investor Digest

Best Idea Profile:

21st Century Holding (NASDAQ:TCHC)

DESCRIPTION:

Headquartered in Lauderdale Lakes, Florida; 21st Century Holding Company is an insurance holding company that operates in 4 distinct segments of the insurance industry including Automobile, Federal Flood, Homeowners and Commercial General Liability. Working through a network of agents 21st Century controls nearly all facets of its insurance underwriting, distribution and claims processes. The Company uses its Federal National Insurance Company subsidiary, as well as other subsidiaries and insurance carriers to engage in Insurance underwriting and sales activities in a number of states. 21st Century markets its products and that of other third party insurance carriers through a network of independent insurance agents.

KEY INVESTMENT CONSIDERATIONS:

Inflection Point – 21st Century appears to be experiencing a turnaround in earnings. For Q4DecFY2011 the Company reported its second consecutive profitable quarter as it starts to reap the benefits of management initiatives put into place after suffering from the recent recession. These quarterly results include Earnings-per-share of \$0.25 per share on \$2MM of net income.

Increase in Demand – The Company is seeing an increase in demand for its products. Management has stated that the Company has a prudent underwriting policy but is expecting a 10% (or possibly more) increase in business for FY2012.

Restructuring – The Company has taken a number of actions to reduce its expense structure. The Corporate Headquarters has been relocated to a more efficient space at less cost. During FY2011 21st Century completed a significant reduction in headcount that reduced salaries by \$1MM and outsourced a number of functions, including investment management, to third party vendors. These initiatives, along with substantial reductions in underwriting and loss adjustment expenses have produced lower expense structure. For Q4DecFY2011 the Company reported total expenses of \$13.9 million vs. \$19.6 million on a year-over-year basis.

Loss Ratio Improvement – The Company's renewed focus on improved underwriting standards is yielding results. Q4FY2011 results showed a loss ratio of 52.9% vs. 105.4% on a year-over-year basis and 63.7% for FY2011 vs. 89% for FY2010.

Rate Increases – The Florida Office of Insurance Regulation has granted 21st Century a 14% rate increase on the Company's Homeowners assumption policies (about 10% of the Company's property book) which starts on April 5th. Additionally, the Company expects to receive a single digit increase on its voluntary book of business.

New Products – 21st Century intends to roll out a new Commercial Property insurance product to complement its existing Commercial Liability program in late 2012. The Company also intends to create other Commercial Insurance products and services such as a General Insurance Agency whereby it can earn brokerage commissions (fee income).

VALUATION:

21st Century is clearly at an inflection point. The Company has a reduced expense base, rate increases for FY2012 and additional opportunities for fee income. The Company is currently valued at 57% of book value. A valuation of .85x book value would equate to a share price of \$6.22 per share.

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Investment Data (as of 3/29/12)

Recent Price	\$4.15
52-Week Range	\$2.25 - \$4.60
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8MM
Average Trading Volume (3 mos)	21k
Market Capitalization	\$35MM
Cash	\$15MM
Long Term Debt	8MM
Enterprise Value (EV)	\$25MM
Book Value	\$7.32
TTM Revenue	\$59MM
P/ Revenue	0.6x
TTM EPS	\$(0.05)
P/ EPS	NA
TTM EBITDA	(\$2.5MM)
EV/ EBITDA	NA