Avid Insurance Company Subordinated Promissory Note: Questions and Answers

1. Who is Avid Insurance Company and Avid Realty Partners?

Avid Insurance Company, LLC ("Avid Insurance") was founded by a Craig Berger, CFA CPA, a multi-award-winning former Wall Street equities analyst and a real estate investment professional. Avid Insurance brings high-powered analytics, risk management, and institutional sophistication to writing insurance and managing associated risks. The NY Department of Financial Services has approved Avid Insurance's acquisition of Compass Insurance Company, a legacy Casualty Insurance Firm with licenses to write insurance in 25 states. The Company is bringing a fresh and innovative approach to the insurance marketplace, one focused on meeting our customers' needs while containing costs and aggressively managing risk throughout the process.

Avid Insurance has a seasoned team of professionals with experience in the capital markets, global insurance, and real estate industries, with well over a century of collective insurance experience. The Company intends to build long-term value by underwriting a diversified portfolio of predictable and low-severity risks, coupled with attractive risk-adjusted investment returns. Avid Insurance is targeting policy exposure in General Liability, Professional Liability, Auto Insurance, and other sectors for the immediate future.

Avid Realty Partners LLC ("Avid Realty") is a real estate investment platform and was also founded by Craig Berger. Craig has been an active real estate investor for nearly 20 years. Avid Realty has purchased more than 2,000 apartment units in targeted growth markets across the US, totaling over $275M of acquisition value. The Firm has zero realized losses, and six full-cycle exits, resulting in a 33% gross IRR (weighted by equity).

Please see our real estate website: https://avidrealtypartners.com/

2. **Who can invest in this Subordinated Promissory Note?**

   This Subordinated Promissory Note is offered to Accredited Investors only. To qualify as an Accredited Investor, one must have over $1 million in net worth excluding one's primary residence, or more than $200,000 in earned income in the past two calendar years, with the expectation of the same earnings in the current year ($300,000 of income if married). Financial professionals with Series 7, 65 or 82 licenses also qualify.

3. **What is the Term of this Subordinated Promissory Note?**

   The Avid Insurance Subordinated Promissory Note is offered for between Two Years and Five Years, at the Investor's discretion. During the agreed upon term of the Subordinated Promissory Note, the Noteholder is locked into the investment.

4. **What is the minimum investment in this Subordinated Promissory Note?**

   The minimum investment in Avid Insurance's Subordinated Promissory Note is $50,000, though investments of $100,000 or more will receive priority.

5. **When are payments made on this Subordinated Promissory Note?**

   Avid Insurance's Subordinated Promissory Note is paid monthly via ACH directly to the Noteholder's designated bank account, with payments going out around the 5th day of each month.

6. **Does the Subordinated Promissory Note Amortize?**

   Avid Insurance's Subordinated Promissory Note does not amortize, with interest payments paid monthly in full, and principal paid in full via a balloon payment made upon maturity.

7. **What Type of Subordinated Promissory Note is this?**

   The Avid Insurance Subordinated Promissory Note is unsecured and subordinated. Unsecured means there is no lien on assets securing the investment. Subordinated means that Avid Insurance Company may take on debt with 'Senior' status to this note from an institutional lender providing larger loan proceeds. That said, Avid Insurance is providing a corporate guarantee on this note, and Sponsor Craig Berger has never produced any investment losses for investors during his career. Furthermore, there are significant assets that are backing up this Subordinated Promissory Note investment, including $3.0M of current surplus on hand plus an investment from Craig Berger personally, that provide substantial protection for investors. Given these factors, and because of Avid Insurance's ability to generate roughly $3 of Premium (cash) for every $1 of capital raised, we believe this Subordinated Promissory Note investment is low risk.

8. **What sources are being used to pay this Subordinated Promissory Notes?**

   First, the Avid Insurance's Subordinated Promissory Note is funded by Avid Insurance's balance sheet and the operations of an Insurance Company, which is authorized to write insurance in 25 states. Today, Avid Insurance has cash on hand of $4.6 million, and legacy claims liabilities reserved at $1.6 million (which we think pays out closer to $800,000 based on historical trends), resulting in net cash on hand of $3.0 million to $4.0 million, depending on how these legacy claims payouts track. Second, Avid Insurance Company's Founder & CEO Craig Berger is personally investing his own money into this company. Third, for every dollar of capital raised, Avid Insurance Co intends to write about three dollars of insurance premium, collecting those funds up front, and growing its cash on hand balance (see the example below). Third, the company intends to write $30 million of insurance premium in its first year of operations, increasing its cash on hand balance substantially. Fourth, Avid Insurance Company's CEO Craig Berger will provide additional capital to the business on an as needed basis. Fifth, Avid Insurance intends to raise additional funds in the future from middle market private equity lenders or banks at lower interest rates once it has a more defined track record of policy loss trends, revenues, and income. So, in short, we expect company profits and cash flow, and cheaper sources of future debt capital, to replace this more expensive Subordinated Promissory Note capital.

9. **What security do investors have with this Subordinated Promissory Note?**

   As mentioned, the Avid Insurance Subordinated Promissory Note is backed by $3.0 million to $4.0 million of net cash (net of legacy claims liabilities, plus the additional value of any new premiums the company writes, plus any cash and assets in the bank owned by the company. Also, as mentioned, Avid Insurance Company's Founder & CEO Craig Berger is personally investing his own money into this company. Craig Berger has never defaulted on any loan, has never been sued for financial malfeasance, has no judgments, tax liens, or criminal convictions of any kind (outside of a few speeding tickets), has a near-perfect credit report, and has never lost investor funds.

10. **What are the funds being used for?**

    Avid Insurance is using the funds received from Noteholders to capitalize and operate an Insurance Company licensed to write insurance in 25 states. In short, funds raised will be used to write insurance policies, collecting cash up front, and growing the company's cash balance.

11. **What are the benefits of investing in the Avid Insurance Subordinated Promissory Note?**

    We see multiple benefits to investing in the Avid Insurance Subordinated Promissory Note. First, some Investors do not want to invest in real estate deals for the life of the project, which can be four-to-seven-year investment terms or more. Second, our Subordinated Promissory Note offers more current cash flow than most real estate investments (16% annual interest paid monthly in full versus 4%-5% cash flow in our current multifamily real estate deals). Third, our Subordinated Promissory Note offers highly certain investment returns, with no upside and little chance of downside. Fourth, we offer a flexible investment horizon of two to five years, depending on the

Investor's personal needs. This is perfect 'mailbox money' for retirees or those looking for enhanced cash flow income.

12. What is the tax treatment of this Subordinated Promissory Note?

All distributions are treated as interest income. Investors will receive a form 1099-INT by March 15 of the following year.

See a demonstration of the business model below

Avid Insurance Co Business Plan: A Detailed Illustration

- For every one dollar of capital that Avid Insurance Co (the company) raises, we intend to write 3 dollars of worker's comp or general liability insurance and collect those premiums. So, $1 becomes $4 (before expenses and before losses). We expect to raise roughly $7 million of capital in this initial round, plus utilize the $3 million of surplus the company has on hand now to drive total company surplus to $10 million. That means that **<u>we will write roughly $25-$30 million of premiums in the first year of owning the business</u>**.
- The company will utilize re-insurance to lower our risk and smooth out the business, which costs 15%-20% of revenues. We have other insurance related expenses of 28% of revenues (on the 85% of revenues net of re-insurance costs). Net, these line items total 39% of revenues. See here:

Avid Insurance Company Pro-forma financial statements Data Input - P&I	2023
Premium	
Gross Premium	30,000,000
Total Gross Premium	**30,000,000**
Projected annual increase in Gross Premium	
Gross Premiums	30,000,000
Other reinsurance premim	
Premium retro-ceded by capitve %	**15.00%**
Premium retro-ceded by capitve $	4,500,000
Underwriting Expenses	
Front fee	**4.0%**
Claims fee	**5.0%**
Loss Control fee	**3.0%**
Commissions	**15.0%**
Premium Taxes	**0.0%**
LOC fees	**1.0%**
Front fee	1,020,000
Claims fee	1,275,000
Loss Control fee	765,000
Commissions	3,825,000
Premium Taxes	0
LOC Fees	44,434
Underwriting Expenses	**6,929,434**

- These underwriting expenses total $11.5 million, thus leaving the company $18.5 million left over from the $30 million premium that it wrote. We expect another ~$800K of corporate overhead, salary, legal, and audit expenses (the company will run lean in its initial years). So, net of expenses, the company expects $17.7 million of profit left over from the $30M of premium that it wrote before claims losses.

- The company estimates claims losses of 41% in its initial years of business, which could grow towards 50% as the firm scales and takes on larger and larger chunks of business. It is important to note that these losses pay out over a period of many years (mostly ongoing medical treatments for claimants). The company models a 5-year claims payout pattern, but it will likely extend longer than five years. So, 41% losses on $25.5 million of premium written (net of the $4.5 million of re-insurance) = $10.5 million of total losses. See assumed and modeled losses here:

Avid Insurance Company Pro-forma financial statements Data Input - P&I	2023	2024	2025	2026	2027
Annual loss payout					
Line A	15.0%	30.0%	25.0%	15.0%	15.0%

Annual Loss Payments

	Earned Premiums - Projected Ultimate	Year 1	Year 2	Year 3	Year 4	Year 5
Year 1	10,455,000	1,568,250	3,136,500	2,613,750	1,568,250	1,568,250

- The company assumes 6% Investment Income and mid-teens Interest Expense. When we add it all up, writing $30M premium in a single year results in this performance over the following five years:

Avid Insurance Company Projected Income Statement	2023	2024	2025	2026	2027	Total
Underwriting Activity						
Premium written	30,000,000	0	0	0	0	30,000,000
Premium ceded	(4,500,000)	0	0	0	0	(4,500,000)
Net premium written	25,500,000	0	0	0	0	25,500,000
Losses paid	(1,568,250)	(3,136,500)	(2,613,750)	(1,568,250)	(1,568,250)	(10,455,000)
Incurred losses	(1,568,250)	(3,136,500)	(2,613,750)	(1,568,250)	(1,568,250)	(10,455,000)
Front fee	(1,020,000)	0	0	0	0	(1,020,000)
Claims fee	(1,275,000)	0	0	0	0	(1,275,000)
Loss Control fee	(765,000)	0	0	0	0	(765,000)
Commissions	(3,825,000)	0	0	0	0	(3,825,000)
LOC Fees	(88,868)	(57,503)	(31,365)	(15,683)	0	(193,418)
Net Underwriting expenses	(6,973,868)	(57,503)	(31,365)	(15,683)	0	(7,078,418)
Net Underwriting income(loss)	16,957,883	(3,194,003)	(2,645,115)	(1,583,933)	(1,568,250)	7,966,583
Investment Income	1,764,074	1,601,947	1,406,916	1,214,139	962,853	6,949,929
Interest Expense	(1,190,000)	(1,190,000)	(1,190,000)	(1,190,000)	(1,190,000)	(5,950,000)
G & A Expenses	(800,000)					(800,000)
Net Income / (Loss)	16,731,956	(2,782,055)	(2,428,199)	(1,559,793)	(1,795,397)	8,166,511

- So, this is what the flows look like if the company writes $30 million of premium in its first year and then does not write more business. The goal is to continue to raise cheaper capital and safely write more premium as it makes sense in a risk managed way. The $8.2 million of net income at the end of five years (shown above), can theoretically be used to further write premiums and grow the business over time. Also, with an enhanced track record of revenues, EBITDA, and known losses, the company expects to be able to tap the debt markets in the future at 10%-12% borrowing costs or better from traditional middle market banks or other creative lenders. Also, the company assumes 6% interest income, which we think is beatable given that risk free CDs are yielding about 5% right now. So, in short, we view the mid-teens interest rate on $7 million of capital to be a very small load within the company's overall plan.
- In conclusion, we think risks to this business are reasonably low, and the return being offered to investors is quite high, resulting in favorable risk/reward dynamics. Reach out with any questions to Craig Berger directly at Craig@AvidRealtyPartners.com.

Thank You