

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP: Book	Op. Inc.
Transatlantic Holdings	Alleghany Corp	\$3,431.0	0.8x	NM
Delphi Financial Group	Tokio Marine Hldgs	2,849.6	1.6x	14.4x
Harleysville Group	Nationwide Mutual	839.5	2.1x	NM
Penn Millers Holding Corp	ACE Limited	107.0	1.0x	NM

AGENT / BROKER DEALS

Target	Buyer	Value	Price to: Revenue
Arrowhead General Ins Agency	Brown & Brown	\$395.0	3.8x
United Benefit Services	Brown & Brown	17.8	2.8x
BeneTex Group	Arthur J. Gallagher	5.7	N/A
Stanton Taylor Agency	TowneBank	2.7	N/A

Unique Deals Highlight Activity

In a fitting way to end an active year in agent/broker M&A, Brown & Brown announced a landmark transaction. The company will acquire Arrowhead General Insurance Agency for \$395 million (3.8x revenue / 10x EBITDA) from private equity investor, Spectrum Equity. B&B's management obviously saw significant value in Arrowhead's scale (\$100+ million revenue, 510 employees) and near 40% EBITDA margins, hence the 3.8x revenue valuation. An acquisition for B&B is certainly nothing new (they've done over 100 deals since 2006), but this deal is unique because it is more than twice as large as any other acquisition it has made in its illustrious M&A history. The company's only other \$100+ million deal dates back to its purchase of Hull & Co., another general agency, for \$175 million (2.8x revenue) in 2005. Until the Arrowhead deal, B&B had made 15 acquisitions in 2011 (thru 12/16) with aggregate revenue of about \$60 million (about \$4 million of revenue per target).

Speaking of big broker deals, the former B&B executives that formed AssuredPartners with the backing of private equity firm, GTCR, landed their first deal with their acquisition of Neace Lukens in September. With 17 locations, the Louisville, KY based agency had revenue of \$86 million in 2010. Sixty-eight days later, Assured announced the purchase of White Plaines, NY based SKCG Group. Their acquisition of this 80+ employee firm likely establishes newcomer Assured as a top 20 broker in the U.S.

Elsewhere in the broker world, PE-backed, program specialist Thomco announced its sale to Markel on 12/7. Markel is no stranger to acquiring program administrators like Thomco. By our count, the company has done six similar deals since 2007. However, Thomco is a substantial one with about \$170 million in writings. In addition to its senior living, pest control and other specialty areas, Thomco is the largest writer of child care exposures in the country.

After a devastating catastrophe year in Japan, we wouldn't have expected Japanese insurers to be jumping into M&A any time soon, but Tokio Marine proved us wrong with their \$2.8 billion acquisition of Delphi (NYSE: DFG) announced in late December. At 14x operating earnings and 1.6x GAAP book value, the price tag seemed steep for a company whose 3-year average ROAE was just north of 8%. However, Tokio Marine has a history of paying strong multiples for U.S. companies as evidenced by the 2.8x GAAP book it paid for Philadelphia Consolidated (NASDAQ: PHLI) in 2008. It should be acknowledged, however, that PHLI was a very strong franchise with an ROAE in '07 of roughly 24%.

Continuing with carrier deals, finally the future of Transatlantic seems clear. Alleghany (NYSE:Y) emerged as the winner with its combined cash and stock offer worth \$59.79 per share (\$3.4 billion) based on the 11/18 closing price of Y stock.

Insurance Carrier Stocks (12/31/11)

PROPERTY / CASUALTY CO.'s

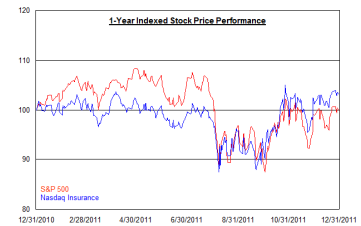
Median Price to Earnings (ttm): 22.2x  
Median Price to Book (mrq): 0.9x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 11.0x  
Median Price to Book (mrq): 0.5x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 13.0x  
Median Price to Book (mrq): 0.6x



1 YEAR INDEX PERFORMANCE  
NASDAQ Ins. (12/31/11): 3.1%  
S&P 500 (12/31/11): 0.0%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	2.9x	13.8x	34.8%
Minimum	1.6x	8.2x	16.5%
Median	2.1x	9.6x	18.3%

Price 12/31/11, TTM through 9/30/11

Note: Brown & Brown figures adjusted for Arrowhead transaction

Unique Deals Highlight Activity, cont'd.

This price equates to about 80% of GAAP book value. Meanwhile, on the other end of the valuation spectrum was Nationwide's announced purchase of Harleysville Group, Inc. (NASDAQ: HGIC) for \$60 per share (2.1x GAAP book value) on September 29th, a 138% premium to the company's closing share price on September 22nd. With its purchase of the public company, Nationwide will also merge in Harleysville Mutual, which is the 53% owner of HGIC.

Another mutual company in M&A action is Pennsylvania National Mutual, which announced its affiliation with Partners Mutual in November. Partners, which is based in Waukesha, WI and wrote approximately \$39 million of Midwestern business in 2010, complements Penn National's eastern and southeastern footprint. Given the heavy CAT activity in 2011, which has impaired many small mutuals' balance sheets, we believe more affiliation activity is likely in 2012. By our count, there were 8 mutual to mutual affiliations/mergers announced in 2011, up from 5 in 2010.

As far as the future is concerned, with only marginal improvement in rates and the economy, coupled with pathetically low investment yields, we anticipate buyer appetite to remain elevated for the foreseeable future among P&C carriers. One notable headwind, however, is the low public valuation multiples. Presently, the median price to GAAP book of P&C insurers is 85%.

Deal Notes

ACE Limited (NYSE: ACE) closed its acquisition of Penn Millers (NASDAQ: PMIC) on November 30th. ACE's \$107 million cash offer for the Pennsylvania-based agribusiness writer represented a 39% premium to PMIC's 8/15 closing price (the day PMIC announced that it was considering strategic alternatives) and 1.0x PMIC's 6/30 GAAP book value. It's worth noting that PMIC was the product of a subscription rights conversion with its shares being offered for \$10 in October 2009. Presumably, ACE's \$20.50 per share offer left PMIC's shareholders, including PMIC's executives and directors who collectively owned 4.6% of the stock, feeling plenty jolly leading into the holidays.

# SOME OF OUR TRANSACTIONS...



**Partners Mutual Insurance Company**

*has affiliated with*

**Pennsylvania National Mutual Insurance Company**

PhiloSmith acted as exclusive financial advisor to Pennsylvania National Mutual Insurance Co.



**Fremont Michigan InsuraCorp**

*has been acquired by*

**Auto Club Insurance Association**

PhiloSmith acted as exclusive financial advisor to Fremont Michigan InsuraCorp



**Nevada General Ins. Co.**  
a subsidiary of Chicago-Vegas Holding Co.

*has been acquired by*

**Enumclaw Insurance Group**

PhiloSmith acted as exclusive financial advisor to Nevada General Insurance Co.



**Legacy Insurance Services, Inc.**

and

**Arizona Automobile Ins. Co.**

*have been acquired by*

**Western National Insurance Group**

PhiloSmith acted as exclusive financial advisor to Arizona Automobile Ins. Co. & Legacy Ins. Svcs.




**Martin Benefits Consulting, LLC**

*has been acquired by*

**Brown & Brown of New York**

PhiloSmith acted as exclusive financial advisor to Martin Benefits Consulting, LLC



**Utica Mutual Insurance Co.**

*has acquired*

**Nationwide Holdings, Inc. and Founders Ins. Co.**

**\$108,000,000**

PhiloSmith acted as exclusive financial advisor to Utica Mutual Insurance Co.




**Corporate Benefit Consultants, LLC**

*has been acquired by*

**Brown & Brown, Inc.**

PhiloSmith acted as exclusive financial advisor to Corporate Benefit Consultants, LLC



**Professionals Direct, Inc.**

*has been acquired by*

**The Hanover Insurance Group**

**\$23,000,000**

PhiloSmith acted as exclusive financial advisor to Professionals Direct, Inc.




**Maine Mutual Group**

**\$7,000,000 Capital Raise**

**PhiloSmith Sole Placement Agent**

PhiloSmith acted as exclusive financial advisor to Maine Mutual Group




**Mid-Continent Insurance Co.**

*has been acquired by*

**Conifer Holdings, Inc.**

PhiloSmith acted as exclusive financial advisor to Mid-Continent Insurance Company



**Professional Risk Management Services, Inc.**  
a subsidiary of Legion Insurance Company (in Liquidation)

*has been acquired by*

**Transatlantic Holdings, Inc.**

PhiloSmith acted as exclusive financial advisor to Professional Risk Management Services



**State Auto Mutual Insurance Company**

*has acquired*

**Beacon Insurance Group**

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Company



**Heath XS, LLC**

*has been acquired by*

**Hallmark Financial Services, Inc.**

**80% for \$15,000,000**

PhiloSmith acted as exclusive financial advisor to Heath XS, LLC



**GMAC Insurance Holdings, Inc. and its subsidiary Motors Insurance Corp.**

*have acquired*

**MEEMIC Insurance Co. a subsidiary of ProAssurance Corporation**

**\$400,000,000**

PhiloSmith acted as exclusive financial advisor to GMAC Insurance Holdings, Inc.




**Texas General Agency, Inc.**

*and their affiliates have been acquired by*

**Hallmark Financial Services, Inc.**

**\$48,000,000**

PhiloSmith acted as exclusive financial advisor to Texas General Agency, Inc.



**Unitrin, Inc.**

*has acquired*

**Merastar Insurance Company**

**\$45,000,000**

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.



**GuideOne Financial Group a subsidiary of GuideOne Mutual Insurance Company**

**\$30,000,000 Preferred Stock**

**PhiloSmith Sole Placement Agent**

PhiloSmith initiated this transaction and acted as exclusive financial advisor to GuideOne Financial Group



**Future Planning Associates, Inc.**

*has been acquired by*

**U.S.I. Holdings Corp.**

**\$31,000,000**

PhiloSmith initiated this transaction and acted as exclusive financial advisor to Future Planning Associates, Inc.



**Beecher + Carlson Risk Management, Inc. a subsidiary of American Re Corp.**

*has been acquired by*

**Risk Strategy Partners, Inc.**

PhiloSmith acted as exclusive financial advisor to Munich-American Global Services, Inc.




**Swiss Re Life & Health America**

*has acquired*

**Royal Maccabees Life Insurance Company from Royal & SunAlliance Corp.**

PhiloSmith initiated this transaction and acted as exclusive financial advisor to Swiss Re Life & Health America



**COUNTRY Insurance**

*has acquired*

**Cotton States Life Insurance Company and has affiliated with Cotton States Mutual Insurance Company**

PhiloSmith acted as exclusive financial advisor to COUNTRY Insurance



**Response Insurance Group**

*has acquired*

**Worldwide Insurance Co. and Worldwide Direct Auto Insurance Company subsidiaries of Great American Ins. Co.**

PhiloSmith acted as exclusive financial advisor to Response Insurance Group



**Iowa Mutual Insurance Company**

*has affiliated with*

**The Motorists Insurance Group**

PhiloSmith acted as exclusive financial advisor to Iowa Mutual Insurance Company



**Allianz of America, Inc. and Fireman's Fund Insurance Co.**

*have sold*

**Fireman's Fund Direct to Response Insurance Group**

PhiloSmith acted as exclusive financial advisor to Allianz of America and Fireman's Fund Insurance Co.



**Ceres Group, Inc.**

**\$7,500,000 Convertible Preferred Stock**

**PhiloSmith Sole Placement Agent**

PhiloSmith acted as exclusive financial advisor to Ceres Group, Inc.