

An Insight into the World of Insurance Mergers and Acquisitions

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP: Equity*	Op. Earn.
Bristol West Holdings	Zurich Financial Services AG	\$713	2.8x	17.0x
Ohio Casualty	Liberty Mutual Holding, Inc.	\$2,700	1.8x	13.7x

* Tangible

AGENT / BROKER DEALS

Target	Buyer	Value	Price to: Revenue
USI	GS Capital Partners	\$1,013	1.8x
HUB International	Maple Tree Acquisition Corp.	\$1,708	3.1x
BNC Insurance	HUB International	\$37	2.0x
ALCOS, Inc.	Brown & Brown	\$34	1.9x
Coburn Insurance Agency	HUB International	\$23	2.6x

LIFE DEALS

Target	Buyer	Value	Price to GAAP: Equity	Op Earn.
Genworth Grp. Life & Health	Sun Life Financial	\$650	1.1x	18.6x

Plenty of M&A Action

Exceptional property casualty results for 2006, and strong 1Q profits have driven industry surplus up to about a half of a trillion dollars. Industry capacity, measured by premium to surplus, is now about as high as it was at the peak of the insurance M&A market in the late '90's. Predictably, excess capital is hammering top-line organic growth as pricing competition accelerates. The fundamentals certainly support strong M&A activity among underwriters as well as agents and brokers.

The non-standard auto deal wave of 2006 continued into 2007 as Bristol West (of which private equity giant KKR owns roughly 42%) agreed to a \$713 million buyout from Farmers Group, Inc. in March after a twelve-month courtship. The \$22.50 share price equates to about 2.8x tangible YE'06 GAAP book value, nearly 17.0x operating earnings and almost 1.1x revenue. Meanwhile, in April, Kingsway Financial completed its acquisition of non-standard auto writer Mendota Insurance Company, a subsidiary of The Travelers. Mendota wrote about \$175 million of premium in 2006 through 6,000 independent agents in 20 states.

Elsewhere in P&C carrier deals, Argonaut announced its reverse merger into Bermuda-based PXRE. Existing Argonaut shareholders will receive 6.4672 shares of PXRE per Argonaut share (as well as a cash dividend of \$60 million) and will own about 73% of newly formed Argo Group, Ltd. that has a pro forma capital base approaching \$1.7 billion. From Argonaut's perspective its book value accretive and provides a Bermuda base of operations with a reinsurance platform. Meanwhile, Unitrin agreed to pay \$45 million in cash for Tennessee-based Merastar Insurance which markets its personal automobile and homeowners' insurance products through employer-sponsored voluntary benefit programs. Merastar writes approximately \$54 million of premium, the majority being in the southern region of the country. The price offered by Unitrin equates to roughly 1.9x statutory book value.

Specialty commercial and personal lines underwriter, North Pointe Holdings, agreed to acquire South Carolina-based Capital City Holdings and affiliates for approximately \$41 million. Capital City Insurance Co. specializes in workers' compensation and other specialty commercial coverage for the forestry industry and other commercial risks. It generated \$65 million of direct written premium in 2006.

Last but not least for notable carrier deals, Ohio Casualty agreed to a \$2.7 million (\$44 per share) buyout by Liberty Mutual. That equates to a 32% premium over the

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s
Median Price to Earnings (ttm): 10.3x
Median Price to Book (mrq): 1.4x

LIFE & HEALTH COMPANIES
Median Price to Earnings (ttm): 13.0x
Median Price to Book (mrq): 1.3x

MULTI-LINE COMPANIES
Median Price to Earnings (ttm): 11.4x
Median Price to Book (mrq): 1.5x



INDEX PERFORMANCE

NASDAQ Ins. YTD 5/10/07: 3.56%
S&P 500 Return YTD 5/10/07: 5.16%

Insurance Broker Stocks

Price (5/11/07) to TTM (1Q'07)

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	4.0x	31.8x	13.3x	39.6%
Minimum	1.3x	14.2x	8.3x	13.3%
Median	1.8x	19.9x	10.1x	16.9%

Plenty of M&A Action cont'd.

pre-deal announcement price and nearly 80% higher than its share price last August. The price equates to about 1.8x tangible 1Q'07 GAAP book value and 13.7x trailing 12 month operating earnings. The combined entities will generate P&C net premium of over \$7.3 billion.

On the agent / broker front, private equity shops remain busy. In the wake of the billion dollar USI deal announced in mid-January, HUB International announced it has agreed to sell to an investor group comprised of Apax Partners and Morgan Stanley Principal Investments for \$41.50 a share, or about \$1.7 billion (roughly 3.1x YE '06 revenue and 13.2x EBITDA). HUB management will also participate as investors in the purchase. Apparently, HUB's discussions with suitors did not distract it from making its own acquisitions. In February and March respectively, HUB announced the acquisition of the assets of two sizable bank-owned agencies: Louisiana-based Hibernia (\$18 million in revenue) from Capital One for \$18.2 million and Arizona-based BNC Insurance (\$19 million in revenue) from BNC National Bank. According to BNCCORP's 10K, HUB's purchase price of roughly \$37 million equated to about 2.0x revenue and 8.5x EBITDA. Recall that HUB bought Citizens Financial Group's insurance operation for \$81 million in February 2006.


Meanwhile, private equity player J.C. Flowers continues to add to its portfolio of insurance investments with its announced \$650 million deal for BISYS' insurance and retirement services brokerage business. This followed on the heels of taking majority control of Connecticut-based underwriter Direct Response Corp.

Deal Notes

Brown & Brown Buys ALCOS, Inc.

On March 1, B&B paid \$34.4 million (\$30.8 million in cash and \$3.5 million in seller notes) for ALCOS, Inc. The Michigan-based agency was listed by *Crain's Detroit Business* in 2006 as the 9th largest business insurer in the Detroit metro area with revenue of approximately \$18.0 million and a staff of over 130 employees. According to its website, the firm's compound annual growth rate since 1993 is 15%. Through its two locations, ALCOS, Inc. focuses on employee benefits, commercial and personal lines insurance, life insurance and benefit administration.

SOME OF OUR TRANSACTIONS.....




Unitrin, Inc.

has agreed to acquire

Merastar Insurance Company

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.




State Auto Mutual Insurance Co.

has agreed to acquire

Beacon Insurance Group

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Co.



The assets of
Longhorn General Agency, Inc.
&
Longhorn Insurance Services, Inc.

have been acquired by

NALICO General Agency, Inc.
a subsidiary of NLASCO

PhiloSmith acted as exclusive financial advisor to Longhorn General Agency



Texas General Agency, Inc.
and their affiliates
Gulf States Insurance Co.,
TGA Special Risk, Inc.,
& Pan American Acceptance Corporation

have agreed to be acquired by

Hallmark Financial Services, Inc.

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




GMAC Insurance Holdings, Inc.
and its subsidiary
Motors Insurance Corporation

have agreed to acquire

MEEMIC Insurance Company
a subsidiary of
ProAssurance Corporation

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




HI Holdings, Inc.
and its subsidiary
Zephyr Insurance Company

agree to be acquired by

Kingsway Financial Services, Inc.

Philo Smith & Co. acted as exclusive financial advisor to HI Holdings, Inc.



D.E. Love Associates
a subsidiary of
Direct Response Corporation

has been acquired by

National Penn Bank

Philo Smith & Co. acted as exclusive financial advisor to Direct Response Corporation



Future Planning Associates, Inc.

has been acquired by

U.S.I. Holdings Corporation

July 2004

Philo Smith & Co. acted as exclusive financial advisor to Future Planning Associates, Inc.



Beecher & Carlson
Risk Management, Inc.
a subsidiary of
American Re Corporation

has been acquired by

Risk Strategy Partners, Inc.

Philo Smith & Co. acted as exclusive financial advisor to Munich-American Global Services, Inc.




Andrews & Murray
Associates, Inc.

has been acquired by

Neighborhood Insurance
Connecticut, LLC

Philo Smith & Co. acted as exclusive financial advisor to Andrews & Murray Associates, Inc.



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

have agreed to sell

Fireman's Fund Direct
to
Response Insurance Group

Philo Smith & Co. acted as financial advisor to Allianz of America and Fireman's Fund Insurance Co.




GuideOne Insurance Group

has agreed to sell

GuideOne Life Insurance
Company
to
Kansas City Life
Insurance Company

Philo Smith & Co. initiated this transaction and acted as exclusive financial advisor to GuideOne Insurance Group



Response Insurance Group

has acquired

Worldwide Insurance Company
and
Worldwide Direct Auto
Insurance Company
subsidiaries of
Great American Insurance Company

Philo Smith & Co acted as exclusive financial advisor to Response Insurance Group



Financial Industries Corporation

has merged with

InterContinental Life Corporation

Philo Smith & Co. acted as exclusive advisor to Financial Industries Corporation



State Automobile Mutual Insurance
Company

has merged with

Meridian Mutual Insurance

and acquired

Meridian Insurance Group, Inc.

Philo Smith & Co. acted as exclusive advisor to State Automobile Mutual Insurance Company



Harleysville Mutual
Insurance Company

has agreed to merge with

Penn Mutual Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to Harleysville Mutual Insurance Company




GMAC Insurance
Holdings Inc.

has agreed to acquire

National Alliance
Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to GMAC Insurance Holdings Inc.



Swiss Re Life and Health America

has acquired

Royal Maccabees Life Insurance
Company
from
Royal & SunAlliance Group

Philo Smith & Co. initiated this transaction and acted as exclusive advisor to Swiss Re Life and Health America



United Fire & Casualty Company

has acquired

American Indemnity Financial
Corporation

Philo Smith & Co. initiated this transaction and acted as exclusive financial advisor to American Indemnity Financial Corporation



Virginia Mutual Insurance Company

has agreed to affiliate with

Alfa Mutual Insurance Company

Philo Smith & Co. acted as exclusive advisor to Virginia Mutual Insurance Company