

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:	
			Equity	Op. Earn.
Safeco Corp.	Liberty Mutual	\$6,200	1.8x	10.1x
ProCentury Corp.	Meadowbrook	\$273	1.7x	10.5x
Heritage Underwriting	Argo Group Int'l Holdings	\$272	1.6x	NA
AmCOMP Inc.	Employers Holdings, Inc.	\$194	1.2x	10.2x
National Atlantic	Palisades Safety	\$70	0.5x	NA

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	
Roanoke Companies Inc. <small>*PhiloSmith estimate</small>	Munich Reinsurance Co.	\$53		4.8x*

LIFE DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op Earn.
Financial Industries Corp.	Financial Holdings Corp.	\$75	1.1x	21.3x

Steady Activity...and Another Biggie

Less than a year after announcing its \$2.7 billion buyout of Ohio Casualty, Liberty Mutual offered \$6.2 billion (approximately 1.8x GAAP book value) for Safeco. Even for a company the size of Liberty, it is a lot to digest in 12 months. In total, the two deals bring with them nearly \$8 billion of revenue which is about 25% of Liberty's total revenues in 2006. Acting more like an aggressive stock company than a mutual, Liberty has significantly increased its financial leverage. The ratio of Liberty's revenue to tangible book value has jumped from roughly 2.3x in 2006 to an estimated 3.8x based proforma 2007 figures. Arguably, the risk associated with the increased financial leverage will be offset by the geographical diversification and strengthened product lines these acquisitions provide Liberty. Although some contend that its lower cost of capital as a mutual enabled Liberty to pay a seemingly high price for Safeco (over a 50% premium to prior day closing price) it should be noted that its offer of \$68.25 per share was less than what Safeco traded at 14 months ago.

Other smaller, but notable P&C carriers that recently agreed to sell include two companies that had been publicly-traded for less than four years. ProCentury, a specialty commercial insurer that went public in April 2004 at \$10.65 a share, agreed to sell to Meadowbrook for \$20 a share (approximately 1.7x of GAAP book value). That makes for a healthy 17% compounded annual return for original shareholders. The original shareholders of National Atlantic Holdings were not as fortunate. The troubled New Jersey based auto/home/small commercial insurer that went public in April 2005 at \$12 a share agreed on March 13th to sell to a competitor, Palisades, for \$6.25 a share (less than 0.5x of GAAP book value). A total of 106 of National Atlantic's independent agents collectively owned 12.8% of the company's stock at the end of 2007. These "Partner Agents" were required to purchase a minimum of \$50,000 of NAHC stock in return for the ability to write all lines of business offered by the company.

P&C insurers desire to buy specialized MGUs / MGAs continues in earnest. In the wake of deals like Darwin's purchase of Agency Marketing Services and First Mercury's acquisition of American Management Corp., Philadelphia Consolidated bought Colorado-based Gillingham & Associates in March. Gillingham is an MGU specializing in programs for outdoor recreation related risks such as fishing guides, dude ranches, and resorts and lodges. In 2007, Gillingham and its staff of roughly 35 employees placed 95% of its \$50 million book of business with Arch and 5% with First Mercury. Philadelphia Consolidated is now in the process of rolling the book to its paper.

Meanwhile, specialty insurer Argo Group, announced its purchase of Massachusetts-based Massamont Insurance Agency. Massamont is an MGA that specializes in public entity business, as well as, programs specifically targeting oil

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s

Median Price to Earnings (ttm): 8.2x
Median Price to Book (mrq): 1.2x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 12.2x
Median Price to Book (mrq): 1.0x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 10.4x
Median Price to Book (mrq): 1.1x



INDEX PERFORMANCE

NASDAQ Ins. YTD 4/30/08: -5.1%
S&P 500 Return YTD 4/30/08: -5.6%

Insurance Broker Stocks

Price 4/30/08 to TTM 3/31/08 or 12/31/07

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	2.8x	26.7x	10.2x	38.3%
Minimum	0.9x	12.2x	5.7x	12.3%
Median	1.4x	16.2x	7.4x	18.2%

Steady Activity...and Another Biggie cont'd.

heat and propane dealers, septic tank haulers, school bus operators and lawyers. According to the company, this acquisition establishes Argo's subsidiary, Trident, as the second largest writer of small to medium-size public entities in the U.S.

Turning to the public brokers, Brown & Brown continues its acquisitive ways. In 2007 the company's acquired revenue totaled \$108 million (27 deals). However, through April 21st of 2008, B&B has acquired 13 agencies with revenue of about \$44 million. Brown & Brown has stated its optimism about M&A opportunities citing agency owners' concerns over soft market conditions and a potential capital gains tax rate hike. AJ Gallagher is also off to a strong start in 2008 having done 12 deals through April 2nd, half of which were employee benefit shops. Benefit business is obviously a nice hedge to the P&C market these days. Meanwhile, Hill Rogal, who was highly acquisitive in 2007 with acquired revenue exceeding \$150 million, believes their 2008 activity will be lower. Presumably, much attention will be placed on integrating their '07 deals. Share buy-backs, a means to use cash to grow earnings per share in an environment with little or no organic growth, may be used.

Plenty of prognosticators say that consolidation activity among carriers, as well as, agents and brokers will continue to be strong. Granted, certain fundamentals do support that premise, i.e., soft market pricing, excess capital, aging agency owners, capital gains tax worries, etc. However, the significant drop in the stock prices over the past year of both insurance companies and brokers, coupled with the credit crunch faced by private equity groups, may portend a bit of slow-down in M&A activity and/or a contraction of multiples being paid. Nevertheless, there is still plenty of deal talk in the market.

Deal Notes

Munich Re Adds Underwriting Expertise

In line with recent trends, Munich Re announced the acquisition of Roanoke Companies Inc., an MGA focused on writing marine risks. Munich Re's \$53 million acquisition of Roanoke Companies equates a purchase price of over 0.5x premium. Munich Re likely sees the value in capturing the underwriting profits being produced. Roanoke Companies Inc. is the holding company for Roanoke Trade Services, a marine insurance underwriting agency and broker which produced \$100 million of premium last year. Roanoke Companies will write for Munich Re, while continuing to produce business for other insurance companies as a broker and underwriting agency.

SOME OF OUR TRANSACTIONS...



Four Corners Insurance Services, Inc.

has been acquired by

Republic Companies, Inc.

PhiloSmith acted as exclusive financial advisor to Four Corners Insurance Services, Inc.



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

has been acquired by

NALICO General Agency, Inc.
a subsidiary of NLASCO

PhiloSmith acted as exclusive financial advisor to Longhorn General Agency




Republic Companies, Inc.

has acquired

Southern States General Agency, Inc.
a subsidiary of
Unitrin, Inc.

PhiloSmith acted as exclusive financial advisor to Republic Companies, Inc.



Legion Insurance Company
(in Liquidation)

has sold its subsidiary
Professional Risk
Management Services, Inc.
to

Transatlantic Holdings, Inc.

PhiloSmith acted as exclusive financial advisor to Legion Insurance Company (in Liquidation)



Professionals Direct, Inc.

has been acquired by

The Hanover Insurance Group

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



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.

D.E. LOVE ASSOCIATES

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



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.



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.



Capital City Holdings Company, Inc.,
Davis-Garvin Holdings, Inc.
& affiliates

have agreed to be acquired by

North Pointe Holdings Corporation

PhiloSmith acted as exclusive financial advisor to Capital City Holdings Company, 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.



Unitrin, Inc.

has agreed to acquire

Merastar Insurance Company

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.



Future Planning Associates, Inc.

has been acquired by

U.S.I. Holdings Corporation

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



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.



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



State Auto Mutual Insurance Co.

has agreed to affiliate with

Patrons Mutual Group
of Connecticut

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



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



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

PHILOSMITH

Advising Insurance Companies Since 1962