

## The Perspective of a Leading Insurance M&amp;A Advisory Firm

## Recent Noteworthy Transactions

(\$s in millions)

## PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op. Earn.
Rockhill Holding Co.	State Auto Mutual Ins. Co.	\$247	1.6x	NA
FinCor Holdings, Inc.	Medical Professional Mut.	\$237*	1.6x*	10.5x*
MEEMIC Companies	Auto Club Ins. Assn.	\$218	2.6x*	NA

\*Value includes full contingent payment  
\*Multiples based on SAP

## AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	Revenue
Bliss & Glennon, Inc.	Summit Partners, L.P.	\$41	1.5x*	
Unit of Conner Strong	Brown & Brown, Inc.	\$24	2.5x	
Quest Group of Cos.	Randall Quilter Investment Hldgs.	\$7	1.8x	

\*PSCO estimate

## LIFE / HEALTH DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op. Earn.
AIG Life Ins. Co. of Canada	BMO Financial Group	\$263	1.0x	NA

## Down, But Not Dead

The first five months of 2009 have been slow in terms of deal activity. Certainly the private equity buyers are less active in the broker space due in large part to constrained funding. The banks, meanwhile, have been less acquisitive as many have sold off their insurance operations in the past 24 months, and some are under financial duress. Nevertheless, it still appears that seller hesitation is the primary culprit for the decline so far in 2009. The prolonged soft market has taken a toll on many potential sellers' P&Ls. Many sellers perceive this to be a buyers' market that they would rather wait out. In fact, right now we are at the midpoint between a buyers' and sellers' market as evidenced by multiples returning to historic norms. The result is that SNL Financial reported only 69 insurance brokerage transactions during the first five months of 2009 down from 119 in 2008. This decline is reflected in the activity of two of the insurance brokerage industry's more prolific acquirers. Brown & Brown announced 4 transactions during the first five months of 2009 compared to 11 transactions during the first five months of 2008. Meanwhile, Arthur J. Gallagher announced only 5 transactions during the first five months of 2009 compared to 14 transactions during the first five months of 2008. However, one of Gallagher's transactions, a renewal rights deal for Liberty Mutual's middle-market commercial P&C business in the Midwest and Southeast, was quite large. AJG paid over \$45 million in cash and stock plus up to \$120 million in contingent payments. In contrast, Hub International, another active acquirer, is slightly ahead of last year's pace. The company has announced 5 transactions in the first five months of 2009 compared to 4 transactions during the same period in 2008.

Marsh McLennan, which has been relatively quiet on the M&A front for some time, appointed David Eslick as the Chairman of Marsh McLennan Agency, a new division of Marsh dedicated to serving the small and emerging growth sector. Acquisitions are expected to be a key part of the strategy in growing Marsh McLennan Agency. Eslick has a substantial amount of experience doing agency acquisitions, having completed over 50 transactions in the past five years as CEO of USI Holdings.

Given the economic times, one type of transaction that has not slowed is the distressed parent company shedding assets in order to raise cash. AIG announced several more divestitures, including the sale of its Canadian life business to BMO Financial Group for \$263 million (1.0x book value) and the sale of 21<sup>st</sup> Century Insurance Group to Zurich Financial Services for \$1.9 billion, (0.9x book value). Meanwhile, Hartford Financial Services Group, which recently received \$3.4 billion in TARP funds, sold First State Management Group to Beazley Group for \$24 million in February. Based on what we've seen thus far, such sales present opportunities for buyers to purchase high quality assets at good prices provided that they have the

## Insurance Carrier Stocks

## PROPERTY / CASUALTY CO.'s

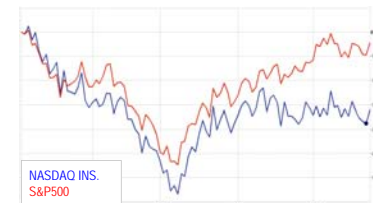
Median Price to Earnings (ttm): 11.0x  
Median Price to Book (mrq): 0.9x

## LIFE &amp; HEALTH COMPANIES

Median Price to Earnings (ttm): 12.5x  
Median Price to Book (mrq): 0.8x

## MULTI-LINE COMPANIES

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



## INDEX PERFORMANCE

NASDAQ Ins. YTD 5/26/09: -16.4%  
S&P 500 Return YE 5/26/09: 0.8%

## Insurance Broker Stocks

Price 5/26/09 to TTM 3/31/09

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	2.7x	30.5x	11.2x	34.7%
Minimum	0.9x	13.9x	6.9x	7.9%
Median	1.3x	16.5x	7.7x	17.2%

## Down, But Not Dead cont'd.

capital resources necessary to effect a transaction.


Capital needs and rating pressure seems to be leading to more activity among mutual insurance companies. Concord, NH-based Phenix Mutual recently agreed to affiliate with OH-based Motorists Insurance Group. The Phenix deal will be Motorists' third mutual affiliation since 2001. This marriage will boost Phenix's AM Best rating from B+ (negative) to A via pooling, enable it to broaden its product offering, and reduce its reinsurance expense. Motorists' plans for Phenix to grow significantly in the Northeast which will necessitate a larger employee base at Phenix over time. Meanwhile, PA-based Windsor Mount Joy Mutual Insurance Company merged in MD-based Farmers' Mutual Fire Insurance Company of Dug Hill. Prior to the transaction, Farmers', which primarily writes homeowners' in MD, was rated B- by AM Best with a negative outlook. In contrast, Windsor Mount Joy, with \$27 million of surplus, has a financial strength rating of A from AM Best.

The remainder of 2009 promises to be interesting. Sellers on the broker side, although continuing to yearn for the higher valuations of the recent past, will have to balance lower valuations with the increasing likeliness of a significant hike in the capital gains tax rate in 2011. Interestingly, some agency owners are starting to feel that it might be a good time to explore a sale since the prospect of a hardening market next year would make it easier to maximize value via the earn out portion of a transaction. Earn outs usually account for a significant portion of the transaction value, especially if the seller wants a higher multiple.

## Deal Notes


Fortegra Financial acquired Bliss and Glennon, Inc. from Willis Group Holdings Limited for \$41 million. The acquisition of Bliss and Glennon marks Fortegra's foray into wholesale distribution. Fortegra Financial (formerly known as Life of the South Corporation) itself sold an 85% stake to Summit Partners in 2007 in a transaction valued at over \$100 million. Fortegra now serves as a platform for Summit Partners for insurance distribution acquisitions. While Fortegra Financial is investing in, and enhancing its wholesale capabilities, Willis is de-emphasizing wholesale distribution in favor of focusing on retail, leading to speculation that the wholesalers it acquired in the Hilb Rogal & Hobbs transaction could go on the block. Willis states that no other wholesale subsidiaries are for sale.

# SOME OF OUR TRANSACTIONS...



Phenix Mutual Fire Insurance Company  
to join  
The Motorists Insurance Group

PhiloSmith acted as exclusive financial advisor to Phenix Mutual Fire Insurance Company




Heath XS, LLC  
has been acquired by  
Hallmark Financial Services, Inc.

PhiloSmith acted as exclusive financial advisor to Heath XS, LLC



The Hanover Insurance Group, Inc.  
has acquired  
AIX Holdings, Inc.

PhiloSmith acted as exclusive financial advisor to The Hanover Insurance Group, Inc.




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



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.



Four Corners Insurance Services, Inc.  
has been acquired by  
Republic Companies, Inc.

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




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  
a subsidiary of  
Direct Response Corporation  
has been acquired by  
National Penn Bank

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




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)



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

# PHILOSMITH

Advising Insurance Companies Since 1962