

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Tang. Book	Op. Inc.
Hardy Underwriting Bermuda Ltd.	CNA Financial	\$227.1	1.5x	NM

AGENT / BROKER DEALS

Target	Buyer	Value	Price to: Revenue	Price to: EBITDA
Crump Life & P&C Ins. Svces.	BB&T	\$570.0	1.8x*	9.0x*
Capital Bauer Insurance	Arthur J. Gallagher	28.5	NA	NA
First Horizon Insurance	Brown & Brown	25.1	1.7x	NA
Snapper Shuler Kenner Ins.	Brown & Brown	11.5	3.1x	NA

* Multiples based on projected figures

Waiting & Hoping?

Insurance M&A was down significantly in the first quarter. Among carriers (P&C / Life & Health), deal activity was down over 50% from 1Q11. For agents and brokers it was down about 30%. Why? For the carriers, it's tough to judge a trend based on a quarter due to small sample size (14 deals versus 30); however, the degree of slowdown is nonetheless noteworthy. Regarding agent and broker deals (54 versus 81 according to SNL Securities statistics), the reason seems pretty clear: would-be sellers are holding off because they see the market is turning / improving and their profits are growing. In fact, the change in average commercial rate was +2.8% in 4Q11 per CIAB. And, the optimism is outweighing concerns that the federal capital gains tax rate of 15% is scheduled to increase to 23.8% on 1/1/13. In a nutshell, buyer demand is presently outpacing seller supply. Nevertheless, there were nearly 70 announced deals in the space and some folks were busy.

For example, AJ Gallagher started the year off with a bang. In the 1Q AJG announced 8 transactions (versus 5 in 1Q11). Interestingly, 6 of their 8 deals were employee benefit firms. AssuredPartners also carried their deal momentum forward from 2011 (their first year in business) by closing 5 deals in the first quarter. The GTCR-backed start-up's combined annualized revenue is now up to \$170 million, which likely leap-frogs them to a top fifteen U.S. broker ranking. Meanwhile, Hub, which did over 30 deals in 2011, announced 5 deals in the first quarter and Brown & Brown (16 deals in 2011) closed only two. But, the big deal of the quarter was BB&T's agreement to purchase Crump Life and P&C Insurance Services from private equity firm J.C. Flowers for \$570 million (approx. 9x projected EBITDA and 1.8x projected revenue). The deal will boost BB&T Insurance's revenue by \$300 million (about 30%) and make BB&T / CRC the largest wholesaler in the country.

Having seen two of the largest private equity-backed wholesalers (Arrowhead & Crump) announce their sales in less than four months, attention has turned toward another large player, namely AmWINS. In fact, recent reports say that AmWINS' management and their private equity backer, Parthenon, are looking to sell their majority stake for more than \$1.2 billion, which would be more than 10x EBITDA. Some reports have speculated on a higher price tag. It's fair to say that given buyers' strong interest in the wholesale space, which was relatively non-existent 24 months ago, they are relatively bullish on a firming market.

Adding to its growing list of broker deals, Markel announced in March that it bought Quay Underwriting, a UK-based MGA specializing in fine art and collectibles risks. At \$1.6 million of written premiums, this deal was much smaller than Thomco (\$170 million of premiums, for which Markel paid just north of \$100 million); however, Markel views Quay as a platform to launch a niche fine arts product in the U.K. Including the Quay deal, by our count, Markel has done 7 MGA/program administrator deals in the past 5 years.

Insurance Carrier Stocks (3/31/12)

PROPERTY / CASUALTY CO.'s

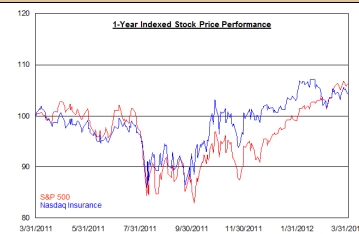
Median Price to Earnings (ttm):	14.9x
Median Price to Book (mrq):	0.9x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm):	10.8x
Median Price to Book (mrq):	0.6x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm):	14.4x
Median Price to Book (mrq):	0.7x



1 YEAR INDEX PERFORMANCE

NASDAQ Ins. (3/31/12):	4.4%
S&P 500 (3/31/12):	6.2%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.5x	12.6x	35.0%
Minimum	1.6x	8.8x	16.7%
Median	2.2x	9.6x	19.5%

Price 3/31/12, TTM through 12/31/11

Note: Brown & Brown figures adjusted for Arrowhead transaction

Waiting & Hoping?, cont'd.

As noted earlier, deal activity among carriers was subdued in the 1Q. Transactions of note include CNA's \$227 million intention to buy Hardy Underwriting Bermuda Ltd., the manager of Syndicate 382 at Lloyds. CNA will pay 280 pence per share (over 1.5x tangible book value). Beazley's offer of 300 pence per share back in October, based on June 30 numbers, had been rejected. But, that offer was only about 1.3x June 30 tangible book value. Hardy's tangible book value took a 39 pence per share hit in the second half of 2011 as a result of heavy CAT losses.

Among the mutual P&C carriers who were quite active in 2011, Seattle-based PEMCO Mutual will sell off PEMCO Life to Sagacor Life in order to concentrate solely on its personal lines P&C business. Meanwhile, Austin Mutual Group announced its intended affiliation with The Main Street America Group. Austin's surplus at YE 2011 stood at \$21 million, down from nearly \$70 million at YE 2009. Underwriting losses of \$50 million and increased defined benefit pension liability of \$3.8 million contributed to the surplus decline over the last two years. In late March, Austin was tagged with a double downgrade with a negative outlook by A.M. Best.

There is plenty of time left for deal activity to pick up this year. By the third quarter, we believe activity will increase, especially in the distribution space, due to sellers' concern over the potential capital gains tax rate increase and continued strong buyer demand. Also, by then it might become clearer to would-be sellers that 2012 is not 2002. Excess capacity and slow economic growth will hamstring any sharp market change. But, a little top-line can translate into a lot of bottom-line for an agent/broker and that can certainly help a seller maximize his or her earn-out.

Deal Notes

Confie Seguros, an agency focused primarily on the Hispanic market, which is backed by San Francisco-based PE firm Genstar, completed its 15th deal in the past year with its purchase of CA-based Power Auto Insurance. Founded in 2007, Power Auto has 13 locations; selling auto, motorcycle, home and commercial coverages. Confie, which was founded in 2008, now has annual revenues topping \$180 million and 300 retail locations.