

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. Inc.
FPIC Ins. Group, Inc.	The Doctors Co.	\$362.0	1.6x	13.9x
Esurance / Answer Financial	Allstate Corp.	1,000.0	2.7x	NA
Chaucer Holdings	Hanover Ins. Group	503.0	1.1x	14.5x
Fremont Michigan InsuraCorp	Auto Club Ins. Assoc.	67.7	1.4x	NM

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	
Heath Lambert Group	A.J. Gallagher & Co.	\$177.8	1.0x	
First Southwest Ins. Svcs.	HUB International Ltd.	38.0	1.8x	
Associated Ins. Services, Inc.	Brown & Brown	13.6	2.8x	
Fitzharris Agency	Brown & Brown	7.0	1.1x	
Gateway Insurance Svcs.	Bankers Insurance LLC	6.0	1.4x*	

* estimate based on PSCO research

Brokers Deals Up, Carriers Fighting Headwinds

Deal activity among insurance agents/brokers has increased significantly thus far in 2011. Through July, the number of deals reported by SNL Securities climbed to 154, an increase of 25% over the same period last year. Of the 154 deals, 34 involved employee benefit focused firms, up 13% from same period in 2010. Hub International has announced a whopping 19 deals, five of which were employee benefit firms. Last year through July, Hub had announced only 5 deals. Meanwhile, AJ Gallagher (AJG) and Brown & Brown (BRO) have announced 12 and 11 deals so far this year, respectively. For AJG, this includes its \$178 million (1.0x revenue, 8.1x EBITDACC) buy-out of UK-based Heath Lambert announced in May. Management said that it will provide AJG a platform for more UK deals. For BRO, five of its last 12 deals have been employee benefits focused.

What are the reasons for the pick-up in brokerage deal activity? It appears to be a combination of things. First, despite some improvement in rates, meaningful organic growth has been hard to find and a general hard market hasn't appeared. And, economic growth has remained anemic. Second, potential increases to capital gains tax rates in 17 months (January 2013) have nudged would-be sellers to consider a deal now. Third, public broker valuations had improved from early 2010 which, in turn, had allowed buyers to stretch their pricing a bit...enough to entice sellers. In recent weeks those multiples have contracted a bit thereby diminishing the pricing arbitrage upon which the consolidators rely.

On the carrier front, the mutuals / reciprocals continue their acquisitive ways filling the void of stock companies sidelined by their depressed market values. As a group, publicly traded P&C insurers are trading for under 80% of book value. Doctors Company, the CA-based med mal writer, inked a deal for FL-based, publicly traded FPIC for \$362 million (over 1.6x tangible GAAP book value) in May. It was Doctors' second \$300 million+ deal in less than a year. Also in the med mal arena, NORCAL Mutual announced it would buy Medicus, which writes doctors primarily in IL, NV, TX and WV. With backing from PE-firm Cypress Group, Medicus was started in 2006 and proceeded to grow its annual writings to over \$54 million in 2010. Meanwhile, Auto Club Insurance Association Group, another reciprocal, closed its \$67.7 million (1.4x tangible GAAP book value) acquisition of Fremont Michigan InsuraCorp on August 1. Auto Club is no stranger to sizable deals in Michigan having purchased MEEMIC companies for \$217 million in early 2009.

Not all stock companies are shying away from deals, even richly priced ones. For example, Allstate announced its deal to buy direct-writer Esurance from White

Insurance Carrier Stocks (08/17/11)

PROPERTY / CASUALTY CO.'s

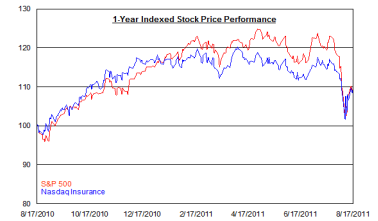
Median Price to Earnings (ttm): 11.7x
Median Price to Book (mrq): 0.8x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 8.3x
Median Price to Book (mrq): 0.6x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 12.3x
Median Price to Book (mrq): 0.6x



1 YEAR INDEX PERFORMANCE

NASDAQ Ins. (08/17/11): 9.2%
S&P 500 (08/17/11): 9.3%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	2.9x	13.2x	34.8%
Minimum	1.5x	8.3x	16.9%
Median	1.9x	9.7x	19.0%

Price 8/17/11, TTM through 6/30/11

Brokers Deals Up, Carriers Fighting Headwinds, cont'd.

Mountains for \$1 billion in May, which equates to 2.7x GAAP book value. And, Assurant paid \$45 million for Coverage Services Group, a broker producing approx. \$35 million of premium from renter security deposit bonds. Meanwhile, the Transatlantic / Allied World / Validus dance got more interesting as Warren Buffet jumped in with a \$52/share (about 77% of GAAP book value) bid for Transatlantic on August 7th, not subject to due diligence. Buffet's last reinsurance deal was GenRe back in 1998. He paid \$22.4 billion for Gen Re which equated to over 3.0x tangible GAAP book value. Presently, as a group, the reinsurers are only trading around 70% of book value. Also of note, Hanover Insurance, which has been averaging two deals per year since 2007, announced their \$503 million (1.1x tangible book value) deal for Chaucer Holdings in April. The Chaucer deal is over 5x larger than any other deal Hanover has done.

Given the stock market volatility and depressed property casualty stock values, there are distinct headwinds to insurance M&A. However, the lack of organic growth and abundance of capital will help counteract the headwind. We believe non-stock companies (mutuals and reciprocals) could be comparatively more aggressive buyers in this environment since they are not concerned with dilution or shareholder skepticism. We also believe that heavy CAT losses in the first half have adversely impacted a number of smaller mutuals. As a result, we anticipate more affiliation/merger announcements in the next 12 months. In May, two Michigan-based mutuals (Wolverine Mutual and Farmer's Mutual) announced their merger. This follows on the heels of Mount Carroll Mutual's merger with Osco and Western Farmer's Mutual Fire & Lighting Insurance Company in March. The number of mutual mergers/affiliations announced this year through July totals 5.

Deal Notes

Brown & Brown of MA acquired the assets of Massachusetts-based United Benefit Services and Beverly T. Gottleib & Associates. According to its 2nd Qtr 10Q, BRO paid \$14.6 million in cash at closing with a maximum potential earn-out of \$9.1 million. The recorded purchase price was \$17.8 million. United Benefits, an employee benefit consulting and brokerage firm focusing on the Boston metro area and throughout New England, has annualized revenue of \$6.4 million.