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August 2012

PHILOSMITH M&A SNAPSHOT

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

($s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to Statutory: Book	Price to Statutory: Op. Inc.
Medmarc Insurance Group*	ProAssurance Corp.	$153.7	1.0x	12.3x

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to GAAP: Tang. Book	Price to GAAP: Op. Inc.
Presidential Life Corp.*	Athene Group Ltd.	$414.3	0.5x	11.2x

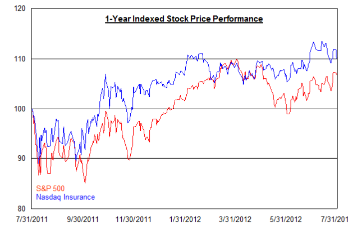
AGENT / BROKER DEALS

Target	Buyer	Value	Price to: Revenue	Price to: EBITDA
AmWINS Group	New Mountain Capital	$1,300.0	NA	11.1x
Insurcorp	Brown & Brown	21.3	4.3x	NA

** Announced deals*

Insurance Carrier Stocks (7/31/12)

PROPERTY / CASUALTY CO.'s	
Median Price to Earnings (ttm):	12.4x
Median Price to Book (mrq):	0.9x
LIFE & HEALTH COMPANIES	
Median Price to Earnings (ttm):	9.9x
Median Price to Book (mrq):	0.6x
MULTI-LINE COMPANIES	
Median Price to Earnings (ttm):	11.1x
Median Price to Book (mrq):	0.6x



1 YEAR INDEX PERFORMANCE

NASDAQ Ins. (7/31/12):	10.0%
S&P 500 (7/31/12):	6.7%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.3x	11.3x	34.3%
Minimum	1.7x	9.4x	17.4%
Median	**2.1x**	**9.8x**	**19.4%**

Price 8/10/12, TTM through 6/30/12

Note: Brown & Brown figures adjusted for Arrowhead transaction

A Variety of M&A Activity

Through July, M&A activity in 2012 has been a bit slower than expected. In the brokerage space, deal activity is down about 13% from 2011 according to SNL Financial (149 deals vs. 172). But for Arthur J. Gallagher it's been a banner year in terms of deal volume. Through July, AJG closed 21 deals (with over $130 million of annualized revenue). That is up from 13 deals for the same period last year (although last year included the $178 million Heath Lambert deal). Interestingly, nearly 50% (10) of AJG's deals so far this year have involved employee benefit only firms.

Another acquirer that has been particularly busy is Confie Seguros. The PE-backed firm that focuses primarily on the insurance needs of the Hispanic consumer has acquired 10 agencies in just the past 3 months. Formed in 2008, Confie's revenue is reportedly pushing $200 million through their more than 300 locations.

In terms of scale, one mega broker deal closed recently. In April, AmWINS Group announced its $1.3 billion recapitalization by New Mountain Capital, a New York-based PE firm. Based on AmWINS' press release, we estimate that New Mountain wrote a check for roughly $370 million for a nearly 70% stake in the company, with AmWINS' employee shareholders retaining more than 30% ownership. The balance of the transaction appears to have been financed with debt. The $1.3 billion total enterprise value implies a roughly 11x EBITDA multiple based on reported figures. In other large broker news, it is rumored that Goldman Sachs Capital Partners (another PE firm) is auctioning off USI Holdings. Seeing recent deal multiples for brokerage companies, Goldman presumably decided that now was as good a time as any to shed its 2007 purchase. Some reports speculate USI could fetch nearly $2 billion in a sale.

Generally speaking, buyer demand in the distribution space is high while the supply of sellers is mediocre. Would-be sellers are encouraged by some rate firming, something they've been anxiously awaiting for 5 to 7 years. Hoping to improve their bottom-line prior to an exit, some are holding out for the time being. Moreover, the extremely low yield environment is causing some would-be sellers to question whether cashing out makes financial sense. It's puzzling that the concentration of risk in one asset (their agency) is not more of a concern for these owners. With all that said, we do expect some fourth quarter pickup in agency/brokerage deals due to looming capital gains tax increase for next year.

On the carrier front, activity has been somewhat subdued in the past two quarters but the variety of transactions is noteworthy. Southport Lane, LP, a NY-based PE firm, announced in May its purchase of the challenged workers' comp writer, Dallas National. And, just three weeks later, it announced the acquisition of Cayman Islands-based Redwood Reinsurance which provides workers' comp reinsurance. Meanwhile, another PE-firm acquiring in the risk-bearing space is Flexpoint Ford

A Variety of M&A Activity, *cont'd.*

which bought GeoVera Insurance Group from fellow PE-firm, Hellman & Friedman. H&F bought the residential property writer from St. Paul Travelers back in 2005 for about $144 million according to the S-1 filed back in 2007. From '07 - '11 , the group companies paid dividends of nearly $129 million. GeoVera's statutory book value at YE 2011 was approximately $100 million.

Returning to the acquisition scene after a brief respite is med-mal / professional liability specialist ProAssurance with the recent announcement of its intent to purchase Medmarc Insurance Group for $153.7 million. The group, which specializes in product liability coverage in the medical/life sciences space, includes Medmarc Mutual which will be demutualized as part of the transaction. ProAssurance is paying about 96% of statutory book value and 12.3x post-tax statutory operating earnings based on 1Q12 numbers. Meanwhile, ProAssurance (NYSE: PRA) has been recently trading shy of 1.3x GAAP book value. The direct writings for Medmarc totaled $41 million in 2011 which is less than half of what the group wrote in 2008.

Minnesota-based, Austin Mutual recently completed its affiliation with Main Street America. Austin Mutual sought an affiliation partner given its challenges with weather-related underwriting losses, low investment yields, disallowance of deferred tax assets, and the sizable charges it had to take for its unfunded pension liabilities. Prior to the affiliation, Main Street America had little overlap with Austin's geographical focus. No operational changes, other than introduction of additional products, are planned. PhiloSmith believes that other small and mid-sized mutual companies confronted with the same challenges as Austin Mutual will wisely seek affiliation partnerships over the next 18 months.

Deal Spotlight

Arthur J. Gallagher (AJG) paid $40.8 million in cash and stock (32% / 68%) to the 33 shareholders of Cincinnati-based Schiff, Kreidler-Shell (SKS) in April. Shareholders could also earn an additional $18.5 million in earn-out. According to Business Courier, SKS has 105 employees and in 2010 generated $17.3 million in property and casualty commission and fee revenue.