

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: Book | Op. Inc. |
|---------------------------|--------------------|-----------|------------------------|----------|
| Transatlantic Holdings | Alleghany Corp | \$3,431.0 | 0.8x | NM |
| Delphi Financial Group | Tokio Marine Hldgs | 2,849.6 | 1.6x | 14.4x |
| Harleysville Group | Nationwide Mutual | 839.5 | 2.1x | NM |
| Penn Millers Holding Corp | ACE Limited | 107.0 | 1.0x | NM |

AGENT / BROKER DEALS

| Target | Buyer | Value | Price to: Revenue |
|------------------------------|---------------------|---------|----------------------|
| Arrowhead General Ins Agency | Brown & Brown | \$395.0 | 3.8x |
| United Benefit Services | Brown & Brown | 17.8 | 2.8x |
| BeneTex Group | Arthur J. Gallagher | 5.7 | N/A |
| Stanton Taylor Agency | TowneBank | 2.7 | N/A |

Unique Deals Highlight Activity

In a fitting way to end an active year in agent/broker M&A, Brown & Brown announced a landmark transaction. The company will acquire Arrowhead General Insurance Agency for \$395 million (3.8x revenue / 10x EBITDA) from private equity investor, Spectrum Equity. B&B's management obviously saw significant value in Arrowhead's scale (\$100+ million revenue, 510 employees) and near 40% EBITDA margins, hence the 3.8x revenue valuation. An acquisition for B&B is certainly nothing new (they've done over 100 deals since 2006), but this deal is unique because it is more than twice as large as any other acquisition it has made in its illustrious M&A history. The company's only other \$100+ million deal dates back to its purchase of Hull & Co., another general agency, for \$175 million (2.8x revenue) in 2005. Until the Arrowhead deal, B&B had made 15 acquisitions in 2011 (thru 12/16) with aggregate revenue of about \$60 million (about \$4 million of revenue per target).

Speaking of big broker deals, the former B&B executives that formed AssuredPartners with the backing of private equity firm, GTCR, landed their first deal with their acquisition of Neace Lukens in September. With 17 locations, the Louisville, KY based agency had revenue of \$86 million in 2010. Sixty-eight days later, Assured announced the purchase of White Plains, NY based SKCG Group. Their acquisition of this 80+ employee firm likely establishes newcomer Assured as a top 20 broker in the U.S.

Elsewhere in the broker world, PE-backed, program specialist Thomco announced its sale to Markel on 12/7. Markel is no stranger to acquiring program administrators like Thomco. By our count, the company has done six similar deals since 2007. However, Thomco is a substantial one with about \$170 million in writings. In addition to its senior living, pest control and other specialty areas, Thomco is the largest writer of child care exposures in the country.

After a devastating catastrophe year in Japan, we wouldn't have expected Japanese insurers to be jumping into M&A any time soon, but Tokio Marine proved us wrong with their \$2.8 billion acquisition of Delphi (NYSE: DFG) announced in late December. At 14x operating earnings and 1.6x GAAP book value, the price tag seemed steep for a company whose 3-year average ROAE was just north of 8%. However, Tokio Marine has a history of paying strong multiples for U.S. companies as evidenced by the 2.8x GAAP book it paid for Philadelphia Consolidated (NASDAQ: PHLI) in 2008. It should be acknowledged, however, that PHLI was a very strong franchise with an ROAE in '07 of roughly 24%.

Continuing with carrier deals, finally the future of Transatlantic seems clear. Alleghany (NYSE:Y) emerged as the winner with its combined cash and stock offer worth \$59.79 per share (\$3.4 billion) based on the 11/18 closing price of Y stock.

Insurance Carrier Stocks (12/31/11)

PROPERTY / CASUALTY CO.'s

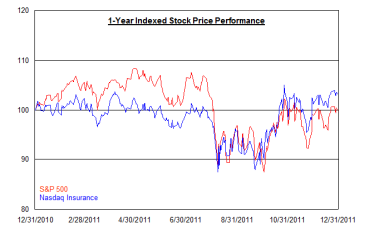
Median Price to Earnings (ttm): 22.2x
Median Price to Book (mrq): 0.9x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 11.0x
Median Price to Book (mrq): 0.5x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 13.0x
Median Price to Book (mrq): 0.6x



1 YEAR INDEX PERFORMANCE
NASDAQ Ins. (12/31/11): 3.1%
S&P 500 (12/31/11): 0.0%

Major Insurance Broker Stocks

| | Enterprise Value to TTM Revenue | Enterprise Value to TTM EBITDA | EBITDA / Revenue % |
|---------|------------------------------------|-----------------------------------|-----------------------|
| Maximum | 2.9x | 13.8x | 34.8% |
| Minimum | 1.6x | 8.2x | 16.5% |
| Median | 2.1x | 9.6x | 18.3% |

Price 12/31/11, TTM through 9/30/11

Note: Brown & Brown figures adjusted for Arrowhead transaction

Unique Deals Highlight Activity, cont'd.

This price equates to about 80% of GAAP book value. Meanwhile, on the other end of the valuation spectrum was Nationwide's announced purchase of Harleysville Group, Inc. (NASDAQ: HGIC) for \$60 per share (2.1x GAAP book value) on September 29th, a 138% premium to the company's closing share price on September 22nd. With its purchase of the public company, Nationwide will also merge in Harleysville Mutual, which is the 53% owner of HGIC.

Another mutual company in M&A action is Pennsylvania National Mutual, which announced its affiliation with Partners Mutual in November. Partners, which is based in Waukesha, WI and wrote approximately \$39 million of Midwestern business in 2010, complements Penn National's eastern and southeastern footprint. Given the heavy CAT activity in 2011, which has impaired many small mutuals' balance sheets, we believe more affiliation activity is likely in 2012. By our count, there were 8 mutual to mutual affiliations/mergers announced in 2011, up from 5 in 2010.

As far as the future is concerned, with only marginal improvement in rates and the economy, coupled with pathetically low investment yields, we anticipate buyer appetite to remain elevated for the foreseeable future among P&C carriers. One notable headwind, however, is the low public valuation multiples. Presently, the median price to GAAP book of P&C insurers is 85%.

Deal Notes

ACE Limited (NYSE: ACE) closed its acquisition of Penn Millers (NASDAQ: PMIC) on November 30th. ACE's \$107 million cash offer for the Pennsylvania-based agribusiness writer represented a 39% premium to PMIC's 8/15 closing price (the day PMIC announced that it was considering strategic alternatives) and 1.0x PMIC's 6/30 GAAP book value. It's worth noting that PMIC was the product of a subscription rights conversion with its shares being offered for \$10 in October 2009. Presumably, ACE's \$20.50 per share offer left PMIC's shareholders, including PMIC's executives and directors who collectively owned 4.6% of the stock, feeling plenty jolly leading into the holidays.