

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 Book	Price to Op. Inc.
PGC Holdings Corp.	American Family Mutual	\$239.0	1.7x	NM
Clal US Holdings	Berkshire Hathaway	294.0	1.1x	11.6x

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to Book	Price to Op. Inc.
Family Heritage Life Ins. Co.	Torchmark Corp.	\$232.0	3.7x	14.0x

AGENT / BROKER DEALS

Target	Buyer	Value	Price to Revenue	Price to EBITDA
USI Insurance Services	Onex Corporation	\$2,300.0	3.0x*	NA

* Multiple cannot be independently validated by PhiloSmith. Revenue number based on information from a recent Business Insurance report plus published revenue figures from USI's 2012 acquisitions.

A Tale of Two Markets

2012's insurance M&A activity was a story of the haves and have-nots when comparing deals among insurance brokers vs. underwriters. According to SNL Financial, insurance brokers announced 312 deals in 2012 which was up slightly from a very active 2011 (305 deals). And, as expected, Q4 2012 (119 deals) was busy, up 40% from Q4 2011 (85 deals). Clearly many sellers wanted to exit before year-end to avoid the capital gains tax increasing from 15% to 23.8% effective January 1, 2013. Meanwhile, 2012 was a disappointing year for insurance carrier deals. Deal volume was down 26% with only 101 deals being announced vs. 136 deals in 2011. Despite the slowdown in activity, there were some large, noteworthy deals.

For the brokers, Arthur J. Gallagher (AJG) led the pack with 38 deals (according to their website) announced in 2012, about half of which were acquisitions of employee benefits brokers. Mirroring the broader industry, AJG had a busy year-end with 7 deals announced in December alone. Brown & Brown (14 deals) was not quite as busy as we've seen them in recent years, but keep in mind that they started 2012 by closing their \$400 million acquisition of Arrowhead, a California-based MGA. Marsh & McLennan Agency (MMC) was active registering 9 deals in 2012. Turning to the private equity-backed brokers, AssuredPartners announced 23 deals in 2012. Funded in July 2011 by private equity firm GTCR, AssuredPartners has quickly established itself in the insurance agents/brokers world boasting 58 offices between the US and London and roughly \$200 million in annual revenue. Hub International, owned by Apax Partners since 2007, announced 20 deals in 2012. Wasting no time in 2013, Hub announced 5 deals in the first two weeks of this year.

Favorable debt markets and decent industry fundamentals continue to spur private equity (PE) platform investments in the brokerage sector. In November, PE firm Onex announced the acquisition of USI Insurance Services from Goldman Sachs Capital Partners for \$2.3 billion. Although USI's financials are not public, we estimate this was a 10x plus EBITDA deal based on various industry reports and public news articles that stated revenue and EBITDA figures for USI. This multiple is in line with recent, large broker transactions (i.e. Arrowhead, Crump and AmWINS). Interestingly, the impending sale did not deter USI from making 9 acquisitions of its own in 2012, including a September deal to acquire TD Insurance which is expected to contribute \$58 million of revenue to USI on an annual basis. The 4th quarter also saw two other notable PE to PE transactions: KKR purchased Alliant Insurance Services from Blackstone and ABRY Partners acquired Confie Seguros from Genstar Capital. We have not seen an IPO of an insurance broker since Fortegra Financial went public in December 2010, but looking at some of the large, privately-owned insurance brokers out there, one has to wonder if the next IPO isn't far off.

Insurance Carrier Stocks (1/18/13)

PROPERTY / CASUALTY CO.'s

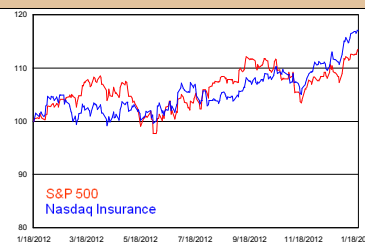
Median Price to Earnings (ttm): 10.8x
 Median Price to Book (mrq): 0.9x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 12.1x
 Median Price to Book (mrq): 0.6x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 14.7x
 Median Price to Book (mrq): 0.6x



1 YEAR INDEX PERFORMANCE

NASDAQ Ins. (1/18/13): 17.2%
 S&P 500 (1/18/13): 13.6%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.5x	11.4x	34.0%
Minimum	1.7x	9.1x	18.3%
Median	2.1x	10.2x	19.4%

Price 1/18/13, TTM through 9/30/12

Note: Brown & Brown figures adjusted for Arrowhead transaction

A Tale of Two Markets, cont'd.

As mentioned, 2012 was a lackluster year for insurance carrier M&A (deal volume down 26%). The reason for this decline is debatable. It appears that a key driver is likely the low public valuations of underwriters. With P&C stocks trading below 90% of book value on average, it's challenging for public buyers to make attractive offers (i.e. offers at a premium to book value). However, despite the slowdown, there were still some interesting deals that are worth examining.

After years of speculation, SeaBright, the Seattle-based workers comp writer, finally announced a sale. On August 27th, Enstar revealed its intention to purchase SeaBright's shares for \$11.11 in cash, a 34% premium to SeaBright's 8/27 closing price but only 69% of the company's 9/30/12 GAAP book value per share. Shareholders that invested in SeaBright's January 2005 IPO had a cost basis of \$10.50 per share.

In the largest P&C deal of the year, Markel announced its offer to buy Bermuda-based reinsurer Alterra Capital Holdings. The cash & stock deal values Alterra at \$3.1 billion and 1.0x GAAP book value per share. The acquisition allows Markel to establish a foothold in the reinsurance market and diversify its product offerings. Investors initially sold Markel after hearing the news with the company's stock dropping from \$486 to \$436 (a 10% decline) the day of the announcement; however, the stock rebounded to \$463 as of January 18th. In the years ahead, it will be interesting to watch Markel, which has long been known as a superior primary underwriter of specialty insurance products (96% 5-year average combined ratio vs. 102% for the overall P&C industry), transform into a larger, more global insurance/reinsurance company.

Not hamstrung by the public markets, mutual companies can arguably outbid their stock company brethren in this current environment as evidenced by American Family Mutual's purchase of PGC Holdings Corp. in December for 1.7x statutory book value. PGC includes non-standard auto insurers Permanent General and The General. According to Jack Salzwedel, American Family's Chairman and CEO, the PGC acquisition was attractive due to PGC's geographic focus as well as its successful direct distribution strategy. PGC had DPW of \$268 million for the 12-month period ended 9/30/12, roughly half of which came from CA, OH, TN and FL.

Questions? Contact us at 1.800.742.4279

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SOME OF OUR TRANSACTIONS...



TSGA
Texas Security General Insurance Agency, Inc.

Certain assets of Texas Security General Insurance Agency, Inc. and affiliated companies have been acquired by Brown & Brown, Inc.


PhiloSmith advised Texas Security General Insurance Agency, Inc.



AMERILIFE

AmeriLife Group LLC has acquired Vertical Vision Financial Marketing

PhiloSmith advised AmeriLife Group, LLC



WESTERN NATIONAL INSURANCE

Western National Mutual Insurance Company has acquired American Freedom Insurance Company

PhiloSmith advised Western National Mutual Insurance Company



PEMCO INSURANCE

PEMCO Life Insurance Company a subsidiary of PEMCO Mutual Insurance Company has been acquired by Sagacor Life Insurance Company


PhiloSmith advised PEMCO Mutual Insurance Company



PARTNERS MUTUAL INSURANCE COMPANY

Partners Mutual Insurance Company has affiliated with Pennsylvania National Mutual Insurance Company

PhiloSmith advised Pennsylvania National Mutual Insurance Co.



Fremont Michigan InsuraCorp

has been acquired by Auto Club Insurance Association

PhiloSmith advised Fremont Michigan InsuraCorp



NEVADA GENERAL INSURANCE CO.

Nevada General Ins. Co. a subsidiary of Chicago-Vegas Holding Co. has been acquired by Enumclaw Insurance Group

PhiloSmith advised Nevada General Insurance Co.



Legacy Insurance Services, Inc.

Legacy Insurance Services, Inc. and Arizona Automobile Ins. Co. have been acquired by Western National Insurance Group


PhiloSmith advised Arizona Automobile Ins. Co. & Legacy Ins. Svcs.



martinbenefits

Martin Benefits Consulting, LLC has been acquired by Brown & Brown of New York

PhiloSmith advised Martin Benefits Consulting, LLC




Utica Mutual Insurance Co.

has acquired Nationwide Holdings, Inc. and Founders Ins. Co.

\$108,000,000


PhiloSmith advised Utica Mutual Insurance Co.



Corporate Benefit Consultants

Corporate Benefit Consultants, LLC has been acquired by Brown & Brown, Inc.

PhiloSmith advised Corporate Benefit Consultants, LLC




Professionals Direct

Professionals Direct, Inc. has been acquired by The Hanover Insurance Group

\$23,000,000

PhiloSmith advised Professionals Direct, Inc.




MMG INSURANCE

Maine Mutual Group

\$7,000,000 Capital Raise

PhiloSmith Sole Placement Agent

PhiloSmith advised Maine Mutual Group



MCI Mid-Continent Insurance Co.

Mid-Continent Insurance Co. has been acquired by Conifer Holdings, Inc.


PhiloSmith advised Mid-Continent Insurance Company



PRMS

Professional Risk Management Services, Inc. a subsidiary of Legion Insurance Company (in Liquidation) has been acquired by Transatlantic Holdings, Inc.

PhiloSmith advised Professional Risk Management Services



StateAuto Insurance Companies

State Auto Mutual Insurance Company has acquired Beacon Insurance Group

PhiloSmith advised State Auto Mutual Insurance Company



HEATH XS

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

80% for \$15,000,000

PhiloSmith advised Heath XS, LLC



GMAC Insurance

GMAC Insurance Holdings, Inc. and its subsidiary Motors Insurance Corp. have acquired MEEMIC Insurance Co. a subsidiary of ProAssurance Corporation

\$400,000,000

PhiloSmith advised GMAC Insurance Holdings, Inc.



TGA Texas General Agency

Texas General Agency, Inc. and their affiliates have been acquired by Hallmark Financial Services, Inc.

\$47,600,000

PhiloSmith advised Texas General Agency, Inc.



UNITRIN

Unitrin, Inc. has acquired Merastar Insurance Company

\$45,000,000

PhiloSmith advised Unitrin, Inc.



GuideOne Insurance

GuideOne Financial Group a subsidiary of GuideOne Mutual Insurance Company

\$30,000,000 Preferred Stock

PhiloSmith Sole Placement Agent

PhiloSmith initiated this transaction and advised GuideOne Financial Group



FPA

Future Planning Associates, Inc. has been acquired by U.S.I. Holdings Corp.

\$31,000,000


PhiloSmith initiated this transaction and advised Future Planning Associates, Inc.



BEECHER CARLSON

Beecher + Carlson Risk Management, Inc. a subsidiary of American Re Corp. has been acquired by Risk Strategy Partners, Inc.

PhiloSmith advised Munich-American Global Services, Inc.



Swiss Re Life & Health America

has acquired Royal Maccabees Life Insurance Company from Royal & SunAlliance Corp.

PhiloSmith initiated this transaction and advised Swiss Re Life & Health America



COUNTRY

COUNTRY Insurance has acquired Cotton States Life Insurance Company and has affiliated with Cotton States Mutual Insurance Company

PhiloSmith acted as exclusive financial advisor to COUNTRY Insurance