

PHILOSMITH

M&A SNAPSHOT

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

PROPERTY / CASUALTY DEALS		Price to Statutory:	
Target	Buyer	Value	Book Op. Inc.
Utah Medical Ins. Association	MMIC Group	\$141.8	1.6x 11.3x
LIFE / HEALTH DEALS		Price to Statutory:	
Target	Buyer	Value	Book Op. Inc.
MONY Life Insurance	Protective Life	\$1,056.0	1.7x 5.8x
AGENT / BROKER DEALS		Price to:	
Target	Buyer	Value	Revenue EBITDA
Pikeville, KY Agent	Peoples Bancorp	\$1.5	0.9x NA

Easing into 2013

Insurance M&A activity was down across the board in Q1 2013. According to SNL Financial, 21 underwriter deals were announced in Q1 2013 down from 26 in the comparable quarter of last year. For the brokers, 43 deals were announced in Q1 2013 vs. 69 deals in Q1 2012 vs. 82 deals in Q1 2011 – a 48% drop in 2 years. One possible explanation for the lack of deals might be that some would-have-been Q1 2013 sellers hurried to sell before year-end 2012 to avoid higher capital gains taxes (as we mentioned in our January Snapshot). Another possible explanation is that carriers and brokers are finally seeing some organic top-line growth from hardening P&C rates and therefore are less inclined to sell given their increasing profitability. As far as the deals that did happen in the quarter, let's examine a few.

For the underwriters, highly acquisitive AmTrust announced its purchase of Sequoia Insurance Company from JPMorgan who bought the company in 2003. Sequoia primarily provides workers compensation and commercial package policies to small businesses in western states (90% of 2012 DPW was in California). The \$60 million purchase price equates to 83% of Sequoia's 9/30/12 statutory book value. AmTrust, which at 1.9x P/B trades at a significant premium to its underwriting peers, has announced 13 deals since 2010.

American Safety (ASI) announced on March 13th that it hired BofA Merrill Lynch to review strategic alternatives, including a possible sale of the company. Interestingly, ASI's stock has stayed pretty flat since the announcement (up 2% through 4/19/13) and currently trades at 69% of GAAP Book Value Per Share. Possibly, below average historical underwriting results, recent reserve strengthening, and maybe even low confidence that a deal will get done, may explain the underwhelming stock performance since the announcement.

In the mutual world, United Heritage Insurance acquired Merced Mutual Insurance in a sponsored demutualization approved by Merced's policyholders. Merced writes homeowners and dwelling fire insurance in California through a network of 116 independent agents.

Turning to the brokers, Hub International was the most active acquirer in Q1 2013 with 8 deals announced. Arthur Gallagher announced 6 deals in the first quarter, although 5 of these actually closed effective December 2012. In keeping with the trend we saw in 2012, 4 of Arthur Gallagher's deals were employee benefits brokers. Meanwhile, Confie Seguros started the year strong with 5 acquisitions in Q1. In a recent interview with Insurance Journal, Confie's President, Mordy Rothberg, said the company plans to expand into standard personal and small commercial lines (in addition to its Hispanic-focused, non-standard auto base) and hopes to do over 30 acquisitions this year, adding \$50 million plus of revenue. AssuredPartners was also busy, announcing 4 deals in the first quarter. Brown & Brown (BRO), one of the most active acquirers in recent years, announced only 1 deal in the first quarter – a strategic alliance between Arrowhead (a BRO subsidiary) and Everest Re focusing on non-standard auto business.

Insurance Carrier Stocks (4/24/13)

PROPERTY / CASUALTY CO.'S	Median Price to Earnings (ttm): 14.1x	
	Median Price to Book (mrq): 1.0x	
LIFE & HEALTH COMPANIES	Median Price to Earnings (ttm): 10.4x	1-YEAR INDEX PERFORMANCE NASDAQ Ins. (4/19/13): 28.1% S&P 500 (4/19/13): 13.0%
	Median Price to Book (mrq): 0.7x	
MULTI-LINE COMPANIES	Median Price to Earnings (ttm): 16.1x	
	Median Price to Book (mrq): 0.7x	

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.7x	13.7x	33.9%
Minimum	1.8x	9.5x	17.8%
Median	2.4x	9.9x	19.6%

As of 4/19/13

Easing into 2013, cont'd.

As we were finalizing the April Snapshot, National Financial Partners (NFP) announced a deal with Madison Dearborn Partners, the Chicago-based PE firm. The announcement that NFP was going to sell to a private equity firm was no surprise (NFP had issued a statement in March saying that it was exploring a possible sale due to indications of interest received from private equity firms), but the numbers were interesting. Madison's \$25.35 per share cash offer represented a 26% premium to NFP's closing share price the day prior to its March press release. While information is still trickling out about the transaction, from what we've read, Madison's offer implies a Total Enterprise Value of \$1.3 billion and a TEV/EBITDA multiple north of 9x (in line with larger broker deals getting done recently); interestingly, the TEV/Revenue multiple (1.2x) was lower than comparable deals due to NFP's weaker margins (~13% EBITDA margin). With the deal, Madison becomes the latest in a growing list of PE firms to enter the brokerage space.

After selling Confie Seguros to ABRY Partners in November 2012, Genstar Capital jumped right back into the space in March by acquiring Acrisure, a retail agency based in Michigan. John Addeo, the former CEO and co-founder of Confie, will join Acrisure's Board along with 3 Genstar investment professionals. Using Confie as a roadmap, Genstar plans to pursue a similar strategy for Acrisure, creating value through both organic and acquisition growth.


Deal Notes

In RLI's 2012 10K filing, the company revealed some interesting details about its November purchase of Rockbridge Underwriting Agency, a Houston-based MGA specializing in medical professional liability insurance. RLI paid \$15.5 million cash at close for Rockbridge plus an "earn-out" payment based on future underwriting profitability. Setting aside the earn-out payment for the moment, the \$15.5 million price tag implies that RLI paid \$0.78 for every dollar of Rockbridge premium (estimated at \$20 million per an earlier RLI press release). While the downside of these carrier/MGA deals is the goodwill/intangibles generated for the buyer (\$16.6 million for RLI in this deal), the positive is the carrier typically acquires a book of profitable, niche business and the broker realizes significantly more value on the sale than if sold to traditional broker buyers that use standard EBITDA metrics for valuation.

Questions? Contact us at 1.800.742.4279

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SOME OF OUR TRANSACTIONS...



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 Group LLC has acquired Vertical Vision Financial Marketing

PhiloSmith advised AmeriLife Group, LLC



Western National Mutual Insurance Company has acquired American Freedom Insurance Company

PhiloSmith advised Western National Mutual Insurance Company



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 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 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. and Arizona Automobile Ins. Co. have been acquired by Western National Insurance Group

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



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

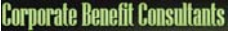
PhiloSmith advised Martin Benefits Consulting, LLC



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, LLC has been acquired by Brown & Brown, Inc.

PhiloSmith advised Corporate Benefit Consultants, LLC



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

\$23,000,000


PhiloSmith advised Professionals Direct, Inc.



Maine Mutual Group \$7,000,000 Capital Raise

PhiloSmith Sole Placement Agent

PhiloSmith advised Maine Mutual Group



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

PhiloSmith advised Mid-Continent Insurance Company




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



State Auto Mutual Insurance Company has acquired Beacon Insurance Group

PhiloSmith advised State Auto Mutual Insurance Company



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

80% for \$15,000,000

PhiloSmith advised Heath XS, LLC



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.



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, Inc. has acquired Merastar Insurance Company

\$45,000,000

PhiloSmith advised Unitrin, Inc.



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



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 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 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