

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.
American Safety Insurance	Fairfax Financial	\$317.0	0.9x	52.0x

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to GAAP:	
			Book	Op. Inc.
Lincoln Benefit Life Co.	Resolution Life Holdings	\$600.0	1.7x	NM

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	EBITDA
Rollins Agency	Brown & Brown	\$16.1	2.9x	NA
Associated Insurance Agents	CBIZ	8.6	2.3x	NA

Some Big Broker Deals, but Slow Overall

Deal activity in the insurance industry continued at the sluggish pace we saw in Q1. According to SNL Financial, through August 22nd, 113 broker deals had been announced vs. 183 for the same period last year (down 38%); while 52 underwriter deals had been announced vs. 74 for the same period in 2012 (down 30%). Although volume was undoubtedly light, there were still some interesting transactions to examine.

Starting with a quick overview of the most active acquirers in the broker world, Hub International has continued the ferocious deal pace that it set in Q1 – Hub has announced 18 transactions year-to-date. Arthur J. Gallagher (AJG) and Confie Seguros have each announced 10 transactions so far this year, including the \$276.5 million Bollinger deal for AJG – more on that below. Digital Insurance, which is a subsidiary of title insurer Fidelity National since late last year, has announced 9 deals to date in 2013. Other notable acquirers included: AssuredPartners (6 deals); USI (5 deals); Marsh & McLennan (5 deals); and Brown & Brown (3 deals).

In addition to being the most active acquirer in the broker universe, Hub International announced on August 5th that it had entered into an agreement to be acquired by Hellman & Friedman, a San Francisco-based private equity firm. The \$4.4 billion transaction values Hub at 3.7x reported Revenue and 11.0x reported EBITDA (remember that Hub is a private company so while these figures were reported in the media, they could not be verified). Hub, the 10th largest broker worldwide according to Business Insurance, was previously owned by two private equity firms: Apax Partners and Morgan Stanley Private Equity. Apax and Morgan Stanley bought Hub in 2007 for \$1.8 billion. Since the details of these transactions are private, we can't determine the exact return that Apax and Morgan Stanley saw on their investment, but even if we disregard the debt financing that undoubtedly juiced their returns, turning \$1.8 billion into \$4.4 billion in roughly 6 years is presumably considered a "winner" by both of these firms.

Brown & Brown (BRO) and AJG also announced major deals within the last few months. In May, BRO announced its acquisition of Beecher Carlson, the 400-employee, Atlanta-based broker with a large account retail focus (think Fortune 2,000 businesses). The \$336 million price tag (after making adjustments for working capital and net tax operating loss carryforwards) implies a 10.2x EBITDA multiple (\$33 million of EBITDA) and 3.1x Revenue multiple (\$110 million of Revenue). Then, on August 12th, AJG announced its \$276.5 million purchase of Bollinger Inc., a New Jersey-based, retail-focused broker. The deal was the largest ever for AJG. The cash and stock transaction is expected to generate over \$100 million of Revenue and approximately \$40 million of EBITDA for AJG. Based on AJG's expected margin of ~40%, the implied EBITDA multiple is 6.9x, which is lower than the TTM EBITDA multiples of other recently announced transactions of similar size.

Insurance Carrier Stocks (8/30/13)

PROPERTY / CASUALTY CO.'s

Median Price to Earnings (ttm):	13.1x
Median Price to Book (mrq):	1.1x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm):	11.9x
Median Price to Book (mrq):	0.9x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm):	12.4x
Median Price to Book (mrq):	0.8x



1-YEAR INDEX PERFORMANCE

NASDAQ Ins. (8/30/13):	28.9%
S&P 500 (8/30/13):	16.7%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.6x	13.2x	34.2%
Minimum	2.0x	10.1x	17.9%
<b>Median</b>	<b>2.4x</b>	<b>10.7x</b>	<b>19.5%</b>

As of 8/30/13

Some Big Broker Deals, but Slow Overall, cont'd.

Moving to the underwriters, we mentioned in our April M&A Snapshot that American Safety Insurance (ASI) had hired BofA Merrill Lynch to advise on a possible sale of the company. In early June, ASI announced a transaction with Fairfax Financial. While the last few weeks produced some minor drama with Bermuda-based Catalina Holdings trying to outbid Fairfax, it appears that the ASI/Fairfax deal will ultimately go through (ASI shareholders approved the deal last week and now the companies are just waiting for regulatory approvals). The \$317 million all-cash deal values the company at 89% of its 6/30/13 GAAP Book Value and represents a 26% premium to ASI's 3/13/13 share price (the last trading day before it announced the hiring of BofA Merrill Lynch).


In July, Pennsylvania Lumbermens Mutual and Indiana Lumbermens Mutual announced that they were affiliating. Indiana Lumbermens has had a tough run recently as Surplus has declined from \$39.7 million at the end of 2009 to \$16.5 million at 6/30/13. In December, A.M. Best revised the outlook on Indiana Lumbermens' B+ rating from Stable to Negative. The pending affiliation will help to spread the geographic risk of the two companies (they share only one top 5 state) and will allow the companies to realize some savings by sharing resources. Additionally, Indiana Lumbermens is expected to inherit Pennsylvania Lumbermens A- Stable A.M. Best rating.

In the non-standard auto world, Conifer Holdings agreed in August to acquire the non-standard auto operations of Canada-based EGI Financial Holdings. To provide a little history, EGI acquired its non-standard auto unit (American Colonial Insurance Company) in March 2010 and quickly started writing business (\$48 thousand of Direct Premiums Written in 2010; \$2.0 million DPW in 2011; \$10.1 million DPW in 2012). While the premiums were growing, the results were poor – combined ratios of 165% and 138% in 2011 and 2012, respectively. EGI's new CEO Steve Dobronyi determined that his company's US non-standard auto results were not progressing towards profitability as quickly as planned and decided to divest the operation. From Conifer's perspective, the acquisition accomplishes its goal of acquiring specialty underwriters while also providing some geographic diversification to its current book of business. Financial terms of the transaction were not disclosed.

Questions? Contact us at 1.800.742.4279

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# SOME OF OUR TRANSACTIONS...




Strickland Insurance Brokers, Inc.

*has acquired*

Tower Underwriters, Inc.

PhiloSmith advised  
Strickland Insurance Brokers, 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 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*

Sagcor 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



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