

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS					
Target	Buyer	Value	Book	Op. Inc.	Price to GAAP:
Eastern Insurance	ProAssurance	\$205.2	1.4x	20.7x	

LIFE / HEALTH DEALS					
Target	Buyer	Value	Book	Op. Inc.	Price to Stat:
Magnolia Guaranty Life	Citizens	\$5.2	2.3x	17.7x	

AGENT / BROKER DEALS					
Target	Buyer	Value	Revenue	PT Profit	Price to:
Towers Watson's Reins. Broker Business	JLT	\$250.0	1.5x	9.6x	

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With respect to insurance M&A deal volume, 2013 ended as it started: slow. According to SNL Financial, 210 agent/broker deals were announced in 2013 vs. 349 in 2012 (down 40%); while 80 carrier deals were announced in 2013 vs. 121 in 2012 (down 34%). Taking a closer look at the data, it's interesting, but not all that surprising, to note the stark differences in December deal volume for 2012 vs. 2013. December 2012 saw 86 brokerage and 19 carrier deals announced whereas December 2013 saw 22 brokerage and 5 carrier deals announced. As we have noted in previous write-ups, the impending capital gains tax change in January 2013 had a significant impact on deal making in late 2012.

Starting with the carrier deals, ProAssurance Corp. announced in September its \$205 million all cash acquisition of Eastern Insurance Holdings. ProAssurance, a medical professional liability writer, liked Eastern's workers comp focus and saw an opportunity to diversify its revenue stream in the face of a changing healthcare environment which likely will have less and less independent and small group physicians (historically a ProAssurance niche). The deal valued Eastern at \$24.50 per share (1.4x 6/30/13 GAAP book value per share) and represented a 16% increase to Eastern's share price the day prior to announcement. Interestingly, Eastern is the latest in a growing list of sellers that originally went public via a subscription rights demutualization. For the original investors in Eastern's June 2006 IPO (priced at \$10.00 per share), the annual return on the ProAssurance deal came in north of 12% (not including dividends).

AmTrust capped off an active 2013 (6 deals) with the September announcement of its purchase of The InSCO Dico Group. California-based InSCO, which generated over \$50 million of premiums last year, provides surety insurance to developers and contractors. The final purchase price was \$89 million, which was approximately \$7 million above InSCO's 12/31/13 tangible book value.

In a move that had a very similar feel to their 2012 purchase of direct auto writer Permanent General, American Family Mutual announced its acquisition of Homesite Group, a direct homeowners insurer, in September. While American Family remains committed to its exclusive agent network, the Homesite deal allows the company to bolster its direct-to-consumer channel and thereby serve a different niche – "this is about meeting customer preferences," said Jack Salzwedel, American Family's Chairman and CEO, of the deal. The \$660 million cash deal represents a 2.0x multiple on Homesite's 9/30/13 equity. Homesite is privately owned by multiple parties, including Alleghany, Plymouth Rock, and Metalmark Capital.

Turning to the brokers and starting with a brief review of the year's M&A activity, Arthur J. Gallagher retained its title as the most active acquirer with 25 transactions announced in 2013. AssuredPartners, the Florida broker backed by private equity firm GTCR, also stayed busy announcing 18 deals. Another private equity-owned company, Confie Seguros, announced 13 transactions in 2013. Employee benefits firm Digital Insurance had a busy year doing 11 deals. Other notable acquirers

Insurance Carrier Stocks (1/6/14)

PROPERTY / CASUALTY CO.'s	
Median Price to Earnings (ttm):	14.2x
Median Price to Book (mrq):	1.2x
LIFE & HEALTH COMPANIES	
Median Price to Earnings (ttm):	11.7x
Median Price to Book (mrq):	1.0x
MULTI-LINE COMPANIES	
Median Price to Earnings (ttm):	13.4x
Median Price to Book (mrq):	0.9x

1-YEAR INDEX PERFORMANCE	
NASDAQ Ins. (1/6/14):	21.8%
S&P 500 (1/6/14):	24.6%

Major Insurance Broker Stocks

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.6x	14.3x	34.0%
Minimum	2.2x	10.7x	18.3%
Median	2.6x	11.8x	19.9%

As of 1/6/14

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included: Hub (16 deals), USI (9 deals), Brown & Brown (4 deals), and Acrisure (4 deals).

Among Confie's 13 transactions in 2013, their September acquisition of Affirmative Insurance's retail agency distribution and premium finance business was noteworthy. As its largest deal yet, Confie paid \$101.8 million in cash at closing for the business; plus, if Affirmative can meet future risk-based capital thresholds and continue to be a healthy market for the business, Confie will pay up to an additional \$20 million to Affirmative. The retail agency business that Confie purchased consists of 195 storefronts in 9 states and approximately 500 employees. In 2012, according to Affirmative's 10K, the retail business produced just under \$200 million of premium, roughly 75% of which it wrote on Affirmative paper. As part of the deal, Affirmative and Confie entered into a temporary distribution agreement whereby Confie will continue to produce business for Affirmative at a level consistent with that produced by the retail business prior to the closing.

The wholesale world continues to see deal activity. AmWINS Group announced its \$83.5 million purchase of Bliss & Glennon (a wholesale broker and MGA) and eReinsure (an online platform for managing the placement of facultative reinsurance) from Fortegra Financial in December. With the deal, AmWINS now handles more than \$9.5 billion in annual premium across 108 offices worldwide. Chicago-based Ryan Specialty Group also had a busy end to the year. In November, Ryan acquired Westrope, a Kansas City-based wholesaler that generates north of \$500 million in annual premium. Among other pros, the Westrope deal will improve Ryan's binding authority capabilities. A few weeks prior to the Westrope announcement, Ryan purchased S.H. Smith, a specialty broker based in Hartford, CT.


After a whirlwind of rumors about possible suitors, it was announced in September that Towers Watson's reinsurance brokerage business would be sold to Jardine Lloyd Thompson (JLT). The \$250 million price tag values Towers' business at 1.5x revenue and 9.6x pre-tax profit. Towers' business will be merged with JLT's existing reinsurance brokerage business. The combined operation will operate under the name "JLT Towers Re" and will boast 700 employees in 35 offices. JLT should benefit from the scale of the larger operation, as well as Towers' reinsurance brokerage presence in North America.

SOME OF OUR TRANSACTIONS...



S.H. Smith & Company
has reached an agreement to merge into
R-T Specialty, LLC
a unit of
Ryan Specialty Group

PhiloSmith advised
S.H. Smith & Company, 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