

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 Stat:	Book	Op. Inc.
Personal Express Insurance	National General	\$20.0		1.3x	8.3x

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to GAAP:	Book	Op. Inc.
Wilton Re	Investor Group	\$1,800.0		1.3x	NA

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	Revenue	PT Profit
Bergvall Marine	AJG	\$24.4		4.9x	NA

Agents & Brokers Staying Busy

2014 got off to a fast start for agent/broker M&A. According to SNL Financial, Q1 2014 saw 72 deals announced. This was a 64% increase over Q1 2013 (44 deals) and even slightly above the comparable period in highly active 2012 (70 deals). While there are a number of potential factors driving agent/broker M&A activity, we believe that recent stock market performance is at or near the top of the list. Although year-to-date performance has been roughly flat, the S&P 500 is up 31.8% since January 1, 2013, while the SNL US Insurance Broker Index is up 38.8%. Arguably, stronger public valuations allow publicly-traded brokers to be more aggressive in their pricing of deals while still capturing some multiple arbitrage. Additionally, since privately-held and private equity-backed brokers peg their values based on public comparables (among other methods), the stronger valuations should allow them to stretch on price as well. Moreover, the current low interest rate environment translates into cheap funding costs which in turn inflates pricing.

Examining the most active agent/broker acquirers during the first quarter, Hub tops the list again with 9 deals announced in Q1. AssuredPartners was a close second announcing 8 transactions. Rounding out the top 3, publicly-traded Arthur J. Gallagher (AJG) did 6 acquisitions. Marsh & McLennan Agency (MMA) did 3 deals in the quarter, including its largest acquisition to date. MMA bought San Diego, CA-based Barney & Barney, the country's 34th largest brokerage firm boasting \$100 million in annual revenue and 500 employees. Barney & Barney will serve as MMA's western region hub as MMA looks to build out its presence in the west. Other notable deal makers included USI (4 deals), Brown & Brown (2 deals) and Confie Seguros (2 deals).

Starting with 2014's largest brokerage deal, AJG announced its \$933 million cash acquisition of the Wesfarmers Insurance Brokerage operations on April 6th. The price tag values Wesfarmers at 9.0x Adjusted EBITDACC (EBITDA plus the change in estimated acquisition earnout payables) after accounting for the \$46 million of net assets that came with Wesfarmers. The 1,700 employee broker generates approximately 90% of its \$306 million in revenue from Australia and New Zealand with the balance coming from the UK. For AJG, significant expansion in Australia and New Zealand was a major driver of the deal. Not to be overlooked, AJG also announced a \$331 million cash purchase of the UK-based Oval Group of Companies. Oval is a commercial lines-focused retail broker generating roughly \$133 million in annual revenue. Taking a step back, it's interesting to note that AJG has made four \$300 million plus acquisitions within the last 12 months, only one of which is headquartered in the US.

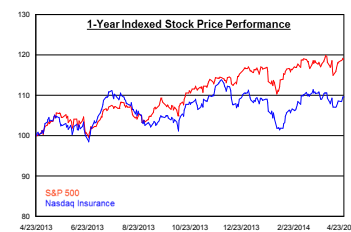
In January, Brown & Brown (BRO) announced the purchase of The Wright Insurance Group, a program writer of flood, public entity and commercial business. As the largest writer in the national flood insurance program (19% market share), Wright will give BRO a substantial presence in the flood market. BRO paid \$602.5 million in cash for Wright, plus an additional \$37.5 million may be payable to Wright's current owners if Wright

Insurance Carrier Stocks (4/23/14)

PROPERTY / CASUALTY CO.'s	Median Price to Earnings (ttm):	10.7x
	Median Price to Book (mrq):	1.1x

LIFE & HEALTH COMPANIES	Median Price to Earnings (ttm):	12.2x
	Median Price to Book (mrq):	1.0x

MULTI-LINE COMPANIES	Median Price to Earnings (ttm):	10.2x
	Median Price to Book (mrq):	0.8x



1-YEAR INDEX PERFORMANCE	
NASDAQ Ins. (4/23/14):	9.4%
S&P 500 (4/23/14):	18.8%

Major Insurance Broker Stocks (4/23/14)

	Enterprise Value to TTM Revenue	Enterprise Value to TTM EBITDA	EBITDA / Revenue %
Maximum	3.0x	12.4x	33.6%
Minimum	2.2x	8.9x	19.9%
Median	2.5x	11.9x	20.2%

Note: AJG financials adjusted for Wesfarmers and Oval acquisitions; BRO financials adjusted for Wright acquisition.

Agents & Brokers Staying Busy, cont'd

completes certain acquisitions prior to closing. Under BRO's ownership, Wright is projected to generate pro forma revenue and EBITDA of \$121 million and \$59 million, respectively. Priced at 10.2x EBITDA, the multiple appears in-line with BRO's recent large acquisitions (Arrowhead and Beecher Carlson).

Sentry Insurance, the Stevens Point, WI-based mutual insurer, announced in February that it will acquire Anchor Managing General Agency, a MGA that writes main street commercial risks in Alabama and Mississippi through 350 independent agents. In Anchor, Sentry sees an opportunity to enter the main street commercial market as Sentry plans to move the Anchor book onto its paper after closing.

Unlike the flurry of activity we saw on the agent/broker side in Q1, underwriter deal volume was down. Q1 2014 saw 19 underwriter deals announced vs. 28 for the same period last year (a 32% drop). Despite the slowdown, there were still some interesting transactions to highlight.

In March, Biglari Holdings acquired Venice, FL-based First Guard Insurance Company. First Guard is an underwriter of commercial trucking insurance and produced \$15.7 million of direct premiums in 2013. First Guard writes business directly (as opposed to using agents and brokers) and has historically been highly profitable as evidenced by its 78% five-year average combined ratio. For Biglari, a diversified holding company which also owns multiple restaurant chains as well as a magazine, First Guard is not its introduction to insurance investing. Biglari currently holds a 9.5% stake in publicly-traded commercial insurer Unico American. Also, going back a few years, Biglari had a material position in Fremont Michigan InsuraCorp before it was sold to Auto Club Insurance Association in August 2011.

Turning to the L&H world, Wilton Re, a provider of life insurance and reinsurance, announced its sale to Canada Pension Plan Investment Board (CPPIB) and Wilton Re management in March for \$1.8 billion (1.3x GAAP Equity). CPPIB manages the Canada Pension Plan's investment assets. At December 31, 2013, this fund totaled \$188 billion. Wilton Re is currently owned by a group of private equity investors. Wilton Re is no stranger to the M&A world having announced seven acquisitions since 2008, including two in 2014.

Questions? Contact us at (203) 348-7365


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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