

2015 Year in Review

Landmark year for insurance industry M&A

Global M&A activity reached an all-time high in 2015, surpassing the previous high set in 2007. The insurance industry was in-step with the broader M&A market as we saw a lot of deal activity in both the agent/broker and underwriter space. According to SNL Financial, 2015 saw 536 insurance deals announced totaling \$66.4 billion in value compared to 422 deals announced and \$20.5 billion in value for 2014 (Exhibit A). The following commentary puts some historical perspective around this past year's M&A volume.

Agents and Brokers

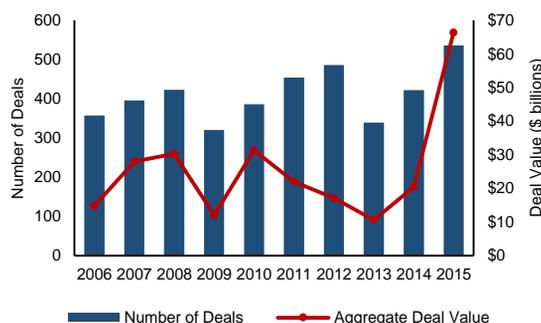
It is clear that 2015 was a banner year for insurance agent/broker M&A activity. According to SNL Financial, the 448 agent/broker deals announced in 2015 exceeded 2014's 329 announced deals by 36%. Furthermore, 2015 was the most active year in the last 10 years by a wide margin. Examining the individual buyers who helped drive this activity, we see many familiar names. HUB International, AssuredPartners and Arthur J. Gallagher were the clear leaders with 36, 31 and 29 deals announced, respectively. Confie Seguros had an active 2015 with 18 announced deals and, rounding out the top five, NFP announced 16 deals last year. It's interesting to note that this group of five accounted for 29% of total deal activity reported by SNL Financial in 2015.

As we look ahead to 2016, we are keeping a close eye on two macroeconomic factors: (1) interest rates and the availability of credit and (2) the stock market. Since many of these agent/broker transactions are funded in whole or at least in part using debt, having access to relatively inexpensive capital is a key driver of M&A activity. With respect to the stock market, while it is true that many of the major acquirers are not public (to that point, Arthur J. Gallagher is the only publicly-traded company in our aforementioned top five), many of the privately held agents/brokers still look to the stock market (specifically, Total Enterprise Value / EBITDA multiples of comparable companies) as one of the primary methods to benchmark their own value (Exhibit B).

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Exhibit A: Insurance Broker and Underwriter M&A Activity (2006-2015)



Source: SNL Financial
 Graph reflects U.S. M&A activity figures for insurance brokers and insurance underwriters, excluding managed care underwriters.

Exhibit B: Publicly-Traded Insurance Brokers Valuation

Company Name	Ticker	Total Enterprise Value /		
		Value	Revenue	EBITDA
Arthur J. Gallagher & Co.	AJG	8.8	2.2x	12.4x
Aon plc	AON	29.7	2.5x	12.4x
Brown & Brown, Inc.	BRO	5.0	3.0x	10.1x
Marsh & McLennan	MMC	30.7	2.4x	11.4x
Willis Towers Watson	WLTW	18.2	4.7x	23.7x
Mean			3.0x	14.0x
Median			2.5x	12.4x

Source: SNL Financial
 Total Enterprise Value figures are in USD billions as of Jan. 12, 2016. Valuation multiples reflect financials for the last twelve months. No adjustments have been made in this analysis to reflect pro forma impact of acquisitions

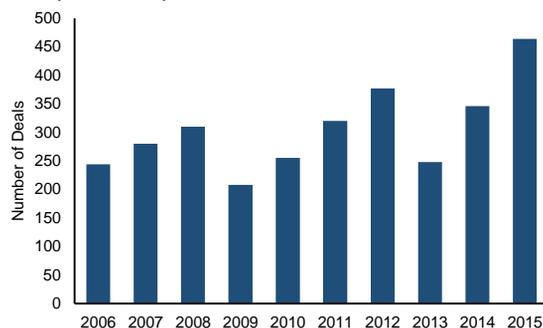
Agents and Brokers (Continued)

Taking a closer look at a few of the deals that happened during the year, in June, J.C. Flowers announced its acquisition of AmeriLife Group, a Florida-based distributor of annuity, life and health insurance products focused on serving the senior market. In 2014, AmeriLife generated over \$1.5 billion in premiums. According to SNL Financial, the deal was valued at \$390 million making it the second largest agent/broker transaction in 2015. The AmeriLife deal is a perfect example of the “sponsor to sponsor” acquisition trend that we have been seeing in the industry whereby the incumbent private equity firm (in this case, Reservoir Capital and Black Diamond Capital) sells to a new private equity firm (J.C. Flowers).

Brown & Brown (BRO) announced in June its acquisition of Fitness Insurance. Based in Denver, CO, Fitness Insurance is a retail agency that provides insurance products to the health club industry. The deal press release reported that Fitness Insurance generates annual revenues of \$3.2 million. According to Brown & Brown’s June 30th 10Q filing, BRO paid \$9.5 million cash at close (a 3.0x revenue multiple) with the ability for Fitness Insurance’s owners to earn an additional \$3.5 million if they maximize their earn-out. A quick scan through Fitness Insurance’s website reveals a staff of 10 people (including the two owners). With \$3.2 million of revenue and only 10 employees, it’s safe to assume that the EBITDA margin for this agency was quite high (which makes sense given the strong revenue multiple of 3.0x).

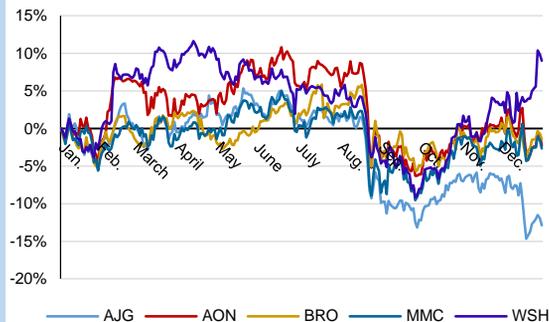
First Merchants Insurance Group (FMIG), a licensed insurance agency affiliate of First Merchants Bank, was sold to USI in June. Headquartered in Muncie, Indiana, FMIG is a full-service retail insurance agency offering P&C and employee benefits insurance products. The transaction was structured as a stock sale and the total purchase price was \$18 million. An earnings presentation for 2014 listed FMIG’s commission income at \$7.4 million implying a 2.4x commission multiple on the sale. As part of the deal, USI and First Merchants Bank entered into a strategic marketing agreement to continue to provide First Merchant Bank clients access to FMIG’s insurance products.

Exhibit C: Number of Insurance Broker and Agent Deals (2006-2015)



Source: SNL Financial
Graph reflects U.S. M&A activity figures for insurance brokers and agents

Exhibit D: Publicly-Trade Insurance Brokers 2015 Stock Performance



Source: SNL Financial
As of Jan. 5, 2016, WSH trades as WLTW as a result of the merger of Willis Holdings and Towers Watson

Underwriters

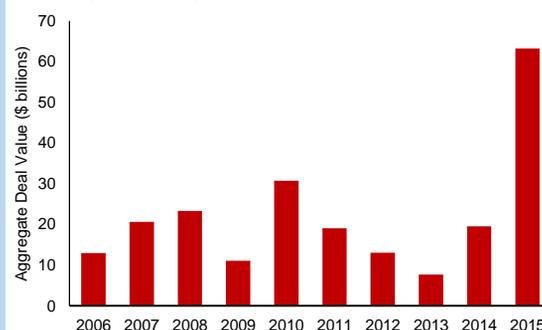
2015 was a monumental year for M&A in the insurance underwriter industry with 71 deals announced according to SNL Financial. While the number of deals in 2015 was approximately flat from 2014, the aggregate announced deal value was up 237% to \$63.1 billion from \$18.7 billion in 2014 (Exhibit E).

The remarkable jump was driven by the property & casualty sector, which accounted for 44 deals and \$49.2 billion of announced deal value, up 526% from \$7.9 billion in 2014. One of the major catalysts for deal activity in the P&C industry has been oversupply of capital. The combination of relatively benign loss activity and increase in alternative capital in the (re)insurance markets continues to put pressure on P&C rates and has left (re)insurers with excess capital and limited opportunities for organic growth. The life & health sector also had strong growth in announced deal value in 2015 up 28%.

The deal that made the biggest headlines was ACE's \$28.3 billion acquisition of Chubb. The purchase price represents a 30% premium to Chubb's share price at the time of announcement and is valued at a 1.8x Price / Book Value multiple. The 50-50 cash-stock deal will create a global P&C powerhouse with about \$37 billion of gross premiums.

Acquisitions of specialty underwriters and foreign interest in US and Lloyd's insurance businesses grew significantly as well, as strategic buyers home and abroad face a combination of low interest rates and slowing secular growth. Auto-Owners Insurance acquired excess and surplus lines underwriter Atlantic Casualty to be able to offer surplus lines as part of their package of coverages. Japanese insurance conglomerates have been particularly active in both P&C and L&H. In 2015, Mitsui Sumitomo acquired Amlin, a Lloyd's specialist, and Sumitomo Life acquired Symetra, a US-based L&H underwriter. In addition, the industry saw a landmark \$7.5 billion acquisition of HCC Insurance Holdings by Tokio Marine valued at a 2.5x Price / Tangible Book Value multiple.

Exhibit E: Insurance Underwriter M&A Aggregate Deal Values (2006-2015)



Source: SNL Financial
Graph reflects U.S. M&A activity figures for insurance underwriters, excluding managed care underwriters.

Exhibit F: Notable P&C Underwriter M&A Deals in 2015

Announce Date	Acquirer	Target	Deal Value	Deal Value /	
				BV	TBV
7/1/2015	ACE	Chubb	28.3	1.8x	1.8x
6/10/2015	Tokio Marine	HCC	7.5	1.9x	2.5x
8/3/2015	Exor	PartnerRe	6.9	1.1x	1.2x
9/8/2015	Mitsui Sumitomo	Amlin	5.3	2.1x	2.4x
1/9/2015	XL Group	Catlin Group	3.8	1.1x	1.2x
Mean				1.6x	1.8x
Median				1.8x	1.8x

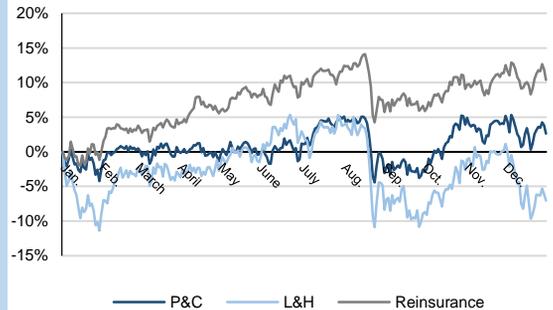
Source: SNL Financial
Deal value figures are in USD billions as of the announcement date. Valuation multiples are as of the most recent quarter at announcement.

Underwriters (Continued)

Property cat-focused reinsurers have been the hardest hit by the competitive environment, which has led to many reinsurers considering their strategic options. Endurance/Montpelier Re and RenRe/Platinum Underwriters have merged together to increase their size and relevance in the market as primary carriers look to consolidate their reinsurance panels. Others have sought acquisitions in specialty lines businesses to diversify their business and expand their platforms, exemplified by Validus's acquisition of Western World, a US E&S underwriter. Finally, some reinsurers have even outright sold to foreign buyers, such as PartnerRe to Exor and Sirius International to China Minsheng Investment Corp.

Based on the same factors that drove 2015 M&A, soft pricing, low investment returns, and the proliferation of alternative capital, there is no reason why the M&A wave should not continue in 2016. Underwriters that can offer diversification and low correlation to the broader P&C pricing cycles, as well as solid underwriting returns in this low interest rate environment are well positioned to benefit from industry consolidation.

Exhibit G: Publicly-Traded Insurance Underwriters 2015 Stock Performance



Source: SNL Financial
Indexes shown above are SNL U.S. Insurance P&C ("P&C"), SNL U.S. Insurance L&H ("L&H"), and SNL U.S. Reinsurance ("Reinsurance").

About PhiloSmith & Company

PhiloSmith is a leading, independent investment bank focused on providing financial and strategic advice on mergers and acquisitions to insurance companies, insurance agents/brokers, and specialty finance companies, and investment management services to corporations, financial institutions and high net worth individuals. For over half a century, we have operated under the belief that our clients' interests are paramount – a motto that has not only preserved our business for 50 years and counting, but has secured our place as a leader in the insurance investment banking industry.

 Connecticut Underwriters, Inc. <i>has agreed to be acquired by</i> CRC Insurance Services, Inc. <small>PhiloSmith advised Founders Insurance Group</small>	 Strickland Insurance Group <small>including its wholly-owned subsidiary Atlantic Casualty Insurance Company</small> <i>has been acquired by</i> Auto-Owners Insurance Company <small>PhiloSmith acted as exclusive financial advisor to Strickland Insurance Group</small>	 Founders Insurance Group <i>has been acquired by</i> AssuredPartners <small>PhiloSmith advised Founders Insurance Group</small>	 Florists' Mutual Insurance Company <i>has affiliated with</i> Sentry Insurance a Mutual Company <small>PhiloSmith advised Florists' Mutual Insurance Company</small>	 Corcoran & Havlin Insurance Group <i>has been acquired by</i> Cross Insurance <small>PhiloSmith advised Corcoran & Havlin Insurance Group</small>	 Liberty Insurance Brokers <i>has been acquired by</i> Brown & Brown, Inc. <small>PhiloSmith advised Liberty Insurance Brokers</small>
 Tristate, Ltd. and Primerio Insurance Company <i>have been acquired by</i> Nodak Mutual Insurance Company <small>PhiloSmith advised Tri-State, Ltd. and Primerio Insurance Company</small>	 Cowles & Connell <i>has been acquired by</i> Arthur J. Gallagher & Company <small>PhiloSmith advised Cowles & Connell</small>	 L&R Benefits, LLC <i>has been acquired by</i> Arthur J. Gallagher & Company <small>PhiloSmith advised L&R Benefits, LLC</small>	 S.H. Smith & Company <i>has merged with</i> R-T Specialty, LLC a unit of Ryan Specialty Group <small>PhiloSmith advised S.H. Smith & Company</small>	 U.S. non-standard auto insurance operations of EGI Financial Services, Inc. <i>has been acquired by</i> White Pine Insurance Company a subsidiary of Conifer Holdings, Inc. <small>PhiloSmith advised S.H. Smith & Company, Inc. in this transaction</small>	 PEMCO Life Insurance Company a subsidiary of PEMCO Mutual Insurance Company <i>has been acquired by</i> Sagor Life Insurance Company <small>PhiloSmith advised PEMCO Mutual Insurance Company</small>