

# Insurance Industry Spotlight

May 2007  
Volume 3, Issue 5

**LMCCapital LLC**  
INVESTMENT BANKING FOR THE INSURANCE INDUSTRY

## SELECTED M&A ANNOUNCEMENTS

Date	Acquirer	Target	Amount
04/30/07	Alleghany Corporation (NYSE:Y)	Employers Direct Corporation	\$195,000,000
04/27/07	Summit Financial Group, Inc. (Nasdaq:SMMF)	Kelly Insurance Agency, Inc. & Kelly Property and Casualty Inc.	\$6,200,000
04/26/07	Coventry Health Care, Inc. (NYSE:CVH)	Certain group health insurance businesses from Mutual of Omaha	\$120,000,000
04/19/07	United Heritage Financial Group, Inc.	Alliance Mutual Insurance Company	Merger
04/17/07	Meadowbrook Insurance Group, Inc. (NYSE:MIG)	U.S. Specialty Underwriters, Inc.	\$23,000,000
04/16/07	Centene Corp. (NYSE:CNC)	PhyTrust of South Carolina	Undisclosed
04/13/07	Brown & Brown, Inc. (NYSE:BRO)	Sobel Affiliates, Inc.	Undisclosed

## SELECTED CAPITAL RAISING ANNOUNCEMENTS

Date	Company	Amount	Type
04/27/07	Triple-S Management Corporation	\$250,000,000	IPO
04/27/07	Everest Re Group, Ltd. (NYSE:RE)	\$400,000,000	Long Term Subordinated Notes
04/11/07	Max Re Capital Ltd. (Nasdaq:MXRE)	\$100,000,000	Senior Notes
04/10/07	Allianz Group	\$150,000,000	Catastrophe Bond
04/10/07	USI Holdings Corporation	\$425,000,000	Senior Notes

## PUBLIC COMPANIES SECTOR PERFORMANCES

Sector	Stock Price Change			P/E Multiples		Price/Book Value
	YTD	1 Month	1 Year	TTM	2007E	
Brokers	4%	-1%	6%	21.02	16.26	NA
Life Insurers	8%	5%	19%	14.49	13.26	1.77
Managed Care	11%	5%	19%	16.20	14.55	3.25
Multi-Line	5%	4%	12%	10.73	10.89	1.39
P&C Commercial	1%	5%	9%	8.77	10.59	1.33
P&C Personal	4%	2%	13%	11.31	12.02	1.78
P&C Specialty	-2%	-1%	13%	11.31	11.85	1.84
Reinsurers	5%	6%	19%	6.76	7.68	1.24

## NON-STANDARD AUTO INSURANCE: IS IT TIME TO SELL?

Quite often we are asked, "When is the right time to sell an insurance company?" The insurance M&A market is extremely cyclical. We believe that strong M&A activity will occur in the P&C sector in the next 12-18 months followed by one or more years of little to no activity as we experienced in 2002. Sellers are smart to keep a pulse on the market and be mindful of the tremendous transaction energy in the non-standard auto sector. In 2006 and the first four months of 2007, we've seen approximately \$1.9 billion in acquisitions announced, up from an average of less than \$300 million per year in calendar years 2003-2005. Now is a good time for intelligent sellers to test the market for a sale.

For a free copy of our full special report on the non-standard auto sector, please send an email to [Info@LMCCapital.com](mailto:Info@LMCCapital.com) with the title "Special Report".

## COMMENTARY

**MANAGED CARE:** Activity has been relatively dormant in the managed care sector with only three deals announced in the first quarter of 2007. However momentum picked up a little in April when two transactions were announced. **Centene Corporation** (NYSE:CNC) announced that **Total Carolina Care**, a wholly-owned subsidiary of Centene, entered into an agreement under which TCC would purchase **PhyTrust of South Carolina**, a Medicaid Medical Home Network that serves over 30,000 members. PhyTrust, headquartered in Myrtle Beach, SC, is a physician-driven medical services company that works closely with its network physicians to improve the care for its Medicaid members. Separately, **Coventry Health Care, Inc.** (NYSE:CVH) announced it has signed a definitive agreement to acquire certain group health insurance businesses from **Mutual of Omaha** for \$120 million. Coventry will acquire Mutual of Omaha's commercial employer group health business in Nebraska and Iowa as well as their national Federal Employees Health Benefits administration business, which represents a total of approximately 215,000 members. Total revenues for the two groups being acquired are approximately \$130 million.

Continued on Page 2

## RATINGS UPGRADES AND DOWNGRADES

Date	Company	Ratings Action
04/18/07	Zenith National Insurance Group	A.M. Best has upgraded the financial strength rating to A (Excellent) from A- (Excellent) of Zenith National Insurance Group and its members.
04/03/07	Meadowbrook Insurance Group, Inc.	Meadowbrook announced that A.M. Best raised the financial strength rating of Meadowbrook Insurance Group and its subsidiary insurance carriers to A- (Excellent) from B++ (Very Good)
04/03/07	Permanent General Assurance Corp.	A.M. Best has upgraded the financial strength rating to A- (Excellent) from B++ (Very Good) to Permanent General and its affiliate, Permanent General Assurance Corporation of Ohio.

**LMC Capital LLC** is a national investment banking firm focused exclusively on the insurance industry.

Our services include: Mergers & Acquisitions, Capital Formation, Valuations, Strategic Advisory, and Regulatory Services.

**LMC Capital LLC**  
6525 Morrison Blvd., Suite 350  
Charlotte, North Carolina 28211  
Phone: (704) 943-2600  
Fax: (704) 943-2666  
[www.LMCCapital.com](http://www.LMCCapital.com)

**BROKERS:** Even though the lowest level of M&A activity in the sector this year occurred in April, with only 11 announced transactions, a variety of acquirers are still active. In two separate transactions, program managers/managing general underwriters were acquired by carriers adding to their distribution platforms. **Meadowbrook Insurance Group, Inc.** (NYSE:MIG) announced it entered into a definitive agreement to acquire **U.S. Specialty Underwriters**. The purchase price is comprised of \$13 million in cash and \$10 million in Meadowbrook stock. Based in Cleveland, OH, USSU is a specialty program manager that produces fee based income by underwriting excess workers' compensation coverage for a select group of insurance companies. USSU focuses on self-insured companies within the healthcare industry and public schools in twenty-nine states. Also, **Risk Specialists Companies, Inc.**, a member company of **American International Group, Inc.** (NYSE:AIG), announced the acquisition of substantially all of the assets of **Guild Underwriters Napa, Inc.** and its affiliated companies, doing business as **SRO Napa**. SRO Napa is a California-based managing general underwriter that produces and underwrites excess casualty and other specialty casualty insurance products.

**PROPERTY & CASUALTY:** A handful of transactions were announced in the sector, most notably **Alleghany Corporation's** (NYSE:Y) acquisition of **Employers**

**Direct Corporation** for \$195 million. Alleghany announced it entered into a definitive agreement to acquire Employers Direct Corporation, a direct writer of California workers' compensation insurance. Employers was primarily owned by **Golden Gate Capital** and a private equity fund managed by **Swiss Re**. Employers was founded in 2002 and had statutory surplus of approximately \$118 million and net income of \$47 million as of December 31, 2006. The company had approximately \$148 million of direct written premium in 2006. Management and the approximately 175 employees of EDC are expected to continue with EDC.

**LIFE & HEALTH:** Deal activity remains non-existent in the United States life/health sector. One foreign transaction, which was announced in late 2006 was completed during the month. **CNP Assurances**, France's leading personal insurer completed the acquisition of 94 percent of Spanish insurer, **Skandia Vida** from **Skandia Insurance Company Ltd**, a subsidiary of **Old Mutual plc**. The acquisition is in line with CNP Assurances' international development strategy, which focuses primarily on southern Europe, giving the group a foothold in the Spanish individual life insurance market alongside its operations in Italy and Portugal.

## SELECTED LMC TRANSACTIONS



INSURANCE SERVICES  
Exceeding Expectations

**CAITLIN-MORGAN  
INSURANCE SERVICES**

HAS BEEN ACQUIRED  
IN A

**PRIVATE  
TRANSACTION**

LMC SERVED AS FINANCIAL ADVISOR  
FOR  
CAITLIN-MORGAN INSURANCE SERVICES



HAS ACQUIRED



FOR  
**\$16,000,000**

LMC INITIATED THE TRANSACTION  
AND SERVED AS FINANCIAL ADVISOR  
TO  
EBIX, INC.



HAS COMPLETED A  
**\$7,500,000,000**  
MERGER  
WITH



LMC ADVISED THE  
NORTH CAROLINA  
DEPARTMENT  
OF  
INSURANCE  
ON  
THE TRANSACTION




HAS ACQUIRED  
A-OK INSURANCE, INC.



LMC SERVED AS FINANCIAL ADVISOR  
FOR THE  
CORNERSTONE GROUP

## CONTACTS

F. Laughton Sherman  
Managing Director  
LSherman@LMCCapital.com

Walter B. Sherman  
Managing Director  
WSherman@LMCCapital.com

Pamela B. Carico  
Senior Vice President  
PCarico@LMCCapital.com

Matthew D. Hutton  
Associate  
MHutton@LMCCapital.com

Laura D. Close  
Director of Communications  
LClose@LMCCapital.com

**Disclaimer:** This information has been obtained from publicly available sources we consider to be reliable. While we take reasonable care in preparation and editing, we do not represent that it is accurate or complete, nor does it constitute legal, accounting, or investment advice and should not be relied upon as such. LMC, its officers, directors, and employees may from time to time own the securities mentioned. As of the date of this report, LMC Capital LLC does not function and has no plans to function as a market maker in any of the companies mentioned within this report. During the past 12 months, LMC may have received compensation for investment banking services from one or more companies mentioned herein.