

So You Think You Can Dance?

Understanding the steps involved in
insurance agency mergers and
acquisitions.

GILL AND

ROESER

Session Outline

- Insurance distribution channels.
- Current P&C market conditions.
- The public brokers.
- Banks-in-insurance.
- The independent agent market.
- Agency deal process.
- Agency acquisition structure and valuations.
- Tax considerations.
- Life after the deal.
- Questions and discussion.

Insurance Distribution Channels

- Independent Agents
 1. Majority of insurers use this outlet.
 2. Broad range of sizes.
 3. Low start up costs and variable expenses.
 4. Low insurer control, economies-of-scale and the agent owns the renewal rights.
 5. Agent can help insured shop for the best deal.

Insurance Distribution Channels

- *Captive Agents*
 1. Agents only represent one company.
 2. Agent can sell all of insurers products.
 3. High insurer control and owns the renewals.
 4. Expensive to maintain.
 5. Agent works for the company and has its interests at heart.

Insurance Distribution Channels

- Direct Response
 1. CSR's handle the transactions.
 2. Uses multiple means of communication.
 3. High insurer control and economies-of-scale.
 4. Heavy start up costs and advertising expense.
 5. May be a good fit with younger generations.

Insurance Distribution Channels

- Newer Methods
 1. Insurance aggregators (Insweb).
 2. Virtual insurance companies (Esurance).
 3. Credit card issuers.
 4. Worksite marketing.
 5. Banks.

Overview Of The P&C Market

- The soft market is in full swing.
- Rates are falling and no end in sight.
- There is too much surplus in both the primary and reinsurance markets.
- Redundant reserves and takedowns in some lines.
- Low leverage premiums/surplus.
- New capital continues to flow into this segment.
- Everyone is looking to grow.
- Commissions are falling with premiums.
- Minimal Cat losses in 2006 and 2007?
- When will this cycle end?
- What will cause the market to harden?

P&C Industry Profitability

- U.S. P&C industry produced record profits and returns in 2005 and 2006.
- First quarter 2007 profit \$15.8B, ROE 12.9%.
- First quarter 2006 profit \$16.7B, ROE 15.5%.
- First quarter 2005 profit \$17.7B, ROE 17.9%.
- Property Casualty Insurers Association predicts these trends will continue in 2007.
- ISO predicts that escalating competition is cutting into premium growth. First quarter NWP growth was the weakest for any quarter since the first quarter 1992.
- Premiums grew at .8% while GDP increased at 4.6% in the first quarter of 2007.
- Combined ratio was 91.7 in the first quarter 2007 versus 91.1 in the first quarter of 2006. Still very low when compared to historical results.
- 2007 storm activities effect on coastal pricing.

P&C Statistics; Did You Know That...

- \$110B in weather disasters in U.S. in 2005.
- 790,000 claims from Hurricane Andrew.
- \$7T of insured coastal property in U.S.
- 85% of CA homeowners have no earthquake insurance.
- \$41B insurance paid claims for Katrina from 1.2M claims filed and 99% are settled.
- \$15.7B in Katrina flood claims.
- \$8B in insured losses from tornados and related weather events in U.S. in 2006.
- 678,906 acres destroyed by CA wildfires in 2006.

Source: The New York Times

Premium Levels And Underwriting

- Commercial P&C premiums dropped sharply in QII 2007.
- Some say market is “totally unpredictable”.
- Companies are aggressively loosening U/W standards along with prices to retain or get business.
- The standard markets are taking business from the E&S markets with a few exceptions.
- Premium rates are falling at a faster pace than all of 2006.
- Premium rates are at their lowest point since the peak in QIV 2001.
- Reinsurance markets are softening.

Source: Council of Insurance Agents and Brokers

P&C Reinsurance Overview

- Widespread softening suggests strong results are not sustainable.
- Excess capital may lead to more consolidations.
- 90% combined ratio for six months 2007 versus 96.5% for six months 2006.
- \$12.2B NPW for six months 2007, down 5.8%.
- \$2.75B net income for first six months 2007 versus \$4.72B or first six months 2006.
- Drivers include no catastrophes, strong investment income, FL capacity, higher retentions at primary companies, and reserve takedowns.
- Side-car capacity was not utilized.
- Like the brokers and primary companies there is no organic growth.

Source: Reinsurance Assn. of America

2006 Direct Premiums Written by Line – U.S. P&C

Business Line	DPW	% of total	% Change from 2005	Adjusted Loss Ratio 2006/2005
Auto Liability	\$96B	20%	.3%	59.8%/62.4%
Auto Phys. Damage	\$66B	14%	.4%	55.9%/57.3%
Homeowners	\$61B	12%	7.3%	48.2%/73.9%
Workers' Comp.	\$54B	11%	-3.8%	62.4%/66.9%
Other Liability	\$53B	11%	4%	51.8%/63.4%
Comm. Mult. Peril	\$36B	7%	5.5%	42.8%/61.2%
Comm. Auto	\$22B	5%	N/A	52.4%/54.1%
Inland Marine	\$13B	3%	12.1%	43.4%/64.3%
Med Mal	\$12B	2%	-1.3%	43.6%/52.5%
Fire	\$11B	2%	20.8%	35.5%/56.7%
Allied Lines	\$10B	2%	26.4%	31.9%/241.6%
19 Other Lines			N/A	N/A
Total	\$489B	100%	2.4%	52.2%/68.0%

Source: A. M. Best

Historical Statutory Results

	2006	2005	2004	2003	2002
Net Written Premium	\$449B	\$429B	\$427B	\$409B	\$375B
Combined Ratio	92.4%	100.8%	98.5%	100.2%	107.0%
Investment Inc. & Gains	\$57B	\$62B	\$50B	\$40B	\$40B
Net Income	\$68B	\$47B	\$38B	\$30B	\$10B
Return on Surplus	14.2%	11.2%	10.0%	9.3%	3.3%
Policyholders' Surplus	\$501B	\$437B	\$404B	\$360B	\$292B

Source: Fitch

Commercial P&C Premium Changes In QII 2007 - All Regions

Prem. % change/ Comm. level	-30 to 40%	-20 to 30%	-10 to 20%	-1 to 10%	No change	Up
<\$25k Comm.	0%	5%	30%	44%	11%	3%
\$25k- \$100K Comm.	0%	16%	40%	36%	5%	2%
>\$100k Comm.	6%	17%	40%	26%	4%	2%

Source: Council of Insurance Brokers & Agents

Commercial P&C Premium Changes In QII 2007 – Midwest

Prem. % change/ Comm. level	-30 to 40%	-20 to 30%	-10 to 20%	-1 to 10%	No Change	Up
<\$25k Comm.	0%	5%	38%	43%	10%	0%
\$25k- \$100K Comm.	0%	24%	38%	24%	14%	0%
>\$100k Comm.	0%	29%	24%	19%	14%	0%

Source: Council of Insurance Agents & Brokers

Sample Commercial P&C Rate Changes

In 2007 For Midwest

Line/% Change	-30 to 40%	-20 to 30%	-10 to 20%	-1 to 10%	No Change	Up
BI	0%	10%	24%	43%	14%	0%
CA	0%	5%	57%	33%	5%	0%
CP	0%	19%	29%	48%	5%	0%
GL	0%	14%	52%	24%	10%	0%
SB	0%	5%	5%	14%	38%	0%
WC	6%	19%	24%	33%	14%	5%

Source: Council of Insurance Agents & Brokers

Commercial P&C Rate Trends All Regions

Period/ Commission	<\$25k	\$25-100k	>\$100k	Average
Low QII 2007	-8.3%	-12.6%	-14.5%	-11.8%
QI 2007	-7.9%	-12.6%	-13.4%	-11.3%
QIV 2006	-6.3%	-10.5%	-12.1%	-9.6%
QIII 2006	-3.4%	-5.1%	-7.3%	-5.30%
QII 2006	-1.4%	-3.8%	-3.6%	-3.0%
High QIV 2001	20.8%	31.7%	33.0%	28.5%
Average last five quarters	-5.46%	-8.92%	-10.18%	-8.2%

Source: Council of Insurance Agents & Brokers

Regulatory Concerns

- Surplus lines reform.
- Residential mortgage industry/credit markets.
- Broker compensation.
- McCarran Ferguson Act.
- Workers Compensation reform.
- Credit Scoring.
- Bad Faith legislation.
- Terrorism Risk Insurance Act.
- Catastrophic coverages.
- Optional Federal Charter.
- Taxes on private equity funds.
- Eliot Spitzer Act II.
- Contingent commissions (10/14/04).
- Health Savings Accounts.
- Healthcare reform.
- Social Security reform.
- Medicare reform.
- Interest income on agent's float.

Contingent Commissions

	Contingents as % of Total Commissions	Contingents as % NPW
1996	6.1%	.7%
1997	6.5%	.7%
1998	7.4%	.8%
1999	7.0%	.8%
2000	6.6%	.7%
2001	6.1%	.6%
2002	6.8%	.7%
2003	9.6%	1%
2004	10.6%	1.1%
2005	9.2%	1%
Average	7.6%	.8%

Source: A M Best and Bear Stearns

Insurance Broker Stock Performance

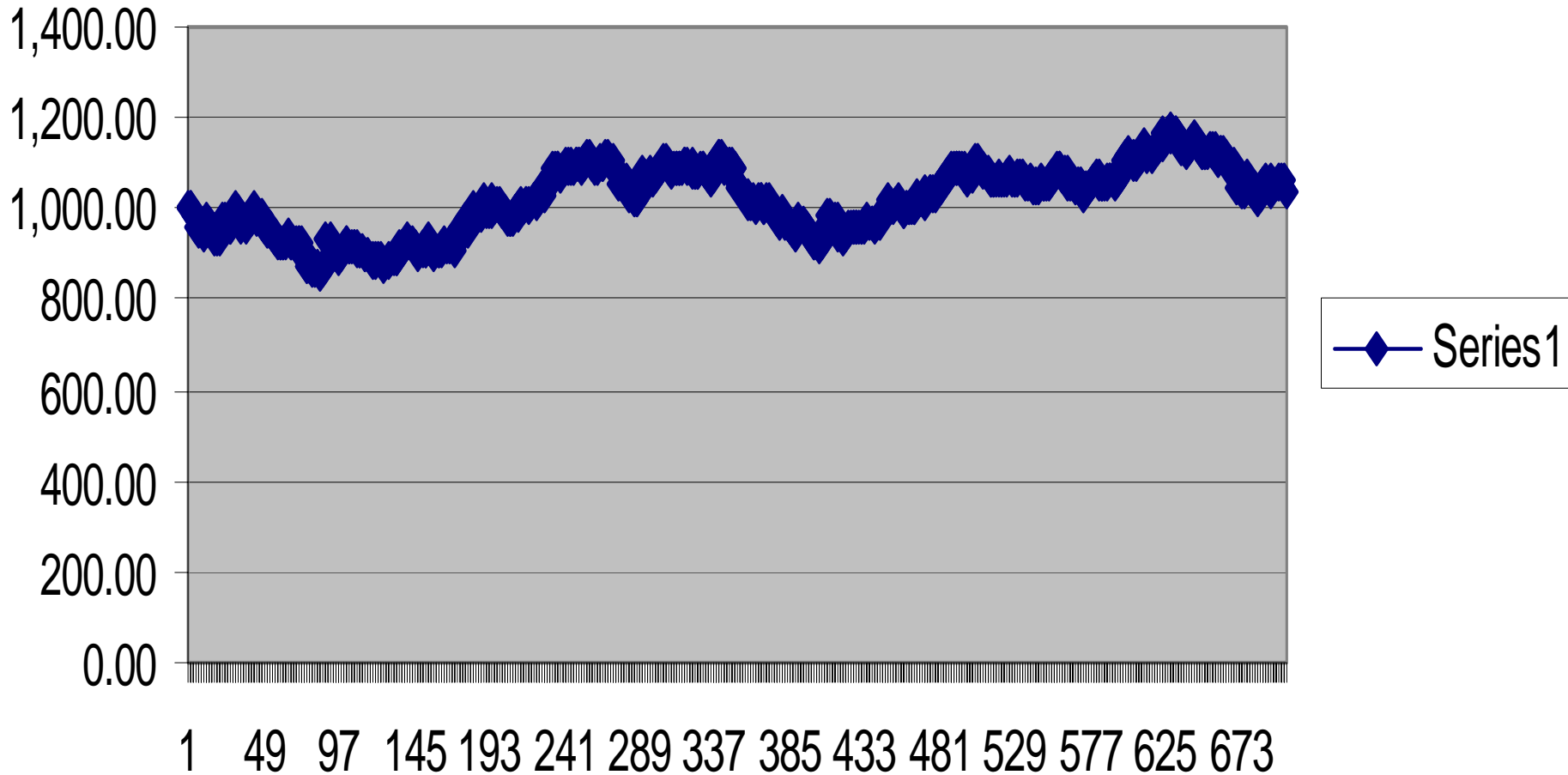
SNL Insurance Broker - 12/31/2001 - 12/29/2006 Stock Price Performance



A. M. Best Broker Index



A. M. Best US Broker Index



Currently includes: AOC, AJG, BRO, MMC, WSH.

Public Brokers' Total Growth And Organic Growth Rates In %

	2001	2002	2003	2004	2005	2006	QI 2007
AOC	6.7/8.0	13.0/13.0	7.9/9.0	4.5/.4	-8.8/1.0	5.0/5.0	NA/3.0
BRO	37.5/11.5	24.9/12.1	20.9/6.1	16.3/5.1	21.5/6.8	11.7/5.5	NA/-1.8
AJG	7.8/18.6	21.3/17.0	14.6/10.6	10.0/4.7	-2.5/-2.0	3.4/6.0	NA/1.0
HRH	26.0/5.6	37.1/8.8	24.5/5.5	9.2/2.1	7.4/.7	5.9/4.4	NA/-9
HBG	61.7/5.4	42.8/12.9	30.2/7.0	23.0/7.0	50.9/6.0	23.0/4.9	NA/5.3
MMC	7.8/10.0	14.7/15.0	16.2/13.0	4.2/1.0	-6.6/-6.0	3.0/2.0	NA/1.0
USI	10.2/9.0	8.1/8.1	8.1/4.7	20.7/3.6	25.5/2.1	8.52/2.0	NA/NA
WSH	9.1/12.0	21.8/18.0	19.7/15.0	8.0/4.0	-.2/5.0	7.0/8.0	NA/6.0

Source: Public filings, Hales and Co., and Cochran, Caronia, Waller

Public Brokers Key Statistics

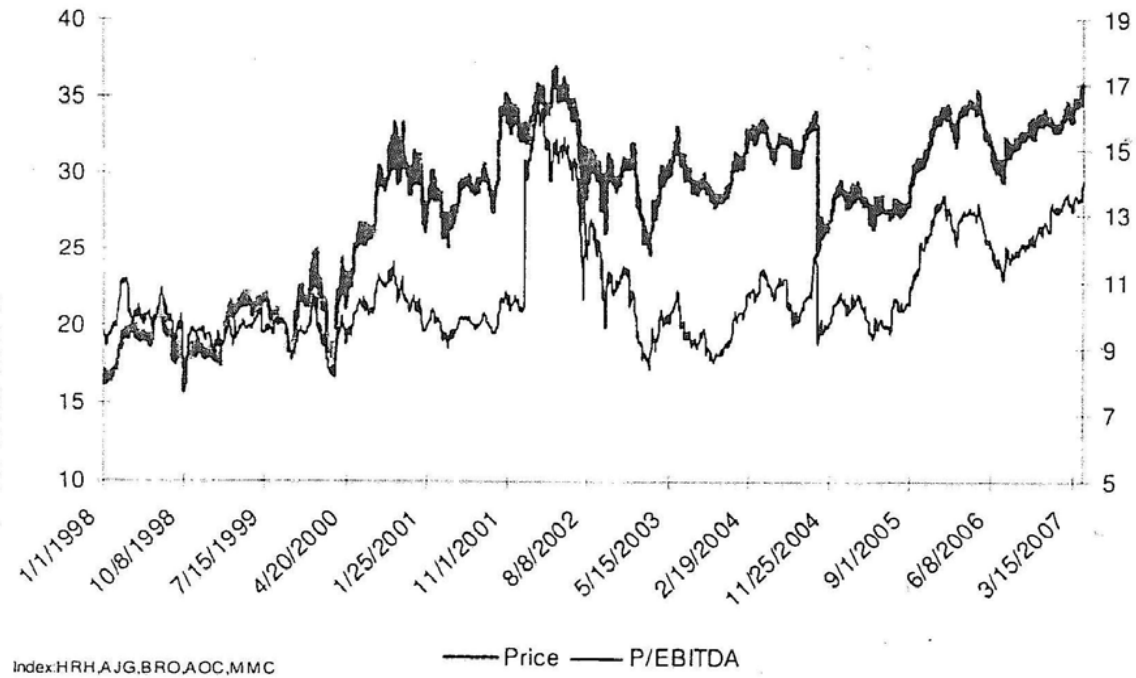
	2008E P/E	2007E P/EBITDA	2008E P/EBITDA	2007 P/Rev.	2007E EBITDA Margin	2008E EBITDA Margin
AOC	13X	7.8X	7.1X	1.4X	18%	18%
AJG	16X	7.6X	8.0X	1.6X	21%	20%
BRO	18.6X	9.8X	9.4X	4.0X	41%	41%
HRH	15.9X	7.7X	7.0X	2.1X	27%	28%
NFP	13X	10.4X	8.9X	1.5X	15%	15%
WSH	14.7X	9.5X	8.6X	2.5X	26%	26%
AVG.	15.2X	8.8X	8.2X	2.2X	25%	25%

Source: SNL and Cochran, Caronia, Waller

Public Broker Consolidation

- HUB and USI went for 40%+ premiums to trading ranges.
- HUB was 12x trailing EBITDA.
- USI was 10x trailing EBITDA.
- Current debt market is unpredictable.
- Predictable cash flow.
- Low risk profiles.
- Ability to use leverage.
- Historically, this sector has provided good returns.
- Direct correlation between price and EBITDA.

Broker Price vs. Price/EBITDA



Banks-In-Insurance

- G-L-B new area for many banks.
- Grow fee income.
- Expand customer relationships.
- Cross sale opportunities.
- Increase share of wallet.
- Expand footprint.
- Attract new customers.
- This segment is undergoing significant change.

Estimated Insurance Revenue For Banks In Indiana

- Wells Fargo – Acordia (\$728M).
- J. P. Morgan Chase (\$464M).
- National City (\$85M).
- Fifth Third (\$45M).
- Regions Insurance (\$90M).
- Sky Bank – Union Federal – Huntington (\$39M).
- Key Bank (\$30M).
- Old National (\$35M).
- First Financial (\$6M).
- First Merchants (\$5M).
- German American Bank (\$6M).
- 1st Source (\$4M).
- Other banks/credit unions/IN Community Bankers Association (\$?).

Source: National Underwriter & Business Insurance

American Bankers Insurance Association 2006 Study Of 525 Banks - Respondents

<u>Size</u>	<u>#</u>	<u>%</u>	<u>Avg.</u>
>\$10B	24	5	\$108B
\$1-10B	73	14	\$3B
\$.5-1B	92	17	\$.7B
<\$.5B	336	64	\$.3B
Total	525	100	\$6B

<u>Region</u>	<u>#</u>	<u>%</u>
Midwest	154	29
Northeast	134	26
Southeast	111	21
West	73	14
Southwest	53	10
Total	525	100

American Bankers Insurance Association 2006 Study Of 525 Banks - Products

- 48% sell term life.
- 46% sell annuities.
- 25% sell personal P&C lines.
- 25% sell commercial P&C lines.
- 25% sell group benefits.
- 20% sell surety.
- 15% sell title insurance.

American Bankers Insurance Association 2006 Study Of 525 Banks – Entry Method

	Personal P&C	Commercial P&C	Group Benefits
Acquired	47%	50%	40%
Joint Venture	14%	16%	24%
Carrier Alliance	4%	2%	2%
3 rd Party Alliance	4%	4%	4%
De Novo	12%	10%	13%
Lic. Employee	16%	14%	13%
Other	3%	4%	4%
Total	100%	100%	100%

American Bankers Insurance Association

2006 Study Of 525 Banks - Premiums

	1997	2005	CAGR %
Annuities	\$19B	\$42B	11%
Comm. P&C	\$3B	\$24B	31%
Personal P&C	\$2B	\$8B	18%
Credit Coverage	\$3B	\$2B	-3%
Life & Health	\$1B	\$4B	15%
Total	\$28B	\$80B	14%

American Bankers Insurance Association

2006 Study Of 525 Banks – Comm. & Fees

	<\$.5M	\$.5-1.0M	\$1.0-5M	>\$5M	Total
Annuities	76%	11%	4%	9%	100%
L&H	82%	6%	10%	2%	100%
Pers. P&C	58%	14%	16%	12%	100%
Comm. P&C	58%	12%	17%	13%	100%
Group Ben.	75%	13%	7%	5%	100%
Credit Ins.	86%	3%	6%	5%	100%

American Bankers Insurance Associations 2006 Study Of 525 Banks - Acquisitions

of Agencies Acquired

1995-2005:

- 42% 1
- 20% 2
- 16% 3
- 4% 4
- 18% >5

Type of Agencies

Acquired 1995-2005:

- 75% P&C
- 11% Benefits
- 7% L&H
- 7% Other

American Bankers Insurance Association 2006 Study Of 525 Banks - Acquisitions

# Acquired	>\$10B	\$1-10B	\$.5-1B	<\$.5B
1	21%	42%	43%	53%
2	7%	5%	36%	28%
3	7%	26%	14%	11%
4	7%	1%	0%	5%
5+	58%	26%	7%	3%
Total	100%	100%	100%	100%

American Bankers Insurance Association

2006 Study Of 525 Banks - Multiples

Pricing Multiples	2004 Study	2006 Study
<1X Revenues	4%	8%
1-1.25X Revenues	13%	12%
1.26-1.5X Revenues	18%	15%
1.51-1.75X Revenues	33%	24%
1.76-2X Revenues	18%	29%
>2X Revenues	14%	12%
7-8X EBITDA	16%	14%
>8X EBITDA	16%	21%

American Bankers Insurance Association 2006 Study Of 525 Banks - Earn Outs

- 57% of bank deals carry an earn out provision.
- 33% of bank deals put 30%+ of purchase price at risk to the seller.
- Earn out benchmarks:
 - 45% revenue growth
 - 15% earnings growth
 - 40% combination of revenue and earnings

Lower Premiums = Lower Commissions = Lower Profits = Lower Agency Valuations

- “once again underwriting is out the door”
- “all of the carriers want and need new business ...they are willing to do anything to get it”
- “underwriters are buying business in the Midwest”
- “more companies are jumping on each line...it’s going to get more competitive”
- “people have lost their minds”
- “the level of lunacy in the insurance marketplace surprises us all at times”

Agency Market Concerns

- Technology.
- Regional vs. national carriers.
- Carrier consolidation.
- Uncertainty of contingencies year-to-year.
- Clustering of agencies.
- Carrier's changing matrix for profit share.
- Market diversification/minimum standards.
- Finding quality people and producers.
- Aging agency force/overall demographics.
- Declining number of small agencies.

Basic Questions For Every Agency

- What makes us unique?
- What keeps us awake at night?
- What are our strengths/weaknesses?
- What are our short and long term growth prospects?
- What are the ages of the owners/key producers?
- Do we have a next generation of key employees?
- How strong are our carrier relationships?
- Are we as efficient and profitable as we should be?
- What are the characteristics of our book-of-business?
- Have we lost or could we lose key accounts?
- Are we really a profitable agency?
- Do we want to invest significant dollars in technology, staff, acquisitions, etc.?
- What is the real market value of our agency?
- What is the business plan for our agency?

How Agencies Grow

- Organic
 1. People.
 2. Lines.
 3. Offices.
- Acquisitions
 1. Geographic.
 2. Fill in.
 3. Specialization.

Agency Income Statement Components

- Commissions and fees drive the revenues.
- Contingencies are not predictable and/or controllable sources of revenue.
- Salaries, commissions, and benefits are main expenses for an agency.
- Generally other expenses are controllable.
- Net profit before taxes.
- EBITDA.

Sample Income Statement For A \$2,000,000 Agency In Percentages

	Hales	MB Avg.	MB Top 25%	Reagan Avg.	Reagan Top 25% in profit	Reagan Top 25% in Growth
Comm. Inc.	57	-	-	50	60	59
Pers. Inc.	10	-	-	30	27	25
L&H	37	12	13	8	3	3
Con't.	1	7	7	12	10	12
Comm. Exp.	-5	-2	-1	-1	-1	-2
Other	1	-	-	1	0	1
Total Income	100	100	100	100	100	100
Exec. Pay	11	6	9	0	0	0
Prod. Pay	17	29	34	0	0	0
Support Pay	29	22	16	0	0	0
Total Pay	57	57	59	50	52	50
Benefits	10	10	10	8	7	7
Selling Exp.	6	4	3	4	4	5
Oper. Exp.	16	18	11	15	12	13
Admin. Exp.	5	6	5	6	10	6
Total	94	95	88	83	83	81
NPB/T	6	5	12	17	17	19

Selling Or Buying An Agency Is Both A Science And An Art Form

The most common reasons for a deal:

- | | | |
|-----|--------------------------------------|-----|
| 1. | Nearing retirement age | 46% |
| 2. | Too small for carriers | 44% |
| 3. | Can not get products needed | 34% |
| 4. | Too small to be profitable | 33% |
| 5. | Need size to leverage capabilities | 28% |
| 6. | Gain strength in geographic area | 24% |
| 7. | Acquire new accounts efficiently | 22% |
| 8. | Principals want to exit business | 22% |
| 9. | Increase in a specific target market | 14% |
| 10. | Could not afford capital investments | 13% |
| 11. | Received a lucrative offer | 9% |
| 12. | Cross sell to bank's customers | 6% |

Establish A Prudent Process

- Hire a financial advisor you trust.
- This is not your area of expertise.
- You do not know all the potential buyers.
- Make an honest assessment of your agency, think like a professional buyer.
- Accept that your age may be an asset or a liability.
- You have to run your business every day, this is what creates value.
- Answer anticipated questions upfront to shorten the timeline.
- If you aren't committed to a potential sale do not start the process.
- Be realistic in your expectations, there are very few "stupid buyers".
- If you do a one sided deal, you will have a bitter partner and your life will not be much fun.
- Understand your tax obligations early rather than later.
- Your real value will probably come from an earn out so be honest.
- Keep it on a fast track, focus, focus, focus.
- Make sound and rational decisions on both objective and subjective criteria.
- Do not forget the original reasons you decided to sell in the first place.
- Keep it quiet and away from your office.
- Admit to your weaknesses and sell to your strengths.
- Generally the buyers are sophisticated and have more experience than you.
- What puts the most money in your pocket, sale or status quo.
- A perpetuation plan may not be economically feasible for your people.
- Hire the right attorney.
- Accept the fact that some things will change.

The Transaction Process

- The Buyer's Phases:

1. Initial
2. Interim
3. Execution
4. Extended

- The Seller's Phases:

1. Preparation
2. Interim
3. Execution

Source: National Underwriter

Buyer's Transaction Process

<u>Initial</u>	<u>Interim</u>	<u>Execution</u>	<u>Extended</u>
Consulting Planning	Solicitation	Valuation	Integration
Analysis	Identification	Structuring	Best Practices
Market Study	Assessment	Final due diligence	Ongoing analysis
Valuation	Prelim. due diligence	Execution	Peer group review

Source: National Underwriter

Seller's Transaction Process

<u>Preparation</u>	<u>Interim</u>	<u>Execution</u>
Decision to sell	Solicitation of interest and NDA's	Final LOI
Goals & valuation	Meet with potential acquirers	Due diligence
Potential acquirers	Generate LOI's	Draft contracts
Confidential memo and research	Evaluate & negotiate	Execute & integrate

Source: National Underwriter

Deal Steps & Timing

- Decide to sell/timing unknown.
- Retain a financial advisor/.5-1 month.
- Prepare confidential memo and pro forma EBITDA/.5-1 month.
- Solicitation & meeting phase/1 month.
- Selection process/.5 month.
- Negotiate LOI, life after the deal, and due diligence/.5-1 month.
- Contract drafting/.5-1 month.
- Closing.
- Without a financial advisor the process can take significantly longer and the number of potential buyers will be less.

Buyer And Seller Rationales - Quotes From Deals Announcements

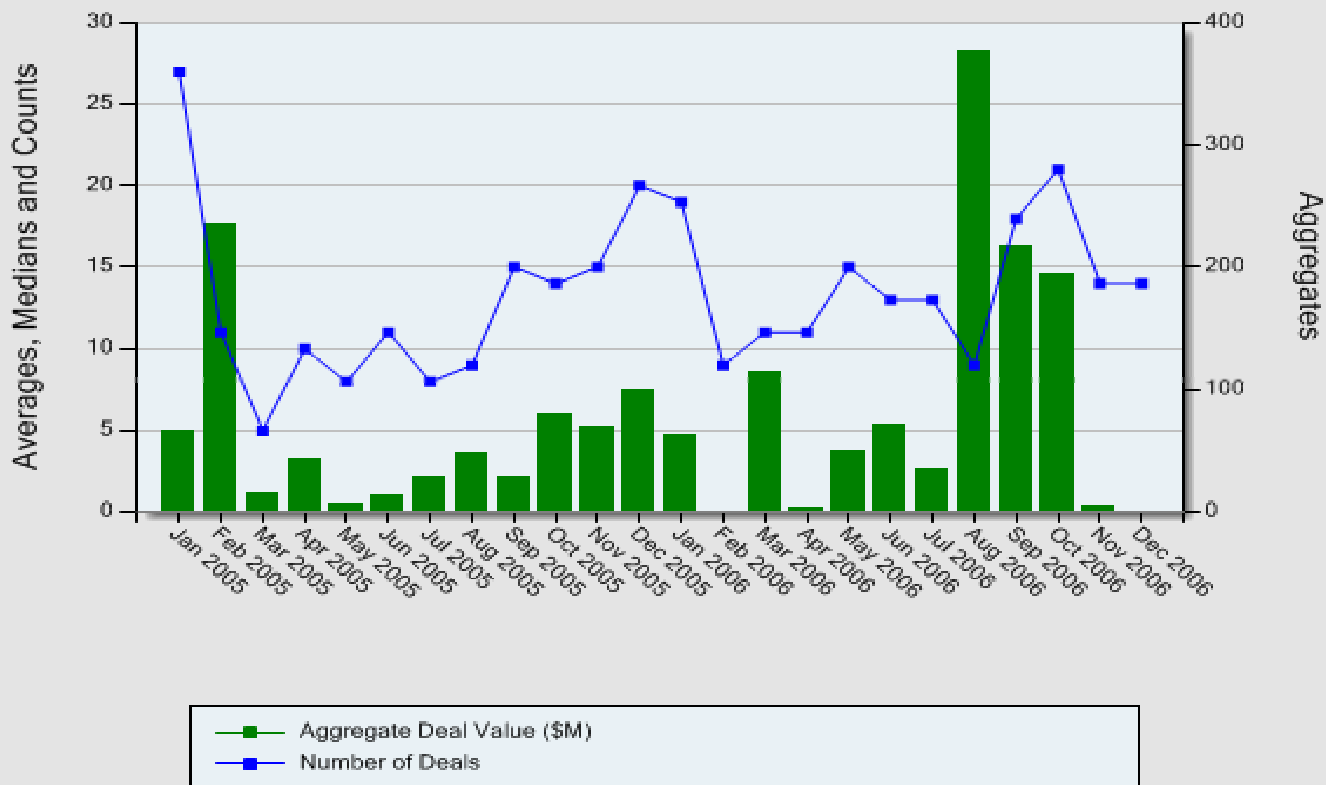
Buyer's Side:

- Strategic fit.
- Expands operations.
- Compliments existing services.
- Increase in talent.
- Enhances resources.
- Adds niche expertise.
- Specialization strategy.
- Increases revenues.
- Adds high quality products.
- Expands client base.
- Grows alternative risk capabilities.
- Better reach and lowers costs.
- Strengthens employee benefits.
- Established track record.
- Superior client service.

Seller's Side:

- Enables more product offerings.
- Takes business to next level.
- Increases options for clients.
- Larger client base.
- Strategic fit.
- Gain significant expertise.
- Diversifies product line.
- New financial strength.
- Carrier access.
- Full range of insurance solutions.
- More new business opportunities.
- Enhanced shareholder value.
- We now have a strong balance sheet.

Deal Values & Numbers



Agency Consolidation

Comm. Revenues	2000	2005	2010	2015
\$100MM+	12	21	28	46
\$10-100MM	199	296	422	588
\$5-10MM	939	1,115	1,371	1,610
\$2.5-5MM	1,985	1,957	1,949	1,930
\$1.25-2.5MM	4,094	3,482	2,988	2,477
\$.5-1.25MM	5,587	4,804	2,704	1,532
-\$.5MM	25,754	18,601	9,474	3,507
TOTAL	38,570	30,276	18,936	11,690
% Change		-21.5%	-37.5%	-38.3%

Source: Marsh Berry

Agency Demographics – 2004/2007

Revenues	# Agencies	%	Aggregate Revenue	%
>\$10M	250/300	1/1	\$5B/\$4B	15/11
\$2.5-10M	2,500/4,500	6/13	\$12B/\$16B	36/44
\$1.25-2.5M	3,500/4,000	9/12	\$6B/\$6B	18/17
\$.5-1.25M	8,000/9,750	20/29	\$6B/\$7B	17/19
\$.15-.5M	15,000/10,500	38/31	\$4B/\$3B	11/8
<\$.15M	10,000/4,500	26/14	\$1B/\$.4B	3/1
Total	39,250/33,550	100/100	\$34B/\$29B	100/100

Source: Reagan Consulting

2006 Agency Deal Breakdown

Segment:

- 79% retail.
- 21% wholesale.

Category:

- 38% full service.
- 22% P&C.
- 17% benefits.
- 5% title.
- 6% P&C personal.
- 12% other.

Line of business:

- 67% P&C.
- 24% benefits.
- 9% other.

Source: National Underwriter

Agency Acquirers 1999-2006

	# of Deals	% of Deals
Banks	534	30.3
Public Broker	428	24.3
Ind. Agency	368	20.9
Insurance Company	292	16.6
Other	139	7.9
Total	1,761	100.0

Source: Marsh Berry

Agency Acquirers 1999-2006

Year	Banks	Pub. Brokers	Agencies	Ins. Cos.	Other	Total
1999	70	26	77	85	19	277
2000	78	37	42	36	5	198
2001	70	60	29	28	19	206
2002	80	52	38	21	19	210
2003	67	57	37	25	17	203
2004	64	71	56	33	19	243
2005	45	64	44	33	23	209
2006	60	61	45	31	18	215
Total	534	428	368	292	139	1,761

Source: Marsh Berry

Key Valuation Metrics

- EBITDA.
- Make up of revenues and contingencies.
- Organic growth rate.
- Age of principals.
- Sales culture.
- Service culture.
- Age of producers and perpetuation.
- Mix of commercial vs. personal lines.
- Account concentration.
- Account retention.
- Customer concentration.
- Efficiency.
- Technology.
- Size.
- Fit in potential acquirer's footprint.
- Acquirer's IRR.

Agency Pricing Multiples

Agency sale to:	EBITDA multiple range 2006	EBITDA multiple range 2005	Revenue multiple range 2006	Revenue multiple range 2005
Bank Foundation	7.5-8.25X	7.5-8.5X	1.75-2.5X	1.75-3X
Public broker	6.5-7.25X	6.75-8X	1.5-2X	1.5-2.25X
Bank add on	6.5-7.25X	6.75-8X	1.5-2X	1.5-2.25X
Private agency	5.25-6X	5.25-6X	1-1.25X	1-1.25X

Source: National Underwriter

Agency Multiples EBITDA

	2006	2005
< 5 X	5%	5%
5 – 6 X	10%	10%
6 – 7 X	40%	35%
7 – 8 X	30%	35%
> 8 X	15%	15%

Source: National Underwriter

Agency Multiples Revenues

	2006	2005
< 1.25 X	5%	5%
1.26 – 1.50 X	10%	10%
1.51 – 1.75 X	40%	35%
1.76 – 2.0 X	30%	35%
>2.0 X	15%	15%

Source: National Underwriter

Key Valuation Metrics

	Public Brokers	Banks	Large Ind. Agencies
EBITDA/ Revenues	24.3%	22.8%	21.3%
Revenues/ Employee	\$164,801	\$144,872	\$138,057

Source: Marsh Berry

Agency Deal Structures

- 20% stock and 80% asset purchase.
- Currency in asset deals are:
 - 80% cash
 - 10% stock
 - 10% combination
- Currency in stock deals are:
 - 40% cash
 - 40% stock
 - 20% combination

Source: National Underwriter

Life After The Deal

- Business strategy, culture, core values, and mission statement.
- Growth and profit margin expectations.
- Contingency sharing with common carriers.
- Lines of business.
- Expense control and latitude.
- Back room synergies and/or conflicts.
- Accounting policies, collection policies, direct bill vs. agency bill.
- E&O coverage going forward and for the tail.
- Overhead allocation.
- New and renewal commission structure.
- Primary markets and wholesalers.
- Personnel, new hires, benefits, etc.
- Name change.
- Earn outs and benchmarks.
- Covenants not to compete, anti-piracy and non-solicitations agreements.
- Indemnifications, holdbacks, reps and warranties, conditions to close, etc.
- Working capital.

Impact Of No Growth And Taxes On Net Agency Valuation

(\$ 000 omitted)	2006	Assumption	2007 Status Quo	Assumption	2008 Status Quo
Personal lines	\$500	-10%	\$450	-10%	\$405
Commercial lines	\$500	-20%	\$400	-10%	\$360
Total Revenue	\$1,000		\$850		\$765
Expenses	\$800	-10%	\$720	-10%	\$648
EBITDA	\$200		\$130		\$117
Multiple	7X		7X		7X
Total Value	\$1,400		\$910		\$819
Taxes (15%)	\$210		\$136		\$123
Net A/T Proceeds	\$1,190		\$774		\$696

Review Of Capital Gains Taxes

Period in Years	Federal Capital Gains Tax Rate
1964-1976	25%
1977-1986	40%
1987-1996	20%
1997-2001	28%
2002-2010*	15%

Review Of Capital Gains Tax

- This tax is due only when the gain is realized.
- Currently it is 15% for most taxpayers.
- The seller decides when to pay the tax based on his/her actions.
- If a seller defers to sell because of the taxes due, this is called the “lock-in effect”.
- The level of tax rates can substantially influence when asset holders realize their gains.
- Postponing or advancing realizations by a year is easier when compared to longer periods of time.

AMT Versus Capital Gains

- The Democratic controlled House is proposing to remedy the AMT trap on middle income taxpayers by raising capital gains tax rates and income tax rates on higher income taxpayers.
- According to the Wall Street Journal, to offset the loss of funds from AMT the capital gains tax rate would have to go from 15% to 31% and the tax rates on higher income taxpayers by 10-15 percentage points for a marginal tax rate of 50%.
- These proposed rates would make the United States one of the highest taxed countries in the world.
- Democratic consensus is to raise highest individual tax rate to 39.5%. Republican consensus is to remain at 35%.
- Top Democratic candidates' positions on capital gains are; Edwards 28%, Obama 20%, and Clinton unknown.
- Top Republican candidates' position on capital gains are; McCain 15%, Giuliani unknown, and Romney 0% for middle class.

Creating Value for Indiana's Independent Insurance Agents, Brokers and Banks



ASSURANCE PARTNERS BANK
Assurance Partners Bancorp

an affiliate of
National Association of
Mutual Insurance Companies

has merged with

Federal City Bancorp, Inc.

Gill and Roeser Holdings, Inc. acted as
financial advisor to Assurance Partners Bancorp

Gill and Roeser Holdings, Inc.

April 2005



Coapstick
Insurance Agency, Inc.


has been acquired by

Pillar Group Risk Management, Inc.

Gill and Roeser Holdings, Inc. represented
Coapstick Insurance Agency, Inc.
as financial advisor in this transaction

Gill and Roeser Holdings, Inc.

December 2005



SALINBANK
& TRUST COMPANY

has sold its property
and casualty insurance operations to

The Lon Brown Company, Inc.

Gill and Roeser Holdings, Inc.
represented Sofin Bank & Trust
as financial advisor in this transaction

Gill and Roeser Holdings, Inc.

December 2005



MILES & FINCH
INSURANCE • SINCE 1910

MILES AND FINCH, INC.

and

MILES AND FINCH INSURANCE, LLC

have been acquired by

Regions Insurance Group, Inc.

Gill and Roeser Holdings, Inc.
represented Miles and Finch
as financial advisor in this transaction

Gill and Roeser Holdings, Inc.

January 2007

Gill and Roeser provides value-added capital management strategies, especially merger and acquisition services. The firm is known for its integrity, creativity, thoroughness, objectivity and professionalism, and has a diverse and loyal client base.

To learn more about how we can help you, contact Dale Myer, Senior Vice President of Gill and Roeser Holdings, Inc.



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DALE A. MYER



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Dale A. Myer
Senior Vice President

Dale joined Gill and Roeser in 2000. He has more than 30 years of management and executive experience in the banking, reinsurance and insurance business. Dale has extensive experience in the areas of commercial lending, insurance company and bank financial analysis, investor due diligence and business consolidation. He provides advisory and consulting services to insurance companies, agents, banks and other related financial institutions. In addition, Dale heads up Gill and Roeser's Banks-in-Insurance Group.

His areas of expertise are:

- Mergers, Acquisitions and Divestitures
- Capital Management Strategies
- Capital Raising
- Buy or Sell Assignments
- Agency Valuations
- Advisory and Consulting Services for Banks-in-Insurance

Dale has advised several insurance agencies on both buy and sell assignments. He's also helped form two reinsurance companies and served as director of a New York Stock Exchange-listed bank. He was Senior Vice President with the TIC Reinsurance Co. in Stamford, CT. Previously, he worked for the W.R. Berkley Co. in Greenwich, CT, where he assisted the company's chairman on banking investments and special projects. Dale holds an MBA in Finance from Butler University and a BS in Accounting from Indiana University. He is a graduate of the Stonier Graduate School of Banking and holds both the ARS and APFS designations. He also holds Series 7 and Series 63 Licenses with the NASD (National Association of Securities Dealers).

Dale may be reached at dmyer@grhd.com



Gill and Roeser,
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NASD Member

For 30 years, Gill and Roeser has been providing value-added services to its clients in the property-casualty and life-health insurance business. The firm includes seasoned professionals from reinsurance, insurance, banking and investment banking. Headquartered in New York City, Gill and Roeser, Inc. is a licensed reinsurance intermediary offering a full range of traditional and non-traditional insurance brokerage services, alternative markets, ratings advice and program business consulting services. Through its affiliate Gill and Roeser Holdings, Inc. – a member of NASD – the firm offers investment banking services including merger, acquisition and divestiture advice; capital management strategies, capital raising and banks-in-insurance consulting services. The firm has a diverse and loyal client base, excellent networks and exceptional access to decision makers.

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