



Loss Adjusting Market and M&A Trends

Review of 2010 Outlook

Since our March 2010 *View from the Ridge* where we highlighted four expected trends for 2010, there has been considerable activity in the loss adjusting sector. We thought it would be helpful to review those predictions and their implications for 2011.

Increasing Private Equity Interest in the Sector – This is a trend that definitely accelerated in 2010 and into the first quarter of 2011. There were several notable private equity investments in the claims services sector, including:

- Genstar Capital's acquisition of Granite Global Solutions, Inc. in July 2010
- Torquest Partners' investment in SCM Insurance Services Inc. in August 2010
- ABRY Partners' acquisition of York Insurance Services Group, Inc. from Odyssey Investment Partners in December 2010
- Flexpoint Ford's acquisition of Toplis & Harding, Inc. (VeriClaim) in March 2011
- Forsyth Capital's recapitalization of Engle Martin & Associates, Inc. in April 2011

This unprecedented level of interest by private equity firms was driven by a combination of several quality platforms being available and the claims services sector exhibiting more attractive industry dynamics than other sectors of the economy. We expect that private equity interest will remain high in the sector, but following the recent transaction activity there is a scarcity of companies that would meet private equity investment criteria.

Increased Consolidation – This is a trend that started in 2010 and accelerated in early 2011, driven primarily by the challenges facing the industry and the access to capital for selected national players. In addition to the numerous private equity investments highlighted above there were several notable transactions:

- Cunningham Lindsey's acquisition of the U.S. loss adjusting business of GAB Robins in January 2011
- NCA Group's acquisition of three companies in January 2011 (T.M. Mayfield & Company, NHI General Adjusters, and Gentry & Associates Claims Services, Inc.)
- York's acquisition of BC Johnson Associates in February 2011

An Above-Average Storm Season Should Drive Better Operating Margins – Although there were an above average number of named tropical storms and hurricanes, none of them made landfall in the continental U.S. which did not boost revenue or margins in 2010. In 2010 there were 33 named Property Claim Services (“PCS”) catastrophe events which totaled \$13.6 billion of insured losses, significantly lower than the \$25 billion of 2000 – 2009 average insured losses.

Improving Economy Should Help Top Lines – Although US GDP increased 2.8% in 2010, the soft pricing environment in the U.S. property casualty industry continued and more than offset any positive aspects of an improving economy. Consequently, the industry’s top line continued to face significant pressure. As the property casualty insurance market remains in a prolonged soft market with increasing pressure on insurance company margins, insurance carriers are increasingly focused on reducing all expense dollars, including the amount of loss adjustment expenses. This has resulted in insurance carriers increasingly utilizing internal resources, expanding claims volumes handled by in-house adjusters “desk adjusting” more personal lines and small commercial claims. Crawford and Company, the largest player in the \$3.5 billion US loss adjusting market is a reasonable proxy for overall industry trends. In 2010, Crawford and Company’s US property casualty revenue declined 8.4%, including a decline of 11.2% in its largest segment – claims field operations. Crawford’s overall number of claims received declined 6.8%, demonstrating that the decline in revenue is a result of both decreased volume and pricing.

2011 Outlook

Some of the trends that we believe will most significantly impact the loss adjusting sector in 2011 include:

Increased Consolidation – Even with some of the recently completed transactions, the industry remains very fragmented and one that could benefit from increased consolidation. We expect that the private equity firms that have made recent investments in the space will be looking to continue to grow and expand through add-on acquisitions. As organic growth remains challenging, strategic competitors will also seek to grow through acquisitions. Additionally, some players will likely try to follow a strategy similar to NCA Group’s to build out a national footprint through selected acquisitions of regional loss adjusters. On the supply side, we expect local and regional players to continue to seek liquidity and to try to find larger companies with additional resources with which to partner. The segment of the loss adjusting industry that we believe faced the greatest pressure in 2010 was the smaller local or regional independent adjusting firms. The trend towards vendor consolidation continues to have a significant impact on many firms.

Technology Advances Will Result in More Desk Adjusting – The technological advancements in satellite imagery and remote measuring capabilities will allow insurance carriers to be able to either desk adjust claims or utilize less field adjusting. For instance, based upon the technology that exists today and what is continuing to be developed, it will be increasingly uncommon for an adjuster to climb on a roof to measure and assess a small homeowner’s loss. We believe that the more commoditized segments of the market face the greatest risk of disintermediation as technology changes.

Alternative Business Models Utilizing Networks will Continue to Gain Market Share – A few companies such as BrightClaim have developed business models where they provide national capabilities by utilizing a network of local or regional independent adjusting firms or subcontractors to provide local field adjusting services. This type of model can eliminate some expenses for insurance carriers by reducing the costs of maintaining a large number of vendor relationships and gaining economies of scale with a national

Daynard & Van Thunen
Company Incorporated

has been acquired by

YORK
INSURANCE SERVICES GROUP, INC.

The undersigned acted as financial advisor to Daynard & Van Thunen

STONERIDGE
ADVISORS, LLC


January 2010

**GAB**
Robins

has sold

its third party administration and managed care businesses


to

 Gallagher Bassett Services, Inc.


The undersigned acted as financial advisor to GAB Robins North America, Inc.

SRA SECURITIES, LLC

September 2010

**NCA**

has acquired

*Adjusters of Losses for Insurance Companies*
T.M. Mayfield & Company

The undersigned acted as financial advisor to NCA Group

STONERIDGE
ADVISORS, LLC

January 2011

contract. Local independent adjusting firms are faced with the dilemma of either losing revenue from insurance carriers that have embraced this model or agreeing to act as a subcontractor for another firm at a lower profit margin. While this model appears to allow carriers to cut loss adjusting expenses, it is unclear how sustainable it will be during large catastrophes when adjuster demand is high. We expect this trend, however, to continue as local independent adjusting firms continue to try to maintain revenue and innovative companies try to capitalize on insurance carriers' desire for vendor consolidation.

An Above-Average Storm Season Would Drive Better Operating Margins – Similar to 2010, the early read from the Colorado State University hurricane forecasting team indicates an active 2011 storm season in the Atlantic basin, with 17 named storms and five major hurricanes predicted. As with every year, the odds remain high that a significant hurricane will make landfall in Florida. After the record number of storms in 2004 and 2005 making landfall in Florida there has been five consecutive storm seasons without any meaningful activity.

Recent Transaction Description – Recapitalization of Engle Martin


StoneRidge Advisors represented Engle Martin and Associates, Inc. (“Engle Martin”), a national commercial property-focused loss adjusting firm, in its April 2011 recapitalization. For Engle Martin, the transaction helped to facilitate a transfer in leadership along with providing additional capital and resources to continue to grow the company organically and through acquisitions. For Forsyth Capital this allowed them to partner with Engle Martin’s management team and have a strong claims services platform positioned for further growth.

Recent Transaction Description – NCA Group Acquisitions

StoneRidge Advisors represented National Catastrophe Adjusters, Inc. (“NCA Group”), a historically catastrophe-focused loss adjusting company, in its acquisitions of three independent adjusters, which all were announced in January 2011. NCA acquired the assets of T.M. Mayfield & Company (“Mayfield”), the stock of NHI General Adjusters (“NHI”) and the stock of Gentry & Associates Claims Services, Inc. (“Gentry”). These acquisitions significantly expanded NCA Group’s daily adjusting capabilities and provided three regional platforms for further expansion. Additionally, the acquisition of NHI significantly expanded NCA’s capabilities in the commercial adjusting marketplace. These acquisitions provided Mayfield, NHI, and Gentry with liquidity combined with access to additional resources from a company with national scope.

StoneRidge Advisors’ Claims Services Expertise

StoneRidge Advisors has been the only investment banking firm with a consistent focus on the claims services sector. StoneRidge Advisors continues to actively work with several leading players and has recently completed claims services transactions pictured at right.




has acquired

NHI General Adjusters

The undersigned acted as financial advisor to NCA Group

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ADVISORS, LLC

January 2011



has acquired

**Gentry & Associates
Claims Services, Inc.**

The undersigned acted as financial advisor to NCA Group

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January 2011



**ENGLE MARTIN &
ASSOCIATES, INC.**
Adjusters & Claims Administrators

has completed a recapitalization
sponsored by

FORSYTH CAPITAL
I N V E S T O R S.

The undersigned acted as financial advisor to Engle Martin & Associates, Inc.

SRA SECURITIES, LLC

April 2011

StoneRidge Advisors' Additional Recent Transactions:



has sold


to

The undersigned acted as financial advisor to Willis

April 2009


has sold
The Employee Benefits Business of
Managing Agency Group
to

The undersigned acted as financial advisor to Willis

September 2009


has raised equity growth capital
**Convertible Preferred
Membership Interests**
The undersigned acted as sole
placement agent to MarketScout
Wholesale, LLC
SRA SECURITIES, LLC
July 2010


has acquired

The undersigned acted as financial advisor to GENEX Holdings, Inc.

January 2011

About StoneRidge Advisors

StoneRidge Advisors is an investment banking firm that specializes in the insurance industry. Our clients include property, casualty, life and health insurance companies, reinsurance companies, as well as insurance brokerage, managing general agency, claims management and other related service companies. Our firm combines extensive experience and best practices to help our clients achieve their strategic goals and financial objectives.

Services

StoneRidge Advisors provides services related to all aspects of an M&A transaction, including identification, valuation, negotiation, structuring and financing. In addition, we assist companies in developing and executing upon capital raising initiatives.

Mergers & Acquisitions

- Buy-Side Advisory
- Sell-Side Advisory

Capital Raising

Financial Advisory

- Business Valuations
- Fairness Opinions
- Consulting Services

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