

View from the RIDGE



December 2011

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2011 Claims Services Review and 2012 Outlook

Review of 2011 Third Party Administration (“TPA”) Outlook (October 2010 View From the Ridge)

We expect the operating environment in the property & casualty TPA sector to remain very challenging for the foreseeable future. As predicted, the operating environment for TPAs did remain very challenging in 2011. The industry continued to be impacted by unemployment rates around 9% and a challenging economy. With a lack of organic growth opportunities, competition for business remained very high with market leaders Sedgwick and Gallagher Bassett being the primary beneficiaries, particularly in the national account marketplace. The challenging market conditions are demonstrated by Broadspire’s revenue decline of 7.1% for the twelve months ended September 30, 2011, which we believe is indicative of the difficult market conditions.

We expect the pace of M&A activity to accelerate as scale becomes increasingly important and capital is more readily available. The pace of M&A activity accelerated significantly in the last twelve months with 6 of the top 20 TPAs (ranked by revenue) changing hands – Specialty Risk Services’ sale to Sedgwick, York’s acquisition by ABRY Partners, Xchanging’s sale of Cambridge to Sedgwick, FARA’s sale to Avizent, NovaPro’s sale to Carl Warren, and Avizent’s sale to York. Almost all of the market-leading TPAs completed at least one acquisition during the year that added scale, provided new product capabilities or enhanced technology.

Sedgwick had primarily focused on organic growth over the last several years, but with their new private equity partners we expect them to more aggressively pursue acquisitions. The market leader in the TPA sector, Sedgwick, completed four acquisitions in the last year. In addition to the two major TPA acquisitions mentioned above, Sedgwick also acquired Selective Settlements International, Inc. and Nationwide Better Health, Inc.’s Productivity Solutions Division, which added to their already broad service capabilities.

We, however, do not expect the business process outsourcing companies or companies with a model to use offshoring to be a major factor in the marketplace. The BPO companies were not a significant factor in TPA M&A during the last year. There were not any TPA acquisitions by BPO companies, and the only claims services transaction that did occur involving a BPO was Exlservice’s acquisition of Trumbull Services, a subrogation focused company, from the Hartford for \$250,000. The decision by Xchanging to exit the U.S. TPA market through the sale of Cambridge was also indicative of the challenges that BPO companies can face when entering the U.S. TPA market. Xchanging had undergone an organizational shift to move from a local office structure to a regional structure, which significantly impacted their client retention. We have found that any shifting of customer-

facing people, whether in the U.S. or off-shore, can be received negatively by customers and exploited by competitors.

2012 TPA Outlook

We expect the operating environment to remain challenging, but show some modest improvement as the economy stabilizes. We believe that there will continue to be a significant gap in the growth and profitability between the market leaders along with certain niche players compared to the broader industry. We believe that the consolidation trend that we have seen over the last 18 months will continue into 2012 as scale continues to be a major factor in the industry. We also expect to see some cross border M&A transactions, as the large U.S. players look to international markets for growth opportunities.

Update on Loss Adjusting Activity

Private equity interest and consolidation within the U.S. loss adjusting industry continued throughout 2011. The U.S. loss adjusting marketplace consists primarily of field adjusters focused on the commercial or personal property markets. We noted several of the recent trends and transaction in our May 2011 View from the Ridge “Loss Adjusting Market & M&A Trends”, in particular, the increased M&A activity continued for the remainder of 2011. The announced investment by Altamont Capital Partners in McLarens Young International in September 2011 continued the trend of private equity investment within the loss adjusting sector. With the exception of Crawford & Company as a public company, the next five largest commercial property-focused daily loss adjusting companies all have private equity backing, with four of those investments coming in the last twelve months. York (ABRY Partners), VeriClaim (Flexpoint Ford) and Engle Martin (Forsyth Capital) all received new investments in early 2011, while Stone Point Capital had previously invested in Cunningham Lindsey. Two of these investments replaced previous private equity investments (York and VeriClaim), while the investments in Engle Martin and McLarens Young represented the first outside investments into previously 100% employee-owned companies.


Private equity firms have been particularly interested in the loss adjusting sector based upon the strong growth characteristics – both organic and M&A, solid margins, and lack of significant capital requirements. The loss adjusting sector is easily understood and has attracted a wide range of private equity investors including firms focused on the insurance industry as well as general business services. The York and VeriClaim investments generated very strong returns for their former private equity owners, which has also increased interest.

These companies along with a few of the other national players with access to capital increased their market position by acquiring leading regional or niche firms that add to their product capabilities. Examples of several recent types of these acquisitions include:


- McLarens Young’s acquisitions of AirClaims Limited and Washington Oregon Claim Service
- VeriClaim’s acquisition of Cramer, Johnson, Wiggins and Associates, Inc.
- York’s acquisition of BC Johnson and Associates
- IAS Claim Services acquisition of Jim Buckley & Associates, Inc.

2012 Loss Adjusting Outlook

We expect that companies with a national presence will continue to outperform regional and local players as the trend among insurance companies of consolidating vendor



has acquired



The undersigned acted as a financial advisor to IAS Claim Services

STONERIDGE
ADVISORS, LLC

October 2011



has sold the US assets of



CAMBRIDGE

to



Sedgwick CMS

The undersigned acted as a financial advisor to Xchanging PLC

SRA SECURITIES, LLC

May 2011



ENGLE MARTIN & ASSOCIATES, INC.
Adjusters & Claims Administrators


has completed a recapitalization sponsored by

FORSYTH CAPITAL
INVESTORS.

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

SRA SECURITIES, LLC

April 2011



has acquired

NHI General Adjusters

The undersigned acted as financial advisor to NCA Group

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January 2011

relationships continues. Acquisitions of regional or niche firms will continue being led by the national players with access to capital. We do not expect many significant transactions, however, since several of the major companies recently were acquired.

We also expect to see an increased level of M&A activity among loss adjusting firms which utilize a variable cost structure dependent upon independent contractors that provide both daily and catastrophe services. With the weather activity over the last five years - very modest in 2007, 2009 and 2010 combined with more activity in 2008 (Gustav, Ike) and 2011 (tornadoes, Irene) potential acquirers will be able to better assess the earnings capabilities of these companies. The challenge in the past was that sellers wanted to be valued based upon 2004 (four major Florida hurricanes) and 2005 (Katrina, Rita and Wilma) results, while buyers wanted to purchase sellers based upon their 2006 and 2007 results when there were not any major hurricanes.

Significant Transaction Description - Sedgwick's acquisition of the assets of Cambridge Integrated Services Group, Inc.


StoneRidge Advisors represented Xchanging plc in the sale of the assets of Cambridge Integrated Services Group, Inc. ("Cambridge") including the stock of Cambridge Galaher Settlements & Insurance Services, Inc. to Sedgwick Claims Management Services, Inc. ("Sedgwick") which was announced and closed on May 31, 2011.

This acquisition further expanded Sedgwick's position as market leader by adding approximately \$100 million in revenue. The acquisition also enhanced Sedgwick's ability to offer the most comprehensive array of services in the industry with additional capabilities in the areas of transportation liability, consumer financial services, structured settlement and Medicare compliance. As part of the transaction Sedgwick also purchased the technology infrastructure of Cambridge and agreed to extend employment offers to all of the Cambridge employees.

For Xchanging, the divestiture freed the company of a loss making and cash absorbing operation, while enabling Xchanging to focus on its profitable, growing businesses.

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 completed seven claims services transactions in 2011 pictured at right.




has acquired

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


The undersigned acted as financial
advisor to NCA Group

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January 2011



has acquired



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

The undersigned acted as financial
advisor to NCA Group

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has acquired



**Network
Synergy
Group**

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

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StoneRidge Advisors' Additional Recent Transactions



has acquired



The undersigned acted as a financial advisor to Norcal Mutual Insurance Company



July 2011



has acquired



and the assets of



The undersigned acted as a financial advisor to Personable Holdings, Inc.

SRA SECURITIES, LLC

December 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

Consulting Services

Financial Advisory

- Business Valuations
- Fairness Opinions
- Consulting Services

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