

View from the RIDGE



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Recent Trends in the Loss Adjusting Sector

Not unlike the overall U.S. economy, the U.S. loss adjusting sector faced several challenges in 2009. Among the most prevalent industry trends in 2009 included revenue growth challenges, margin pressures, cash flow generation issues, and an uptick in litigation activity. Some of these challenges were offset by the fact that the loss adjusting industry is less dependent upon the overall economy than other business services. In addition, certain larger players benefited from an industry trend of insurance carriers consolidating vendor relationships. We believe the loss adjusting industry weathered the economic downturn of 2009 comparatively well to the rest of the economy and that the industry's positive fundamentals will continue to allow companies to generate attractive returns.

The loss adjusting sector's greatest challenge in 2009 was its inability to grow revenue. Lower overall claims frequency, which was partly a result of prevailing economic conditions and a lack of major hurricanes, resulted in flat or slightly negative top-lines for many loss adjusting firms. For example, the largest player in the U.S. loss adjusting market, Crawford & Company (NYSE: CRD.B), saw its U.S. Property and Casualty loss adjusting segment revenue decline by 4.7% in 2009 compared to 2008. Additionally, with the continuation of soft pricing conditions in the property casualty insurance industry, insurance companies have continued to try to find ways to reduce costs, such as utilizing more internal resources and trying to "desk adjust" more of the personal lines and small commercial claims. This trend has led to less revenue opportunities for independent adjusting firms. In addition, loss adjusters are facing decreased revenue opportunities due to standard lines carriers chasing excess & surplus ("E&S") lines business. Historically, E&S lines carriers have had a greater reliance on independent loss adjusters than the standard market players.

The challenging top-line also put continued pressure on operating margins, especially for the more commoditized sectors of the market such as personal lines and small commercial lines adjusting. Crawford & Company's U.S. Property and Casualty loss adjusting segment's operating margins declined from 10.4% in 2008 to 9.1% in 2009. However, the more niche areas of the market, such as complex commercial property loss adjusting, continued to generate high margins as insurance carriers are willing to pay for the specialized expertise required to handle complex claims where they have much higher loss cost dollars at risk.

Working capital requirements and cash flow generation continues to be a significant issue for most loss adjusting companies. The period from the time the work is completed by an adjuster and entered as a work-in-progress ("WIP") asset until WIP is billed and

then ultimately collected, can be 5-6 months or significantly longer in certain markets (e.g. Lloyd's of London). Furthermore, insurance carriers have not improved payment turnaround on invoices due to their own cash needs and the leverage they hold over loss adjusters. In 2009, timely cash collection for most loss adjusters became more challenging.

A new trend in 2009 was an increasing amount of litigation (particularly in Texas) related to 2008 hurricane activity. It remains to be seen whether this is a trend that will continue in other jurisdictions, but loss adjusting companies spent more time and money fighting lawsuits in 2009 than was typical in prior years.

Finally, insurance carriers are increasingly focused on the potential cost savings in vendor management and continue to shorten their lists of approved vendors. This vendor reduction strategy has benefited large regional and national claims adjusting firms since carriers are demanding size and national scale. Several of the national players such as VeriClaim, Engle Martin, McLarens Young and York were among those that benefited from this ongoing trend and who we believe outperformed the overall industry in 2009.

2010 Outlook

Some of the trends that will most significantly impact the loss adjusting sector in 2010 include:

Increased Consolidation – The loss adjusting sector remains very fragmented and one that could benefit from increased consolidation. We expect smaller regional players and local operations will continue to find reduced revenue opportunities going forward, a factor that will increasingly cause them to seek strategic combinations with larger players. The increase in capital gains rates when the Bush tax cuts expire at the end of 2010 may also factor into smaller operators' decisions to sell.

Loss Adjusting Services Transactions

Date Announced	Acquirer Name	Target Name	Transaction Value	TEV / Revenue	TEV / EBITDA
02/25/10	York Insurance Services Group	Daynard & Van Thunen Co., LLC	NA	NA	NA
12/07/09	VeriClaim, Inc.	Teceris Corporate and Complex Adjusting	NA	NA	NA
02/10/09	Cunningham Lindsey Group, Inc.	International business of GAB Robins/EFI	NA	NA	NA
08/18/08	Seaport Capital	The Worley Companies	NA	NA	NA
10/30/07	Stone Point Capital, LLC	Cunningham Lindsey Group, Inc.	296.1 ¹	0.62x	8.6x ²
12/01/06	Silver Oak Service Partners, LLC	VeriClaim, Inc.	NA	NA	NA
07/01/06	DMA Claims Services, Inc.	Insurance Servicing and Adjusting Co.	NA	NA	NA
12/27/05	Odyssey Investment Partners, LLC	York Insurance Services Group, Inc.	113.1	1.50x	8.3x

¹Converted from CAD to USD at a 1.047 exchange rate.

²Based on reported 2007 EBITDA.

Increasing Private Equity Interest in the Sector – With close to \$480 billion of undrawn capital commitments, the private equity industry is sitting on a great deal of “dry powder.” Given what appears to be several successful platform investments in the loss adjusting sector over the last several years, including Stone Point Capital’s investment in Cunningham Lindsey Group, Inc., Odyssey Investment Partners’ investment in York Insurance Services Group, LLC and Silver Oak Services Partners’ investment in VeriClaim, Inc., we expect an increasing level of private equity interest in both add-on acquisitions for existing platforms and new platform company investments. For example, Trident IV, the latest private equity fund managed by Stone Point has made 15 investments to date with 5 in insurance services. Given the competitive environment, regulatory oversight, rating agency constraints, and financial leverage restrictions inherent in most insurance company investments, private equity’s focus on the insurance services sector, specifically loss adjusting, is not surprising.

An Above-Average Storm Season Should Drive Better Operating Margins – The early read from the Colorado State University hurricane forecasting team indicates an active storm season in the Atlantic basin, with 11-16 named storms and 3-5 major hurricanes predicted. Pure-play catastrophe loss adjusters will obviously benefit directly from storms that make landfall, while to a lesser extent, more diversified loss adjusting firms benefit from taking on higher margin cat business during storm season.

Improving Economy Should Help Top Lines – U.S. GDP growth was 5.7% in the fourth quarter of 2009, after 2.2% growth was reported in the third quarter of 2009. While the U.S. unemployment rate remains high, it did remain below 10% in February and should continue to improve, as it is typically a lagging indicator. An expanding U.S. economy and higher employment rates should drive higher claims frequency numbers in 2010 and revenue growth in the loss adjusting sector.

Overall, we think the combination of the following trends will lead to greater transaction activity in the loss adjusting sector in 2010: (i) greater access to private equity capital and debt capital, (ii) improving economic and operating fundamentals, and (iii) the persistence of a highly-fragmented industry. We also expect that certain national and large regional players will be able to better capitalize on certain of the industry trends and distinguish themselves from the overall industry by generating higher growth at more attractive margins.

Recent Transaction Description – York’s acquisition of Daynard & Van Thunen

StoneRidge Advisors represented Daynard & Van Thunen, LLC (“DVT”), a high-end commercial property loss adjusting business, in its sale to York Insurance Services Group, LLC. For DVT, the transaction offered its owners the ability to monetize a long-term, closely held business and the chance to grow their business as part of a bigger, better-capitalized platform. For York, DVT’s experienced team of commercial property adjusters will meaningfully add to their New York metropolitan area adjusting capabilities.

StoneRidge Advisors’ Claims Services Expertise

StoneRidge Advisors has been the only investment banking firm with a consistent focus on the claims services sector. While most recently we advised Daynard & Van Thunen on their sale to York, StoneRidge Advisors continues to actively work with several leading players and has also completed the following claims services transactions:

StoneRidge Advisors' Claims Services Transactions

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 international businesses (excluding its UK operations) and its U.S. forensic engineering firm, EFI Global

to

Cunningham & Lindsey

The undersigned acted as financial advisor to Cunningham Lindsey

STONERIDGE
ADVISORS, LLC

February 2009

UNISOURCE
ADMINISTRATORS

has sold

certain business contracts

to

Alternative Service Concepts, LLC

The undersigned acted as financial advisor to Alternative Service Concepts, LLC

STONERIDGE
ADVISORS, LLC

July 2008

Platinum Equity

has sold

B
BROADSPIRE

to

Crawford

The undersigned acted as financial advisor to Platinum Equity

STONERIDGE
ADVISORS, LLC

October 2006

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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