View from the RIDGE

March 2015

2014 Claim Services M&A Review and 2015 Outlook

We are pleased to present StoneRidge Advisors' sixth annual Claim Services M&A Review and Outlook. While much of our annual review is devoted to the past year's M&A activity in the loss adjusting and TPA sectors, we also discuss the burgeoning operating trends that we see and hear about. Going forward, we are also going to discuss M&A activity and opertating trends in the medical management services sector as well, which is highly linked with the TPA sector. Our key predictions from the 2014 Claims Services M&A Review and Outlook are shown below in italics, with our review and commentary on those predictions following the italicized paragraphs.

Review of 2014 Loss Adjusting Outlook

We expect that consolidation will continue at a steady pace and potentially slightly increase in 2014 compared to 2013. We think that the larger national players will continue to look to enhance growth through acquisition and regional and local players will continue to seek liquidity and realize the benefits of being part of a larger organization.

As expected, the market for loss adjusting M&A activity remained active in 2014. The two largest transactions were the sale of T&H Global Holdings, LLC ("VeriClaim") to Sedgwick Claims Management Services, Inc. ("Sedgwick") and the sale of York Risk Services Group, Inc. ("York") to Onex Corporation for $1.3 billion. Sedgwick's acquisition of VeriClaim represents the first major strategic acquisition of a national loss adjusting firm in the U.S. market in the last several years, while the York acquisition demonstrated the continued trend of private equity interest in the sector. Onex is York's third private equity owner since 2005.

The trend of consolidation among local and regional loss adjusting firms continued with several of the active acquirers continuing to build scale. NCA Group, Inc. continued acquiring regional daily claims-focused businesses with strong reputations, adding Woodland Claim Service in the Northeast and All Valley Adjusters in California. York also acquired a large independent California-based loss adjusting business, Donald K. Sams & Associates, Inc. in September. Engle Martin & Associates, Inc. completed two deals in 2014, bolstering its liability adjusting capabilities with its acquisition of Totura & Company, Inc. in March and its forensic engineering capabilities with its December acquisition of LWG Consulting, Inc. SE Capital acquired both Eagle Adjusting Services, Inc. and CatManDo, Inc. in early 2015, adding significant critical mass to its existing Claims Management Holdings platform.

Outside of the U.S. market, loss adjusting M&A activity remained at a high level as well.

Genstar-backed Granite Global Solutions, Inc. sold its loss adjusting operations to SCM Insurance Services ("SCM"), a TorQuest Partners-backed company. This transaction cements SCM as the leading claims services company in the Canadian loss adjusting market. Crawford & Company, Inc., which had been relatively quiet from an M&A perspective over the past several years, acquired two U.K. loss adjusting firms in 2014, including GAB Robins UK Limited for $64.5 million in December.

We also expect that more transactions involving loss adjusting companies that primarily utilize independent contractors to handle both daily claims as well as catastrophes, similar to the ICA, Inc. model, will occur. We believe that this model is the most cost effective way to handle residential property claims, and it is gaining a better appreciation in the marketplace.

This trend emerged to a certain extent with one major transaction, Aquiline Capital Partners' acquisition of Worley Companies Inc. ("Worley"), and a few smaller transactions. Worley provides Aquiline with a market leader in the catastrophe-focused adjusting market and a strong platform company to expand upon. In addition, Eagle Adjusting Services, CatManDo and Brightclaim, Inc., which received an investment in 2014 from Century Capital Partners, utilize independent contractor models.

Valuation of these companies remains challenging for buyers based upon the inherent volatility of operating results and determining what is a "normal" year. Many private catastrophe-focused companies continue to be happy with their independence, and given the margins that they produce during heavy catastrophe seasons, it is not hard to see why they might want to wait for another big storm year.

2015 Loss Adjusting Outlook

Probably the biggest ongoing development we see in the loss adjusting sector is the disintermediation of independent adjusters that operate in the non-catastrophe homeowners market. Insurance carriers are increasingly trying to utilize technology such as satellite imagery and remote measurement tools to desk adjust residential property claims. Insurance carriers have also been more frequently establishing direct relationships with contractors and repair networks, which can eliminate the need for an adjuster. Additionally, insurance carriers have also been tightening the pricing on their fee schedules, which makes it more challenging for loss adjusting companies to maintain their margins. These trends have made it increasingly important for loss adjusting companies to have an efficient operating model that leverages scale and technology to be able to provide high quality service to carriers while still generating attractive margins.

This development combined with the ongoing trend of vendor consolidation by insurance companies is putting increasing pressure on local and regional loss adjusting companies. Insurance companies realize the time and effort required to manage dozens of regional vendors can be reduced by consolidating their vendor forces to a couple of national vendors. For example, two years ago, a certain top ten U.S. personal lines insurance carrier used 27 loss adjusting firms around the nation to service residential property claims. One year ago, that carrier reorganized their vendor panel by geography and cut the number of adjusting firms to just six. This year, the insurer again cut the number of adjusting firms it uses, to three. All three of these remaining firms are national loss adjusters with significant scale.

A consequence of disintermediation and vendor consolidation should be increased M&A activity. In the example above, twenty-four regional loss adjusting firms each lost a significant customer during the past two years and are likely struggling to replace that lost revenue. If the owners of these firms are close to retirement age, it may be easier to sell their business rather than attempting to make up that lost revenue through increased marketing efforts. In addition, the three remaining firms on the insurance company's panel may need to acquire certain regional loss adjusting firms to help service the new states/territories.

We think that the strategic players will continue to acquire high-quality local and regional firms. In addition to companies already active like NCA Group, Engle Martin, York, and Claims Management Holdings, we would expect to see a few newer players participate in the loss adjusting M&A market going forward.

The TPA and loss adjusting sectors have continued to converge recently with the acquisition of VeriClaim by Sedgwick and the continued expansion by York in both sectors. While historically these two sectors were largely autonomous, the majority of the largest players today have capabilities in both areas. The ability to deliver both TPA and loss adjusting capabilities allows a claims services company to maximize the potential revenue from a TPA contract and to better control the service provided to clients. In addition to continuing to broaden their TPA capabilities, we expect to see the major loss adjusting players continue to expand their product and services offerings, such as Engle Martin's acquisitions in the forensic engineering sector.

Review of 2014 TPA Outlook

We believe consolidation within the TPA marketplace will remain relatively slow for the remainder of 2014 and that the majority of M&A activity will primarily involve niche or regional players. We expect the large TPA companies to continue to focus on providing a wider breadth of services, both organically and through selective acquisitions.

As we predicted, there were no large M&A transactions announced and very little consolidation in the TPA sector. The four notable transactions that were announced this past year included three acquisitions by York (American Claims Services, Bickmore and The Risk Management Planning Group) and Cannon Cochran Management Services, Inc.'s ("CCMSI") acquisition of Vertical Claims Management ("VCM"). The target companies involved in all four transactions were niche TPA players. American Claims Services focuses on the oil and gas industry, Bickmore focuses on public entities in the Western U.S. and The Risk Management Planning Group specializes in the New York market. VCM was the largest independent TPA focused on the medical professional liability sector.

Some TPAs did decide to expand their suite of services outside their core products, as we expected. As discussed earlier, Sedgwick entered the loss adjusting sector with its acquisition of VeriClaim from Chicago-based financial sponsor Flexpoint Ford. The transaction makes sense for Sedgwick, which should be able to drive significant loss adjusting work to VeriClaim from its property and liability TPA operations.

We also believe that some of the larger TPAs could look to expand their international business through acquisitions, as some of the international markets offer the potential for stronger organic revenue growth going forward than the U.S. market.

There were very few cross-border transactions involving TPAs in 2014, but interest in international opportunities remains strong from TPA buyers. We continue to believe that TPAs are and will look to grow outside of the U.S., particular in countries that have a workers' compensation system. Potential target markets for international expansion for large TPAs could include geographies such as Canada, Australia or Europe. The lack of deal activity may be explained by the dearth of available targets with critical mass and the dynamics of some of the individual international markets. In some European markets, for example, outsourcing claims work to third parties is not a common practice, while in other countries there are fewer third party vendors because the insurance sector is much more concentrated than in the U.S.

Revenue growth in the U.S. market should continue to improve going forward, as the unemployment rate continues to decline and the manufacturing and construction sectors have stabilized. Offsetting the potential for increasing claims frequency driven by higher employment levels is the increased focus of employees on loss prevention and risk management, however.

Revenue did increase for many TPAs in 2014, albeit at lower levels. We believe an improving employment market did help drive much of this revenue growth. Gallagher Bassett Services, Broadspire and Corvel's Patient Management (TPA and case management) segment, units that publicly report their results, all reported revenue growth in 2014 versus 2013. The improving economy helped offset the effects of declining claims frequency, a long-term trend that continued in 2014.

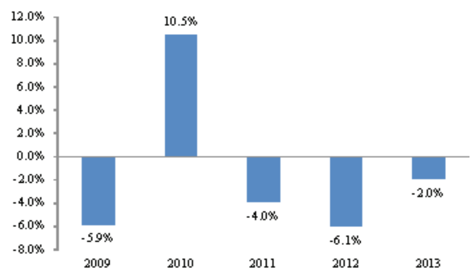
TPA Revenue Growth

Company	Revenue ($ in millions) 2013	2014	% Change
Gallagher Bassett	$609.0	$663.3	8.9%
Corvel[1]	$243.8	$264.3	8.4%
Broadspire	$252.2	$268.9	6.6%

[1]Representst revenue from Corvel's Patient Management unit.

Source: CapitalIQ

Lost Time Claim Frequency, 2009-2013



Source: NCCI

We think TPAs will increase their focus on growth within both the disability and absence management market.

This trend played out to some extent in 2014, demonstrated by Sedgwick's acquisition of absence management software provider Absentys in December and Smart Employee Benefits Inc.'s acquisition of 50% of Banyan Work Health Solutions in August.

In addition to M&A activity in the disability sector, Broadspire announced that it will expand its service offering organically to include disability and absence management services, starting in the fourth quarter of 2014. We believe that other TPAs are also looking to further develop their disability capabilities and will look to grow by acquisition in 2015 as well.

2015 TPA / Medical Management Outlook

While not necessarily a new trend, but one that we expect to continue to see, is increased bundling of TPA and medical management services in the sector. Part of this is being driven by customers, an increasing number of whom want "one-stop shopping" for TPA and medical management services, rather than having to contract with a number of different vendors providing services. The bundling of services allows the service provider to sell the more price-sensitive TPA services at breakeven or a loss, while making up the margin on the less cost- sensitive medical management services.

We also have seen a number of newer and startup medical management services businesses join the fray, and we expect this trend will continue. Given all of the consolidation in the sector, we expect disenfranchised individuals or teams will spin out of the newly consolidated entities to start their own businesses. At the RIMS and National Workers' Compensation & Disability conferences, we have noticed an increased number of these small, newer operations. We do not expect this trend to materialize in the TPA sector given the jurisdictional complexities, technological requirements and critical mass required, but these barriers to entry tend to be lower in the case management, independent medical exam and peer review sectors.

From an operational perspective, we expect that TPA services will continue to grow in the low to mid-single digits. The consolidation of 2-3 years ago has eliminated many of the weaker companies that, desperate to retain customers, would habitually underprice accounts. While there are still cases of underpricing happening, we hear about it less frequently than in past years. The economy has strengthened, and new business growth means more customers, employees and claims for TPAs to administer. Frequency will continue to decline as more and more companies adopt risk management solutions, but higher claims severity and economic growth will continue to drive top-line growth.

Margins on pure TPA services should continue to hold steady in the 5-10% range. While some larger competitors may be able to squeeze out a few more points of margin, the majority of the competition tends to fall within this range. Those TPAs that are able to bundle higher margin medical management services with TPA services should be able to realize margins in the 10-15% range on a blended basis.

Finally, we expect that the robust M&A activity will continue on the medical management services side, but be limited on the TPA side. Much of the M&A activity in medical management services sector is being driven by private equity firms, who tend to follow a pattern of first investing in large platform companies and then subsequently completing multiple add-on acquisitions to build out the platform's suite of services. The rationale of building diversified insurance services companies is simple, as companies that can offer customers a bundled suite of services have tended to trade for higher valuation multiples upon exit. An example is a company such as One Call Care Management, which traded for a double digit EBITDA multiple in 2013 and has since added network providers Network Synergy Group and MDN from GENEX in May 2014. We expect One Call Care Management and other large private equity-backed companies to continue to be active M&A participants in the medical management services sector in 2015.

2015 Conference Schedule

If you have an interest in meeting with us to hear more about our views on the sector and our transaction capabilities, we will be attending the 2015 PLRB Claims Conference in Anaheim, CA from March 29th to March 31st and the 2015 RIMS Annual Conference & Exhibition in New Orleans, LA from April 25th to April 27th. Please contact Jay Poorman at 312-854-2911 or Rocky Golem at 312-854-2912 to schedule a meeting.

Recent Transactions

StoneRidge Advisors completed the following transactions in the claims / medical management services sector in 2014 and early 2015.

NCA Group's Acquisition of All Valley Adjusters

NCA Group, Inc. acquired All Valley Adjusters in January 2015. The acquisition of All Valley Adjusters provides NCA Group with a strong West Coast commercial and residential loss adjusting operation. The transaction provides All Valley's owner with a liquidity event and eases the administrative burdens of operating a small loss adjusting company. StoneRidge Advisors acted as exclusive financial advisor to NCA Group on this transaction

Absentys's Sale to Sedwick

Absentys LLC was acquired by Sedgwick Claims Management Services, Inc. in December 2014. The acquisition of Absentys provides Sedgwick with a powerful software solution to help manage employee-absence and accommodation programs on behalf of self-insured clients. The transaction provides Absentys with access to the resources and client base of the industry's largest TPA. StoneRidge Advisors acted as exclusive financial advisor to Absentys on this transaction.

Aquiline's Acquisition of Worley

Aquiline Capital Partners LLC acquired Worley Companies, Inc. in October 2014. The acquisition of Worley provides Aquiline with a leading national residential loss adjusting platform. The transaction provided Worley's financial sponsors with a realization after a six-year holding period. StoneRidge Advisors acted as exclusive financial advisor to Aquiline on this transaction.

VCM's Sale to CCMSI

Vertical Claims Management was acquired by CCMSI in August 2014. The acquisition of VCM allows CCMSI to increase its presence in the niche medical professional liability TPA sector. The transaction provided VCM's financial sponsor with a liquidity event and gives VCM access to additional resources.

NCA GROUP

has acquired

All Valley Adjusters

The undersigned acted as financial advisor to NCA Group

STONERIDGE ADVISORS, LLC

January 2015

ABSENTYS

has been acquired by

sedgwick

The undersigned acted as financial advisor to Absentys

SRA SECURITIES, LLC

December 2014

AQUILINE CAPITAL PARTNERS LLC

acquired a majority equity stake of

WORLEY

The undersigned acted as financial advisors to Aquiline Capital Partners

STONERIDGE ADVISORS, LLC

October 2014

VCM

has been acquired by

CCMSI

The undersigned acted as financial advisor to Vertical Claims Management

SRA SECURITIES, LLC

August 2014

About StoneRidge Advisors

StoneRidge Advisors acted as exclusive financial advisor to VCM on this transaction.StoneRidge Advisors is an investment banking firm that specializes in the insurance industry. Our clients include property & casualty and life & health insurance companies, reinsurance companies, insurance brokerage, managing general agency, claims management and other related insurance service and technology 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
- Solvency Opinions

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