AMERISAFE, Inc.

Third-Quarter Results, Another Quarter of Exceeding Expectations, Industry Pricing Stabilizing a Bit

Highlights

- Third-quarter operating EPS (excluding realized investment losses) increased 30%, to $0.75, based on a fully converted share count, compared with our $0.50 per share estimate and consensus of $0.55 per share. Realized investment losses were only $0.10 per share. The upside to our estimate was driven once again by favorable loss reserve development ($0.21), as well as a favorable reinsurance commutation that was previously announced ($0.02). The average annualized return on equity exceeded an impressive 23% in the quarter and was greater than 21% for the first nine months. This quarter continues an amazing record, as AMERISAFE has exceeded the consensus EPS estimate for 11 straight quarters, or every quarter since the company's December 2005 IPO. This performance has been driven by a combination of conservative reserving practices, favorable claims trends, and improved claims handling.

- Gross written premium declined 6.6%, which was better than our 10% decline estimate—reflecting increased competition, lower state-mandated loss cost inputs, and lower premium audits given reduced work activity related to a slowdown in certain industry segments. We forecast a 9% decline for the year and 12% for the fourth quarter after a 1.4% decline in 2007. The competitive environment continued to intensify during the quarter, although management stated recent capital pressures (particularly AIG [AIG $2.15]) and recent catastrophe losses within the industry have increased the probability of seeing higher prices going forward, in its opinion. However, management also stressed that the degree of any improvement and the durability of any improvement is ambiguous and demand will also wane in a softening economy. These views have been generally consistent with the dialogue from other companies during this reporting season. Our view is that while tighter capital markets should put pressure on capital supply, we do not believe pricing will turn in any material way until commercial underwriters start to fall short of profit expectations. The industry is only a few quarters away from record profitability, and AMERISAFE itself has been generating record results over the past several quarters and this quarter released loss reserves from business written in 2007. We do not believe AMERISAFE will be very successful achieving any meaningful rate increases in a regulated market with record profitability until margins deteriorate more meaningfully.

Financial | Insurance

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Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Symbol:	AMSF (NASDAQ)
Price:	$16.76 (52-Wk.: $0-$22)
Market Value (mil.):	$289
Fiscal Year End:	December
Long-Term EPS Growth Rate:	12%
Dividend/Yield:	None

	2007A	2008E	2009E
Estimates			
EPS FY	$2.47	$2.50	$2.00
CY		$2.50	$2.00
Valuation			
FY P/E	6.8x	6.7x	8.4x
CY P/E		6.7x	8.4x

Trading Data (Thomson Financial)

Shares Outstanding (mil.)	19
Float (mil.)	16
Average Daily Volume	140,386

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	12.9
Book Value Per Share (MRQ)	11.6
Enterprise Value (mil.)	295.4
EBITDA (TTM)	82.4
Enterprise Value/EBITDA (TTM)	3.6x
Return on Equity (TTM)	23.8

Two-Year Price Performance Chart

Source: Thomson Financial, William Blair & Company estimates

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- The combined ratio was 79.4% compared with our 90.4% estimate—favorable development lowered the loss ratio by 9.3 percentage points, and the expense ratio was 20.3% compared with our 20.7% estimate given benefit from the favorable reinsurance commutation. The accident year loss ratio (losses estimated on business written in 2008) was booked at 68.1% in the third quarter, bringing the year-to-date ratio to 69.0% compared with 67.8% for all of 2007 (prior to reserve reductions during the year), an increase of 1.8%, or 1.2 percentage points. The increase in the accident year loss ratio is generally consistent with levels being booked by other companies, although directly comparing with other companies is a much more complicated exercise.

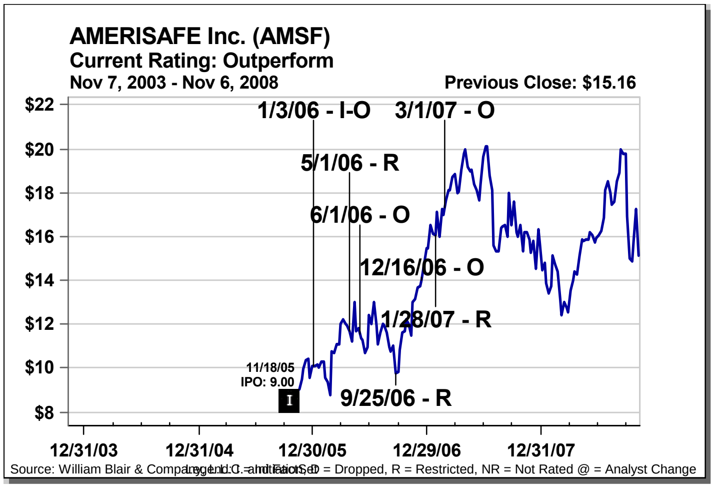
- Management increased its broad guidance of a combined ratio of 84% to 87% and a return on average equity of 17% to 21%. We estimate that a 20% return on average equity is consistent with the fourth-quarter consensus estimate of $0.55 per share, which we believe could be exceeded with further favorable loss reserve development.

- We have increased our fourth-quarter EPS estimate to $0.53 per share from $0.51 and our 2009 EPS estimate to $2.00 from $1.80. Our 2008 EPS estimate is now a record $2.50 and represents a return on equity of 19.9%.

- Our rating remains Outperform. We believe AMERISAFE remains one of the better managed small-cap specialty insurers, execution the past few years has been excellent, and the company could be purchased at a healthy premium—although we remain selective in the space. Fully diluted book value per share ended the quarter at $13.15. The shares trade at about 1.25 times diluted book value per share as of September 30, 2008, which is at a healthy and deserving premium to the overall commercial lines underwriting group. With the potential for some pricing stability within its business in the near term and excellent operating performance, AMERISAFE may prove to be one of the safer names on our entire coverage list over the next few quarters if financial markets remain particularly volatile.

William Blair & Company, L.L.C. is a market maker in the security of AMERISAFE, Inc. and may have a long or short position.

Additional information is available upon request.



Current Rating Distribution (as of 10/31/08)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	58	Outperform (Buy)	4
Market Perform (Hold)	41	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	1

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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