

AMERISAFE, Inc.

Quick First Look at Third-Quarter Results: Favorable Development Once Again Drives Outperformance; Premium Growth Really Feeling Weight of Weak Economy

Highlights

- Favorable development once again drove outperformance.** AMERISAFE's third-quarter operating EPS decreased 9.7%, to \$0.67, based on a fully converted share count, compared with our \$0.59 estimate and consensus estimate of \$0.54. Upside relative to our estimate was principally driven by \$6.7 million (roughly \$0.21 per share) of favorable loss reserve development, compared with \$5.2 million (roughly \$0.17 per share) of favorable development last quarter. We included \$3.5 million (roughly \$0.11) of favorable loss reserve development in our estimate. The company is holding a conference call on November 6 at 10:00 a.m. (Eastern time).
- Gross written premium growth under more severe pressure, not a complete surprise given business profile.** Gross written premium decreased 27%, meaningfully below our estimate of a decline of 8%, reflecting lower audit adjustments for policies written in prior periods and a decrease in voluntary premiums written during the quarter. The decline in growth this quarter was not a complete surprise given that the market remains competitive and recessionary pressures are mounting, particularly for workers' compensation insurers. For the past three quarters, the company has benefited from business taken from AIG (AIG \$39.28), and it remains to be seen whether additional opportunities this quarter once again mitigated broader pressure in the business.
- Margins remain ahead of expectation; benefit from favorable development.** The combined ratio was 79.3%, compared with our 84.8% estimate—favorable loss reserve development lowered the loss ratio by 11.5 percentage points. Given earlier reports this earnings season that continued to highlight benign claims inflation, we were expecting a benefit from favorable loss reserve development this quarter. The expense ratio was 21.6%, modestly above our estimate of 20.6% given pressure on top-line growth. Management has done an excellent job of managing expenses, but needs to maintain some level of adequate infrastructure. The accident-year loss ratio (losses estimated on business written in 2009) was booked at 68.9% in the third quarter, compared with the total year accident-year 2008 loss ratio of 68.0%, and relatively in line with our estimate of 69.2%.

Financial | Commercial P/C Insurance

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Stock Rating: **Market Perform**
Company Profile: **Aggressive Growth**

Symbol: AMSF (NASDAQ)
Price: \$18.62 (52-Wk.: \$13-\$22)
Market Value (mil.): \$351
Fiscal Year End: December
Long-Term EPS Growth Rate: 12%
Dividend/Yield: None

	2008A	2009E	2010E
Estimates			
EPS Q1	\$0.59	A\$0.54	NA
Q2	\$0.63	A\$0.67	NA
Q3	\$0.75	\$0.59	NA
Q4	\$0.94	\$0.60	NA
FY	\$2.90	\$2.40	\$2.10
CY		\$2.40	\$2.10

Valuation			
FY P/E	6.4x	7.8x	8.9x
CY P/E		7.8x	8.9x

Trading Data (Thomson Financial)

Shares Outstanding (mil.)	19
Float (mil.)	NA
Average Daily Volume	105,296

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	12.9
Book Value Per Share (MRQ)	11.6
Enterprise Value (mil.)	330.2
EBITDA (TTM)	70.6
Enterprise Value/EBITDA (TTM)	4.7x
Return on Equity (TTM)	15.1

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

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- **Rating remains Market Perform.** Our rating remains Market Perform and we will revisit estimates after the conference call. Fully diluted book value per share ended the quarter at \$15.66. The shares trade at about 1.19 times diluted book, which is a moderate premium to the overall commercial lines underwriting group, although there is probably not another publicly traded commercial underwriter that has matched AMERISAFE's financial performance relative to expectations over the past three years and the company remains well managed. We remain concerned about the negative impact on payroll growth (main driver of premiums) from the weaker economy and the underlying deterioration in profitability that will eventually catch up with underlying claims inflation.

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 10/31/09)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	64	Outperform (Buy)	3
Market Perform (Hold)	36	Market Perform (Hold)	0
Underperform (Sell)	0	Underperform (Sell)	0

*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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