

Equity Research

FINANCIAL
Insurance

February 07, 2008
Research Note

Ticker: AMSF
Market: NASDAQ
Price: \$15.40
52-week: (\$13-\$21)

Stock Rating:
Outperform

Company Profile:
Aggressive Growth

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AMERISAFE, Inc.

Preannounces Blowout Fourth-Quarter Expectations Given Reserve Releases—Difficult Competitive Environment Tempering Enthusiasm

FINANCIAL SUMMARY

Fiscal Year Ends:	December	Dividend/Yield:	\$0.00/0.0%
Long-term EPS Growth Rate:	12%	Market Value (mil.):	\$271

FISCAL YEAR	2006A	2007E	2008E
ESTIMATES *			
Earnings Per Share	\$1.64	\$2.51	\$2.00
VALUATION			
Price/Earnings Ratio	9.4x	6.1x	7.7x

* Estimates reflect the adoption of FAS 123R.

Highlights

> In front of an upcoming conference, AMERISAFE preannounced certain full year 2007 earnings expectations that imply huge upside to fourth-quarter earnings results.

> Based on full-year expectations of an 86% combined ratio and a 24% return on average equity, we forecast fourth-quarter operating EPS of \$0.96 compared with our previous \$0.54 per share estimate and consensus of \$0.56 per share. All of the upside is driven by a reduction in loss reserve for business written in prior periods (about \$0.30 per share) and an adjustment to bring the 2007 accident year loss ratio (for business written this year) down by a full percentage point (about \$0.09 per share). AMERISAFE typically reviews its loss reserves more thoroughly in the fourth quarter and business written in prior years continues to develop very favorably, which is consistent with the trend across the industry. The company also typically updates its loss estimate for the year in the fourth quarter. Management also takes a conservative view earlier in the year given that the company's workers' compensation business can be marked by a couple of severe claims in any one period.

> Gross written premium for the year is expected to total \$328 million, at the low end of management's recently reduced guidance, which implies a decline of about 19% in the fourth quarter given a continued increase in the competitive environment. We believe this is the company's largest decline in growth since before the September 11, 2001, tragedies that changed the commercial property-casualty insurance cycle. We see no reasonable scenario in which pricing will not be under pressure over the next year or two as underwriters continue to react to record underwriting profitability over the past few years. We forecast a 10% decline in gross written premium in 2008.

William Blair & Company, L.L.C. has received compensation for investment banking services within the past 12 months or expects to receive or intends to seek compensation for investment banking services in the next 3 months from AMERISAFE, Inc.
Please consult the last page of this report for all disclosures.

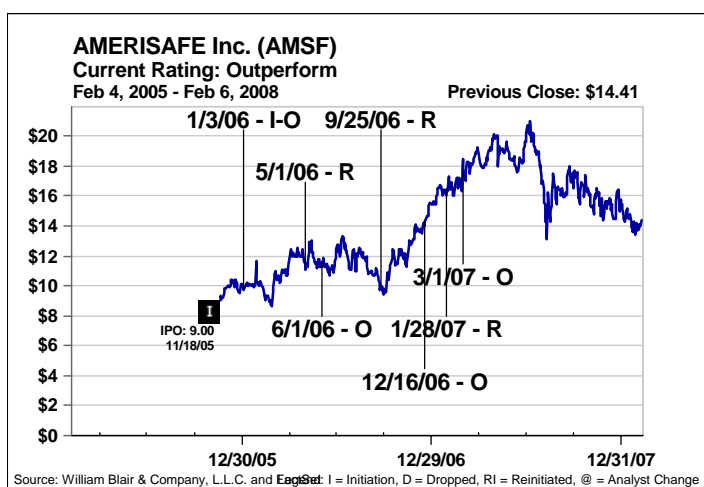
> We are increasing our fourth-quarter EPS estimate to \$0.96 from \$0.54 and our 2007 EPS estimate to \$2.51 from \$2.09, compared with \$1.64 in 2006. We are increasing our 2008 EPS estimate to \$2.00 from \$1.90 given expectations of further loss reserve releases, and we are introducing a 2009 EPS estimate of \$1.80. We forecast an accident year loss ratio of 70% in 2008 compared with 68% in 2009.

> Our rating remains Outperform. While the competitive environment will continue to pressure underlying profitability, we believe AMERISAFE is a well-run specialty underwriter, the valuation is reasonable at only 1.33 times our estimate of diluted book value per share as of December 31, 2007, and we view AMERISAFE as an attractive acquisition candidate in an industry that is likely to see continued heightened consolidation activity in the near term, in our opinion.

William Blair & Company, L.L.C. was a manager or co-manager of a public offering of equity securities for AMERISAFE, Inc. within the prior 12 months.

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 2/1/2008)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	59	Outperform (Buy)	13
Market Perform (Hold)	40	Market Perform (Hold)	6
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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Stock Rating: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings reflect the expected performance of the stock relative to the broader market over the next 12 months. The assessment of expected performance is a function of near-term company fundamentals, industry outlook, confidence in earnings estimates, valuation, and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; Not Rated (NR) – the stock is currently not rated.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) –

Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

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