Greetings friends of Stonybrook Capital,

It is an exciting time in investment banking industry, with much of the activity in the mutual sector of the insurance industry. Long a relatively quiet sector of the industry, the mutual insurance company space has been anything but quiet over the last few years. We expect that activity to accelerate over the next 24 to 36 months both through mergers and acquisitions, as well as through capital raises. Stonybrook's forecast takes into account a number of factors, including:

(1) **Cultural:** First, mutual company leadership have become more motivated, ambitious, and comfortable completing financial transactions, especially with regard to consummating inorganic growth strategies (i.e. corporate development other than organically growing one policy at a time). This strategy creates opportunity for mergers and acquisitions; often coupled with a need for additional capital. With more transactions involving mutual companies, there are a greater number of customary structure and valuation precedents from which bankers and management teams can follow. Second, rating agencies and regulators become more familiar, comfortable, and accepting with/of such transactions, as the roster of precedents increase.

(2) **Perception of the future of private passenger auto:** Many mutual insurance companies have substantial private passenger auto ("PPA") books of business in their portfolio. The mutual world is overweight in PPA – a line of business that consultants estimate ~50% of the exposures (i.e. rate/premiums) could vanish over the next ten to 20 years. Driverless cars, safety features, ridesharing…the list of reasons goes on. With this dependence on PPA, mutual companies, more so than stock companies, need to find a way to replace this revenue.

(3) Technology: Many smaller mutual insurance companies struggle to keep up with the required investment in systems and technology. Without private equity or public shareholders, and with a loyal customer base and agency relationships, many smaller mutual companies have been able to postpone material investment in upgrading legacy systems. However it is now necessary to make the investment in order to compete and face cybersecurity regulations (for example). Companies now face an outsized spend related to the size of their book of business. This can be a catalyst for a change of control transaction – a smaller company merging with a larger and better capitalized partner. Stonybrook can help with this required capital investment and/or conversion to a more modern system or platform.

(4) Rating Agencies: The rating agencies are also driving the need for size and scale. Buzz words such as 'diversification' or 'peer performance' are overused, but, simply, rating agencies tend to be biased against smaller insurance carriers.

Further it can be more challenging for a mutual to raise capital than its stock peers, thereby putting even more pressure on the rating. Rating agencies appear to be getting tougher and tougher every year on capital adequacy, creating yet another catalyst for mergers and acquisitions amongst smaller insurance carriers, including mutuals.

(5) Structural Changes: Beyond capital raises and mergers and acquisitions, Stonybrook is seeing and expects an increase in structural changes. The exact number of full demutualizations is unknown, however the mutual holding company structure is seeing growing popularity. American Family (Madison, Wisconsin) recently announced plans to create a mutual holding company, which could be the largest adoption of the mutual holding company structure in 15 years, since Liberty Mutual in 2001. Nodak Mutual (Fargo, North Dakota) filed all of the required documents to raise capital and an IPO of a newly created mutual holding company – a structure which had seemed to be "going away". As activity increases, affiliations, pooling agreements, mutual quota share arrangements seem to be more and more common.

Stonybrook Capital is a small specialist investment banking firm. One key focus is the mutual industry. The team takes the time to conduct "deep dive" analyses on the sector and have informed, current, and bold perspectives. Since founding the firm almost five years ago, the team has closed numerous transactions in the mutual or "non-stock" sector and sold a material portion of Stonybrook's own investment bank to a world class strategic business advisor and reinsurance intermediary which specializes on primarily mutuals – HOLBORN Corporation. By way of reference, HOLBORN was awarded ***Best Reinsurance Broker for Expertise and Market Knowledge*** (Source: Intelligent Insurer – reinsurance intermediaries with revenues of less than $1 billion) - a pretty big distinguishing characteristic relative to peers, for both HOLBORN as well as Stonybrook Capital.

I hope to see you all at the upcoming NAMIC Management Conference, and if not, sooner.

Thank you for your attention,

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