

## Amerisafe, Inc. (AMSF: NASDAQ)

Financial Analysis By: Jacky Cheng – Financials

### Company Profile as of 2/19/2015

Market Price: \$43.61  
 Industry: Insurance  
 Market Cap: \$821.43M  
 52-Week: \$35.15-45.95  
 Beta: 0.68

<u>Source</u>	<u>Target Price</u>	<u>Recommendation</u>
Siena	\$48.67	LIMIT BUY
Capital IQ	\$50.33	BUY
Yahoo Finance	\$50.33	BUY
Bloomberg	\$50.33	BUY



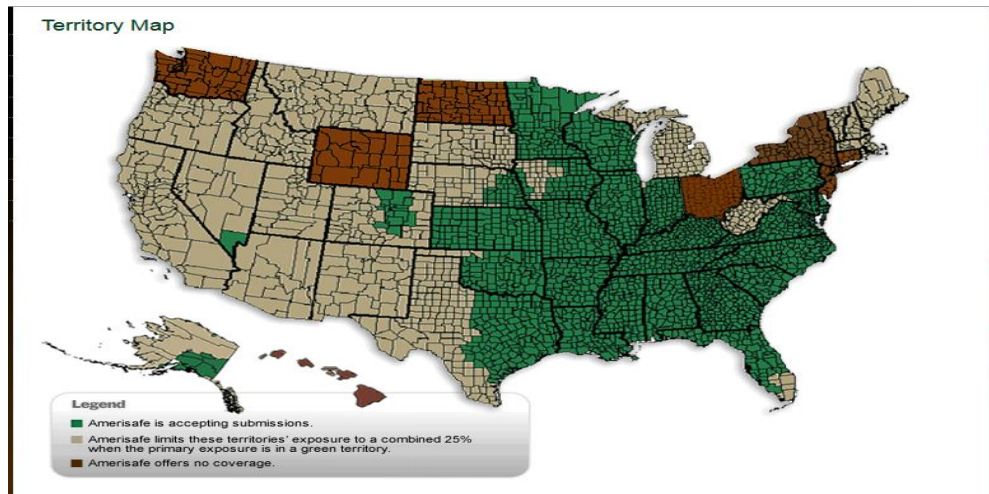
### Thesis

- No Debt in Balance Sheet/Excess Cash
- Management Focus on Shareholders' Value
- Dividend Growth

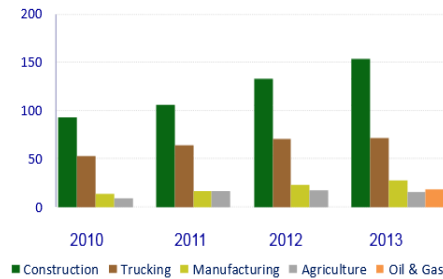
I would LIMIT BUY Amerisafe, Inc. at \$44.25 with the target price of \$48.67. Management has a strong incentive in creating value in shares from its stocks awards, non-equity incentives, and the long-term incentive compensation program placed. Since going debt free, there are still signs of growth in the financials from the increase in insurance premium. Dividends have been given out of its shareholders with the excess cash and it is foreseen that the dividend growth will steadily increase in the long run with special dividends given out once per month.

## Company Overview

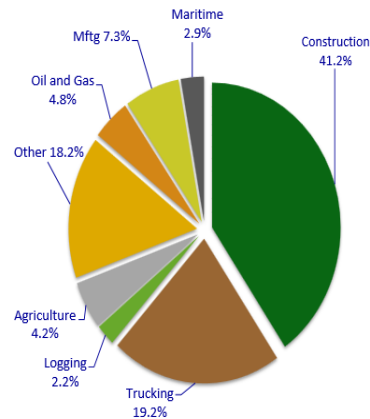
Amerisafe, Inc. is an insurance company that provides workers' compensation insurance focused on small to mid-sized employers in the hazardous industries, principally construction, trucking, logging, agriculture, oil and gas, maritime, and sawmills. Its insurance policies provide various benefits to injured employees for temporary and permanent disability, death, and medical and hospital expenses. Based in Deridder, Louisiana, the company actively markets workers' compensation insurance in 35 states and the District of Columbia.



**Historical Premium Distribution of Major Industry Groups**  
(in \$ millions)



**Premium Distribution by Industry as of 12/31/13**

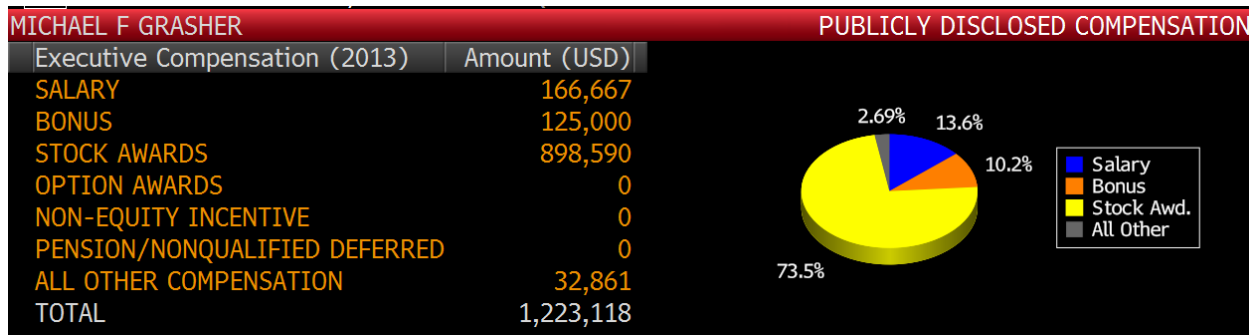


## Management

Amerisafe, Inc. is led by C. Allen Bradley, Jr. who is the Chairman since October 2005 and CEO since June 2003. C. Allen has been with the company serving in a variety of positions since September 1997. He has been with the company beginning in 1994. Currently, his bonus was dropped this year and was given instead 39.5% in non-equity incentive. Allen receives 28.9% in salary showing that there is motivation to have the company perform well with the rest being stock awards, non-equity incentive and all other compensations.

C ALLEN BRADLEY JR		PUBLICLY DISCLOSED COMPENSATION	
Executive Compensation (2013)	Amount (USD)		
SALARY	527,500		
BONUS	0		
STOCK AWARDS	556,500		
OPTION AWARDS	0		
NON-EQUITY INCENTIVE	722,099		
PENSION/NONQUALIFIED DEFERRED	0		
ALL OTHER COMPENSATION	22,048		
<b>TOTAL</b>	<b>1,828,147</b>		

Michael F. Grasher is the Executive Vice President and CFO and has been serving since May 2013. Prior to joining the company, Mr. Grasher was Sr. Vice President, Capital Markets, at Fortegra Financial Corporation, a financial services holding company and spent the previous 8 years as a sell-side equity analyst covering the property-casualty industry. Michael's compensation consists of 13.6% in salary while the majority of the compensation is in stock award at 73.5%. This shows that there is a huge incentive in the company performance.



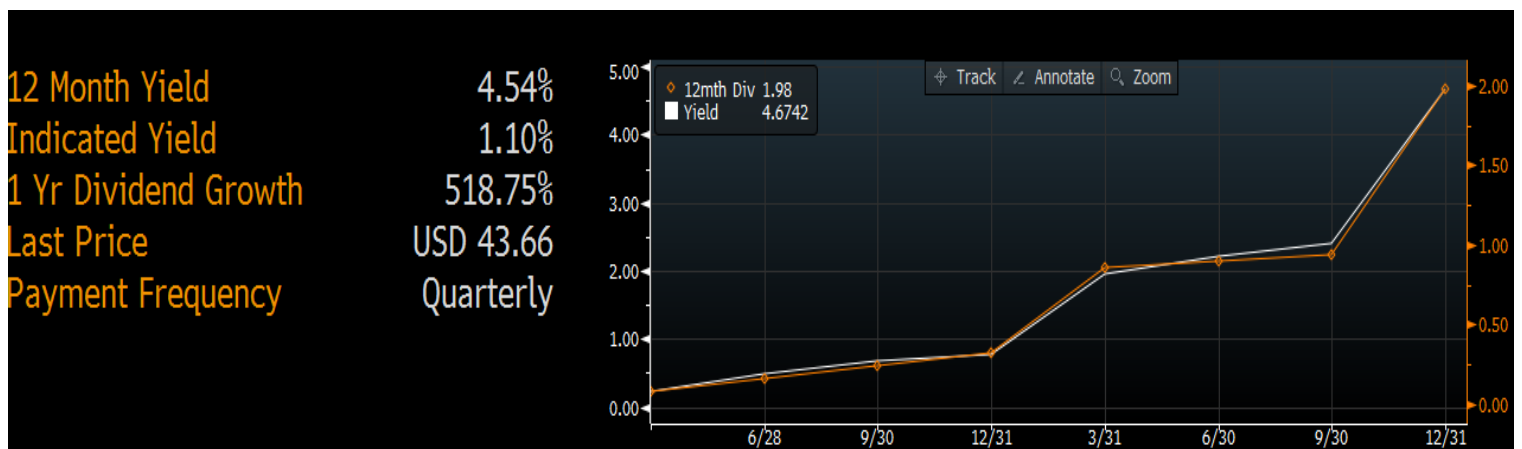
The Compensation Committee put together a long term incentive compensation program in 2012 for executive management which provides performance awards that reward exceptional financial performance relative to a peer group of property and casualty insurers and is in alignment with shareholder returns. This was placed with the intention to retain and attract executive personnel to the company. Michael F. Grasher does not apply to this program due to his recent joining to the management team.

**Capital Structure:**

Amerisafe, Inc. current capital structure became 100% equity and 0% debt after paying off all of their debt by Q3 2012. Since the capital structure has been 100% equity, the cash has increased from \$45.5 million to \$123.1 million. Since going all equity, the company has started to pay out dividends, discussed below. This excess cash can be used to possibly acquire other companies. It is not foreseen that they will use the cash to reinvest into the company to further grow the company.

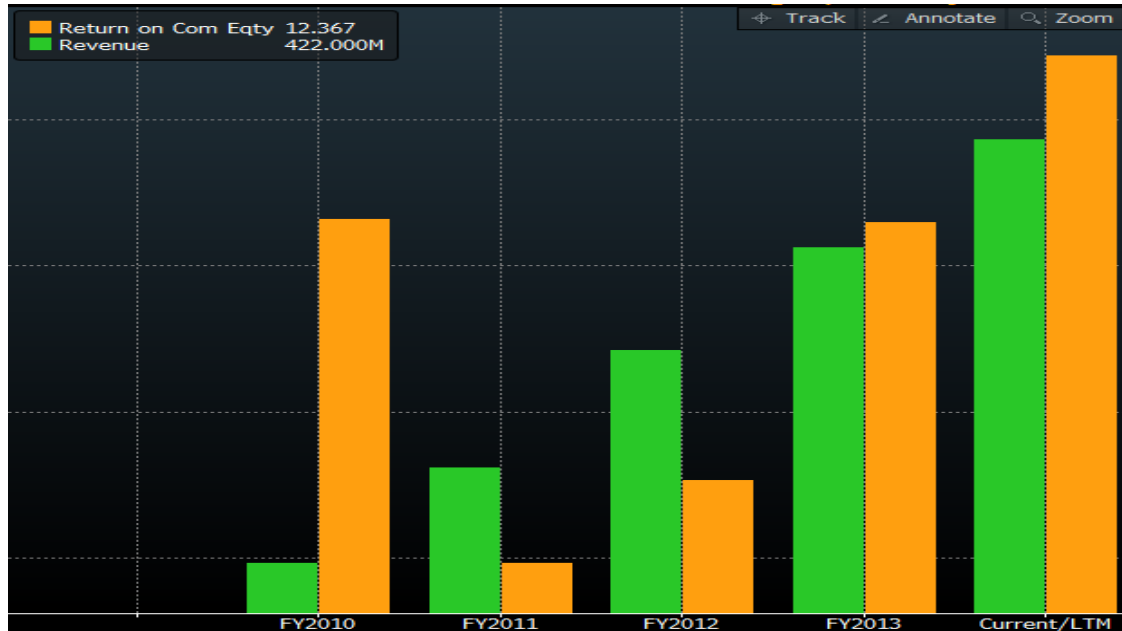
**Dividend Growth:**

Amerisafe, Inc. started to give dividends to its shareholders starting in March 2013 and has seen dividend growth since. Starting at \$0.08 per share, it has increased to \$0.12 per share the following year. There has also been two special dividend issued in the same year, one in March 2014 of \$0.50 per share and \$1.00 in Dec 2014. It is projected that there will be an increase in dividend to \$0.14 per share. Management plans to give out special dividends once a year rather than giving out two like in 2013.



### Financials:

Despite going debt free in the capital structure since 2012, there is still growth in its financials. Revenue has been steadily growing from \$280.7 million in 2011 to \$356.3 million in 2013. This is primarily from the growing premium rate in workers compensation insurance resulting in greater revenue increase. It is projected that the revenue will still grow at a stable rate due the growing premium rate in workers compensation. ROE has also been growing from 7.12 in 2011 to 12.76 in 2013. Management would like to maintain the growth rate at this level.



### Conclusion:

I would BUY Amerisafe, Inc. at \$44.25 with the target price of \$48.67. Management has a strong incentive in creating value in shares from its stocks awards, non-equity incentives, and the long-term incentive compensation program placed. Since going debt free, there are still signs of growth in the financials from the increase in insurance premium. Dividends have been given out of its shareholders with the excess cash and it is foreseen that the dividend growth will steadily increase in the long run with special dividends given out once per month.

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Americasafe, Inc.		Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL	
AMSF		JACKY CHENG	\$43.29	\$45.87	\$49.22	1%	14.79%		
General Info		Peers	Market Cap.	Management					
Sector	Financials	State Auto Financial Corp.	\$965.18	<b>Professional</b>	<b>Title</b>	<b>Comp. FY2011</b>	<b>Comp. FY2012</b>	<b>Comp. FY2013</b>	
Industry	Insurance	ProAssurance Corporation	\$2,616.74	Bradley, C.	Chairman, Chief Executive	\$ 964,035.00	\$ 1,602,931.00	\$ 1,828,147.00	
Last Guidance	(Invalid Identifier)	Employers Holdings, Inc.	\$677.01	Frost, G.	President and Chief Opera	\$ 380,344.00	\$ 548,303.00	\$ 1,645,308.00	
Next earnings date	2/26/2015	RLI Corp.	\$2,115.50	Grasher, Michael	Chief Financial Officer, Pri	-	-	\$ 1,223,118.00	
<b>Market Data</b>		AmTrust Financial Services, Inc.	\$4,485.05	Gagliano, Vincent	Chief Technology Officer a	-	-	\$ 1,121,816.00	
Enterprise value	\$696.30	The Hanover Insurance Group, Inc	\$3,160.47	Gau, Brendan	Chief Investment Officer ar	\$ 305,342.00	\$ 408,582.00	\$ -	
Market Capitalization	\$814.84	United Fire Group, Inc	\$746.90	Shirley, Kathryn	Senior Vice President, Ger	-	-	\$ -	
Daily volume	0.04	Cincinnati Financial Corp.	\$8,590.16	<b>Historical Performance (10y Median)</b>					
Shares outstanding	18.82	Hallmark Financial Services Inc.	\$202.10			<b>AMSF</b>	<b>Peers</b>	<b>Industry</b>	<b>All U.S. firms</b>
Diluted shares outstanding	18.88	<b>Current Capital Structure</b>			Growth	3.7%		6.6%	6.0%
% shares held by institutions	101.88%	Total debt/market cap	0.00%	Retention Ratio	18.6%		44.8%	61.6%	
% shares held by insiders	2.33%	Cost of Borrowing	0.00%	ROIC			14.6%	11.8%	
Short interest	1.02%	Interest Coverage		EBITA Margin	16.7%	14.7%	16.2%	13.7%	
Days to cover short interest	2.53	Altman Z		Revenues/Invested capital	110.6%	83.4%	103.9%	202.3%	
52 week high	\$45.95	Debt Rating	AAA	Excess Cash/Revenue	36.9%	16.2%	31.2%	18.5%	
52-week low	\$35.15	Levered Beta	0.70	Unlevered Beta	0.69	0.67	0.64	0.95	
5y Beta	0.68	WACC (based on market value wei	6.58%	TEV/REV	1.2x	1.3x	1.4x	2.4x	
6-month volatility	22.45%				TEV/EBITDA	6.5x	8.2x	8.9x	11.3x
<b>Past Earning Surprises</b>				TEV/EBITA	6.6x	8.5x	10.6x	15.4x	
				TEV/UFCF	14.1x	35.7x	18.5x	26.8x	
				<b>Non GAAP Adjustments</b>					
				Operating Leases Capitalizat	100%	Straightline		10 years	
				R&D Exp. Capitalization	0%	N/A		N/A	
				Expl./Drilling Exp. Capitalizati	0%	N/A		N/A	
				SG&A Capitalization	0%	N/A		N/A	
		<b>Proforma Assumptions</b>		<b>Forecasted Profitability</b>					
		<b>Period</b>	<b>Rev. Growth</b>	<b>Adj. Op. Cost/Rev</b>	<b>Revenue</b>	<b>NOPLAT</b>	<b>Invested capital</b>	<b>UFCF</b>	
Operating Cash/Cash		LTM	12%	80%	\$393.44	\$63.04	\$369.61	\$8.10	
Unlevered Beta		LTM+1Y	6%	82%	\$417.59	\$51.70	\$386.98	\$23.77	
Rev/Invested Capital		LTM+2Y	5%	81%	\$436.81	\$53.76	\$412.27	\$28.48	
Continuing Period Revenue Grc		LTM+3Y	4%	81%	\$454.53	\$55.34	\$442.60	\$25.00	
Long Term ROIC		LTM+4Y	4%	80%	\$471.32	\$57.80	\$474.49	\$25.91	
Invested Capital Growth		LTM+5Y	3%	80%	\$487.67	\$59.81	\$508.55	\$25.75	
Justified TEV/REV		LTM+6Y	3%	80%	\$503.87	\$62.79	\$544.07	\$27.27	
Justified TEV/EBITDA		LTM+7Y	3%	80%	\$520.06	\$65.10	\$581.47	\$27.71	
Justified TEV/EBITA		LTM+8Y	3%	80%	\$536.36	\$67.09	\$620.47	\$28.08	
Justified TEV/UFCF		LTM+9Y	3%	80%	\$552.82	\$69.12	\$661.08	\$28.52	
<b>Valuation</b>									
		<b>ROIC</b>	<b>WACC</b>	<b>EVA</b>	<b>Enterprise Value</b>	<b>Total Debt</b>	<b>Other claims</b>	<b>Equity</b>	<b>Adjusted Price</b>
<b>LTM</b>		20.0%	6.6%	\$33.60	\$780.13	\$0.00	-\$78.88	\$859.01	\$46.83
<b>LTM+1Y</b>		13.9%	6.7%	\$27.52	\$788.02	\$0.00	-\$128.88	\$916.90	\$49.97
<b>LTM+2Y</b>		13.9%	6.8%	\$29.03	\$810.47	\$0.00	-\$160.68	\$971.15	\$52.74
<b>LTM+3Y</b>		13.4%	6.9%	\$28.63	\$836.57	\$0.00	-\$190.40	\$1,026.97	\$55.79
<b>LTM+4Y</b>		13.1%	7.0%	\$28.50	\$864.71	\$0.00	-\$222.31	\$1,087.02	\$59.05
<b>LTM+5Y</b>		12.6%	7.1%	\$27.72	\$895.24	\$0.00	-\$255.15	\$1,150.40	\$62.68
<b>LTM+6Y</b>		12.3%	7.2%	\$27.71	\$928.15	\$0.00	-\$290.38	\$1,218.54	\$66.19
<b>LTM+7Y</b>		12.0%	7.3%	\$26.82	\$963.08	\$0.00	-\$326.91	\$1,289.99	\$70.07
<b>LTM+8Y</b>		11.5%	7.4%	\$25.35	\$1,000.72	\$0.00	-\$364.64	\$1,365.36	\$74.13
<b>LTM+9Y</b>		11.1%	7.5%	\$23.72	\$1,041.29	\$0.00	-\$402.40	\$1,443.69	\$76.70
<b>Monte Carlo Simulation Assumptions</b>									
		<b>Base</b>	<b>Stdev</b>	<b>Min</b>	<b>Max</b>	<b>Distribution</b>	<b>Monte Carlo Simulation Results</b>		
<b>Revenue Variation</b>		0	10%	N/A	N/A	Normal	<b>Mean est.</b>	\$46.83	\$49.97
<b>Op. Costs Variation</b>		0	10%	N/A	N/A	Normal	<b>σ(ε)</b>	\$0.32	\$0.25
<b>Market Risk Premium</b>		6%	N/A	5%	7%	Triangular	<b>σ(ε) adjusted pric</b>	\$45.87	\$49.22
<b>Long term Growth</b>		3%	N/A	3%	7%	Triangular	<b>Current Price</b>	\$43.29	
<b>Terminal Value</b>		0	0.1	N/A	N/A	Normal	<b>Analysts' median est.</b>		\$50.33