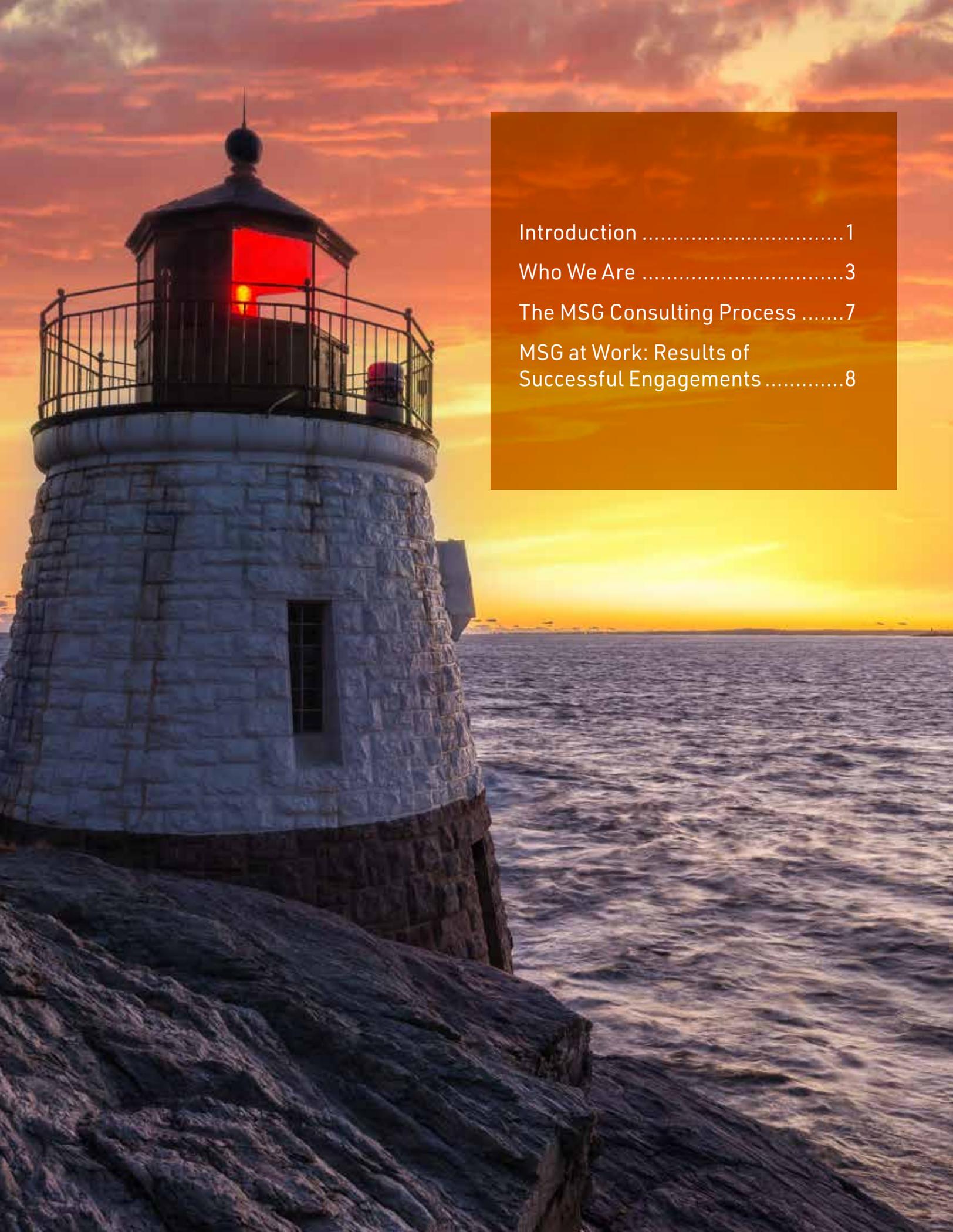


Improving Bottom-Line Performance for Private Equity Firms

A New Paradigm in Risk Management

MSG 
RISK MANAGEMENT
& INSURANCE CONSULTING



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Bringing Total Independence, Proper Competition and Technical Skills to the Risk Management Process

What would it mean to your returns if some of your portfolio companies were significantly overpaying for their insurance coverage or had inadequate coverage? What if every company in your portfolio was overpaying for coverage or if a major loss occurred and it was not covered?

Depending on the size of the portfolio, these excess premiums could amount to millions—or even tens of millions of dollars—reducing portfolio company earnings and the total returns. Gaps in coverage could cost even more. This is a problem we see again and again as we assist private equity portfolio companies in their search for the right coverage at the right price for the full range of business-related risks.

An Outdated Model

Insurance coverage of many types is a perennial cost of doing business. Premium overpayments occur because portfolio companies are at a significant disadvantage when dealing with brokers and insurers to obtain coverage to protect their assets. Typically, portfolio companies (even those with good internal risk management departments) lack the necessary expertise to understand the intricate complexities of insurance policies, and to ensure their broker is correctly assessing risk and pushing carriers for competitive pricing.

At the same time, portfolio companies usually operate on a playing field that is tilted in favor of the insurance industry. That's because the insurance industry delivers its commercial products and services through the brokers. The brokers, although they technically represent the client, are the sales force for the insurers they represent. They receive commissions and fees from them for the sales they make.

This system creates inefficiencies and potential conflict between the interest of the portfolio companies purchasing insurance on the one hand, and the brokers and carriers selling the insurance products and services. This results in a possible economic disadvantage for the portfolio companies.

In light of these inefficiencies and potential conflicts of interest, portfolio companies face an imperfect insurance market when seeking coverage to manage their business risks. In particular, they may be unaware of the broad range of insurance products and providers available to them in any particular coverage category.

They may also be unaware of the significant variations in premium rates for any given type of coverage.

Thus, given the current structure of the insurance marketplace, the best way to overcome the potential conflicts and successfully negotiate the optimum coverage while minimizing premiums, is to access a truly independent third-party resource—one that demonstrates superior technical knowledge of coverage and the general insurance market, as well as the ability to professionally advise and negotiate the right policies at the most competitive price.

A New Paradigm - MSG Consulting

Fortunately, there is a solution to this problem. MSG Consulting, a world-class independent and unbiased insurance consulting firm, offers a complete package of services designed to put your portfolio companies on a level playing field with the insurance brokers and carriers they face when seeking coverage.

MSG Consulting represents a new paradigm in the insurance market—a truly independent consultant that provides its clients with the appropriate intellectual capital to be on equal footing when securing the proper coverage and services from the insurance industry establishment.

With a broad range of experience and expertise, we know the insurance industry inside out—everything from property and casualty (P&C) and umbrella coverage, to directors' and officers' (D&O), errors and omissions (E&O), representations and warranties (R&W), business interruption and a lot more.

Our team of insurance and risk management professionals is dedicated in guiding each client portfolio company through a unique proprietary consulting process: beginning with a detailed risk management audit and insurance contract review; to recommendations for optimal coverage; and the management of a process to solicit competitive bids from brokers and carriers; intensive bid evaluations; to final negotiations for competitive premiums available in the industry worldwide.

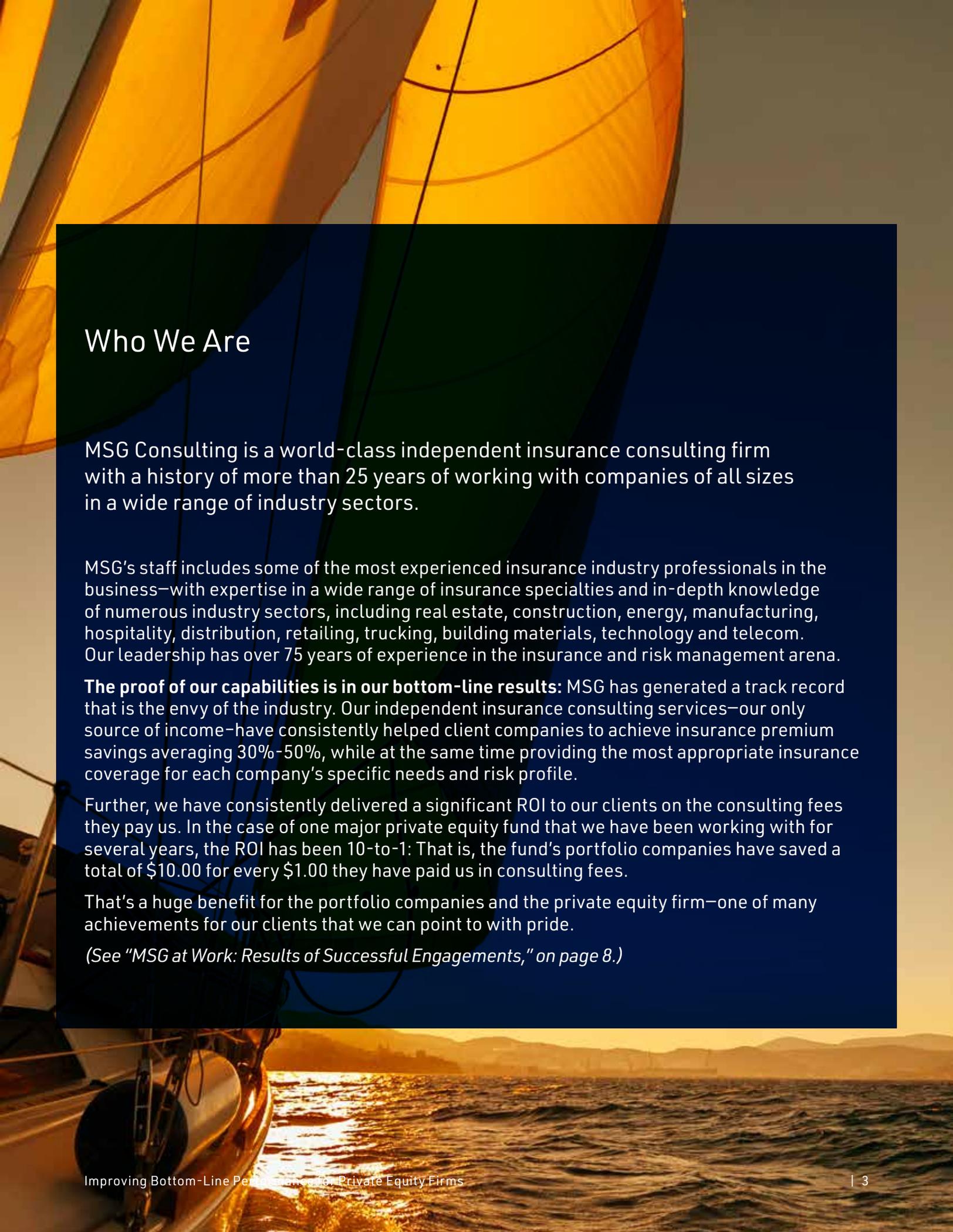
MSG is, in part an outsourced adjunct to your portfolio company's risk management function. We can assist your internal risk management efforts or perform the entire function of a risk management department, both in terms of locating the best values for your business coverage. MSG can also help in the design of a true risk reduction program. An effective risk reduction program can decrease overall costs further both directly through premium savings and indirectly through loss prevention and claims reduction

The overall results of our independent process are a bottom line benefit for the portfolio company and enhanced long-term ROI for the private equity firm.

An Arsenal of Superior Intellectual Capital Delivers Results

Our years of experience represent a huge storehouse of superior intellectual capital—encompassing a thorough understanding of the insurance industry and how to deliver significant value for your portfolio companies' premium dollar.

Because of this intellectual capital, we are experts in risk analysis, risk measurement and risk management. With these capabilities, we know precisely how to evaluate specific offers of insurance coverage and premium costs—and if the cost is too high, we know how to advocate the reasons why the premium should be in line with the agreed-upon strategic goals of the portfolio company.



Who We Are

MSG Consulting is a world-class independent insurance consulting firm with a history of more than 25 years of working with companies of all sizes in a wide range of industry sectors.

MSG's staff includes some of the most experienced insurance industry professionals in the business—with expertise in a wide range of insurance specialties and in-depth knowledge of numerous industry sectors, including real estate, construction, energy, manufacturing, hospitality, distribution, retailing, trucking, building materials, technology and telecom. Our leadership has over 75 years of experience in the insurance and risk management arena.

The proof of our capabilities is in our bottom-line results: MSG has generated a track record that is the envy of the industry. Our independent insurance consulting services—our only source of income—have consistently helped client companies to achieve insurance premium savings averaging 30%-50%, while at the same time providing the most appropriate insurance coverage for each company's specific needs and risk profile.

Further, we have consistently delivered a significant ROI to our clients on the consulting fees they pay us. In the case of one major private equity fund that we have been working with for several years, the ROI has been 10-to-1: That is, the fund's portfolio companies have saved a total of \$10.00 for every \$1.00 they have paid us in consulting fees.

That's a huge benefit for the portfolio companies and the private equity firm—one of many achievements for our clients that we can point to with pride.

(See "MSG at Work: Results of Successful Engagements," on page 8.)

Avoid the “Free Due Diligence” Conundrum

MSG is unique in the insurance consulting industry. We provide a truly independent source of analysis, advice, guidance and negotiating capabilities. We are an advocate for your portfolio companies when dealing with the insurance industry—seeking the right insurance coverage for the company at the right price.

We provide a strong offset to the competitive advantages of the insurance brokers and carriers, leveling the playing field.

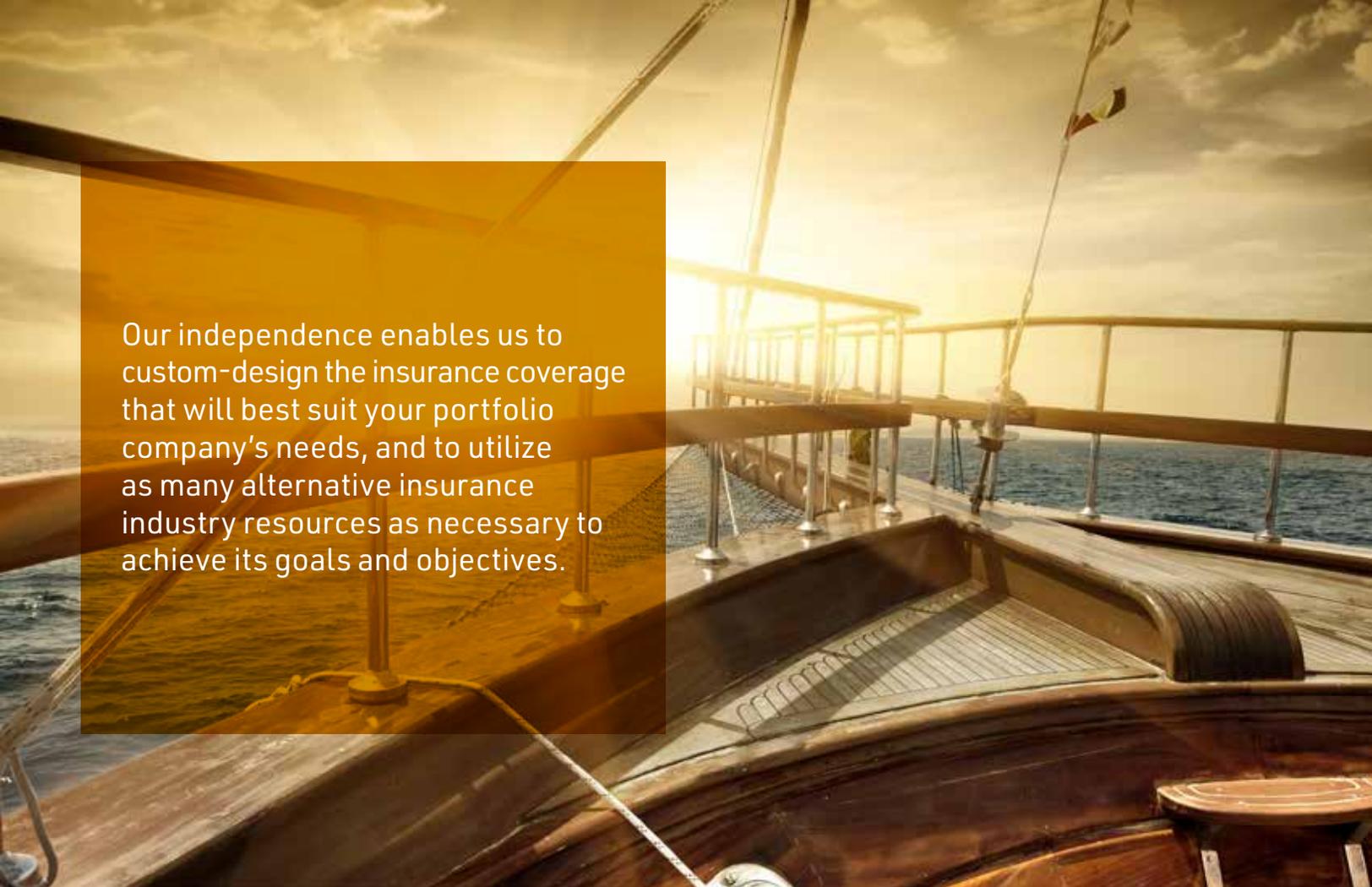
One source of potential conflict is the practice by which an insurance broker, either during the due diligence process or a risk management audit, offers to perform the audit and/or due diligence at “no charge” to the portfolio company or you. However, the quid pro quo to this offer is that the portfolio company and/or acquisition target, if acquired, is required to purchase its coverage through that particular broker.

A company that accepts this offer may not necessarily be getting a completely independent analysis or the best value for its portfolio company. Further, it may cause senior management at the portfolio company to be upset by having a relationship with their current broker and/or provider eliminated without appropriate representation and/or benefit.

Our independent consulting advice provides an atmosphere in which current relationships are professionally reviewed and current risk management placements audited. We then provide a professionally managed fair and competitive process to maximize benefits for the private equity investor as well as the portfolio management team. The best of both worlds is achieved!

Pre-Acquisition Due Diligence

MSG regularly assists private equity funds with Pre-Acquisition Due Diligence. When evaluating a potential acquisition, MSG conducts a comprehensive due diligence process that analyzes the risk management issues involved and recommends insurance-related actions where necessary. In many cases, we find significant potential insurance savings that can make a financial impact in getting a deal done.



Our independence enables us to custom-design the insurance coverage that will best suit your portfolio company's needs, and to utilize as many alternative insurance industry resources as necessary to achieve its goals and objectives.

We Are Completely Independent

Our only loyalty is to our clients – i.e., the private equity funds and their portfolio companies that hire us. We focus completely on improving your portfolio company's risk management program.

We are paid exclusively by our clients for the risk management consulting services we provide. We do not have any contracts or agreements with any brokerage or insurance carrier. We receive no commissions or fees from brokers and/or insurers or agents.

Our independence enables us to custom-design the insurance coverage that will best suit your portfolio company's needs, and to utilize as many alternative insurance industry resources as necessary to achieve its goals and objectives.

Leverage Our Knowledge and Experience

From years of experience, we understand insurance and risk management, and the types and amounts of coverage that are right for specific risks. And we understand the insurers' underwriting standards that go into the setting of particular types of coverage and particular premium levels.

With this combination of capabilities, we are able to judge whether a broker's offer of a particular type of coverage at a particular premium, is appropriate—or whether, for example, it is too little coverage at too high a premium.

We know when an offer is not as good as it could be. And we know when a policy contract “looks right” and when it doesn't. If an offer doesn't look right, based on our experience, we present competitive alternatives and provide the reasons why the offer should be modified to provide the proper coverage at the desired premiums.

Our Strong Record of Achievement

For over 25 years, the professionals of MSG have assisted client companies in analyzing their current risk management and insurance programs, and helping them to get the right amount of coverage at the best available rates.

Our record of accomplishment validates our independence, our capabilities and the unique process we employ to achieve these solid results. Here's the record:

We have consistently achieved savings averaging 30%-50% on portfolio company premiums while providing the right insurance coverage to protect all of their assets.

Clients using our services have leveraged substantial ROI benefits from the premium savings they have experienced. The multiples are always significant and in one recent case, a major private equity fund achieved a 12:1 ROI on the premium savings vs. their consulting fee paid to us.

Premium savings have created new value for portfolio companies: Each dollar of savings increases valuation by approximately 10x—adding to exit value and long-term portfolio returns.

The experts at MSG are dedicated to working with private equity firms and their portfolio companies to assess their current risk management programs, to recommend changes and enhancements where necessary, to improve internal risk management processes and to obtain insurance coverage at the most competitive premiums in the industry. We serve clients ranging in size from middle market to very large multinational corporations—in a wide range of industries and locations.

Key Distinguishing Features of the MSG Approach

Combining our experience and intellectual capital, here are some of the key elements of our unique consulting approach, and how they benefit your portfolio companies:

Establish Benchmarks. Based on our experience with a wide range of clients, for each client engagement we establish benchmarks to evaluate insurance transactions and offers from a variety of brokers and insurers.

Competitive Framework. We also establish a competitive framework for developing and evaluating bids on every type of insurance required.

Solicit Bids from the Marketplace. After we have established the risk management goals and an appropriate strategy, we prepare an RFP which clearly outlines the terms, services and coverages we are seeking for each type of insurance desired. Meetings are then arranged when required with insurers and brokers for the personal presentation of the RFP which outlines all the deliverables. This also allows the portfolio company to convey their exposures in the best possible light on a one-on-one basis.

Careful Evaluation. We carefully evaluate all bids, and given our experience, we are able to recognize a good offer at the right price vs. one that is not as favorable.

Professional Negotiations/Results-Driven. Our negotiation process is critical in achieving the strategic goals set forth by the portfolio company's management. We advise on how to best respond to industry questions, interpret the value of recommendations and the potential premium reduction and, most importantly, we make certain that the proposals being set forth are receiving the highest priority at the brokerage and insurance company level. Our goal is to deliver the most comprehensive and competitively priced products.

The MSG Consulting Process

MSG is effective in achieving positive results for private equity firms and their portfolio companies because of its unique combination of experience and the comprehensive process it employs to advise and guide its client companies.

PHASE 1

Risk Management Audit

A thorough review of the portfolio company's exposures and the current insurance policies utilized to transfer that exposure. The goal is for clients to better understand the nature of their exposures and what is covered and not covered within the four corners of the insurance contract. This also involves alternative risk management techniques which may involve transfer of risk outside of the insurance process via separate contracts and/or retentions. The outcome of our review process and analysis becomes the foundation for setting risk management goals and the strategy to achieve same.

PHASE 2

Recommendations

Recommend needed changes in coverage, including both increases and decreases. Prepare an RFP, outlining desired terms, services and coverages.

PHASE 3

Pre-Renewal Strategy

As part of the bid process, a renewal action plan and timeline is drafted. This phase reviews risks, runs a loss- forecasting model, provides the client and current broker with service requirements and expectations and then develops the underwriting packages with custom specifications.

PHASE 4

Negotiations

Continuing the bid process, negotiations begin, comprehensively addressing proposal specifications, coverage and service requirements to optimize coverage and obtain the best premium consideration.

PHASE 5

Decision and Implementation

All proposals are reviewed for accuracy and a matrix is developed to compare each insurer's response to specifications, coverage terms and conditions, and premiums. The matrix is reviewed with the client, negotiations are finalized and transition to new insurance program is carefully coordinated.

PHASE 6

Post-Renewal Strategy

All policies are reviewed as they are received, corrected if needed and summarized for the client. On an ongoing basis, MSG professionals attend quarterly claims review meetings for major lines of insurance; monitor loss prevention activities of the carrier; work to ensure that brokers and insurers are accountable for agreed-upon services; and provide the client with information on new insurance products.

PHASE 7

Ongoing Services

MSG interfaces with management to make certain that the risk management program that has been put into effect remains flexible and continues to provide the coverage when there are changes in the insurance environment, the portfolio company's operations and/or government/legal issues—all of which must be properly managed and in sync with each other so that maximum benefit of the risk management program is maintained.

MSG at Work: Results of Successful Engagements

Master portfolio property insurance program for private equity

- Cumulative premium savings (5 years): \$7,400,000
- Significant increase in California earthquake coverage at no additional premium
- Portfolio companies with high risk property profile allowed to enter program with substantial premium savings and broader coverage
- Paid millions of dollars in claims that would have been excluded or sub-limited on individual portfolio company policies
- Greatly enhanced coverage for all portfolio companies

One of the largest ballast manufacturers in North America

- Cumulative premium savings (3 years): \$2,100,000
- Negotiated the transfer of all IBNR losses to the seller resulting in claims cost savings to our private equity buyer of \$1,700,000
- Reduced product liability deductible from \$500,000 to \$250,000
- Obtained contingent business interruption coverage for mfg. operations in Mexico

The largest specialty auto parts distributor in North America

- Cumulative premium savings (5 years): \$3,200,000
- Reduced automobile deductible from \$250,000 to \$50,000 at nominal cost
- Increased property limits and significantly enhanced coverage with no increase in premium

One of the largest roasters and distributors of coffee in North America

- Cumulative premium savings (3 years): \$1,900,000
- Increased property limits and significantly enhanced coverage with no increase in premium
- Added workers comp dividend program at no cost

One of the world's largest manufacturers of commercial playgrounds

- Cumulative premium savings (3 years): \$1,500,000
- Increased workers compensation deductible from \$150,000 to \$250,000 at significant premium reduction with little to no expected increase in claims cost
- Assisted in the integration of a large acquisition of a competitor. Annual premium savings in excess of \$250,000
- Negotiated contractual indemnification and insurance requirements for the manufacturing transition to a Mexican maquiladora

A leading national distributor of home and high hazard hardware products

- Cumulative claims costs savings (4 years): \$5,000,000
- Post-acquisition we put together a team of experts to assist in fire investigation, product failure analysis and litigation defense. This team has helped reduce the cost of claims to the business by millions of dollars
- Assisted in the integration of numerous acquisitions which have saved in excess of \$300,000 in premium while improving coverage

A large global auto parts manufacturer with manufacturing facilities in 7 countries

- A fire at a manufacturing facility in Mexico resulted in a total loss.
- Despite only having \$22,000,000 in reported property values, the insurance company paid over \$53,000,000 most of which was extra expense
- The portfolio company was able to meet the delivery requirements of its automobile manufacturer clients by moving production to its other facilities at a significant cost which was paid by the insurance carrier
- The large blanket property limit in the master property policy enabled the Company to collect well in excess of the limits reported



Working With the Best

When you engage MSG, you'll be working with the best in the industry. Our history and track record tell the story: private equity firms and portfolio companies gain from the experience and the independent consulting process that we implement for every engagement.

- ✓ You'll gain from more appropriate and more precise insurance coverage.
- ✓ You'll gain from our highly informed competitive bidding process.
- ✓ You'll gain from the potential for increased valuations of your portfolio companies.
- ✓ You'll gain from the potential for significant ROI from savings on insurance premiums.

Contact Us

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