



Company Update  
Estimates Change

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**Title Insurers**

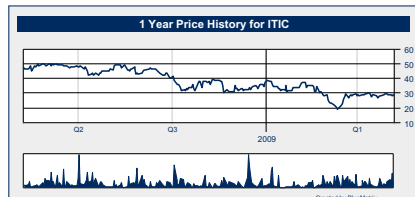
**Investors Title Company**  
**(ITIC, \$29.22, Market Perform, Target: \$41.00)**

*ITIC: Solid 1Q09 Results; Maintain Market Perform Rating on ITIC*

**Event--**

**ROCK: [\$0.62, \$0.62, \$0.40, \$0.40]** Investors Title (ITIC) reported a 1Q09 operating EPS of \$0.62. A much better top line and lower tax rate provided the upside versus our estimate of \$0.40. As a result, we are raising our full year 2009 operating EPS estimate to \$2.39 from \$2.07 and 2010 to \$2.37 from \$2.08. Our rating remains at Market Perform.

Market Price:	\$29.22
Target Price:	\$41.00
Proj. Total Return:	41.1%
52 Wk. Range	\$50.00-\$17.14
Yield:	0.82%
Shr.O/S-Diluted (mm):	2.4
Insider Ownership:	27.9%
Market Cap:	\$70.1mm
Book Value/Share:	\$39.86
Price/Book:	0.73
Debt/Cap:	0.0%
% EPS Title:	NA
BV ec. AOCI:	\$39.06
Title PT Margin:	9.5
Title L/R:	12.5
Title Op. Exp Ratio:	NA
Title Fee/File:	NA



	<b>R</b> \$0.62 reported	<b>O</b> \$0.62 operating	<b>C</b> \$0.40 consensus	<b>K</b> \$0.40 BW			
	Earnings Per Share			P/E	%Chg.	L/Term	
Year End Dec	2008A	2009E	2010E	09E	10E	10/09	Grth. Rate
<b>KBW (Curr.)</b>	(\$0.44)	\$2.39	\$2.37	12.2x	12.3x	-0.84%	4.0%
<b>KBW (Prev.)</b>	(\$0.44)	\$2.07	\$2.08	13.8x	13.7x	0.48%	4.0%
<b>FC (Cons.)</b>	—	\$2.39	\$2.37	12.2x	12.3x	-0.84%	4.0%

	2008	2009	2010	Quarterly Earnings Per Share				
				1Q	2Q	3Q	4Q	YR
<b>Revenue (Net)</b>	71.1	81.6	77.4					
<b>Margin (Net)</b>	(4.50)	8.30	8.70					
<b>Book Value</b>	\$39.19	\$41.44	\$43.58					
<b>ROE</b>	(1.1)%	6.0%	5.7%					
	2008A	\$0.87	(\$0.11)	\$0.52	(\$1.72)	(\$0.44)		
	2009E	\$0.62	\$0.58e	\$0.61e	\$0.57e	\$2.39		
	2010E	\$0.57e	\$0.67e	\$0.59e	\$0.55e	\$2.37		

**Industry Opinion:**  
We expect declining volumes in the overall mortgage origination market to weigh on business in the title and real estate services markets, with commercial business and a higher mix of purchase market transactions partially offsetting the reduced transaction volume.

**Company Description:** Based in Chapel Hill, NC, Investors Title is a regional title insurance, escrow, and real estate services provider.

**Quarter Overview** - Title premiums were \$16.4 million, down 7.9% year-over-year (our estimate was for a 22.7% decline). Direct revenues were \$6.0 million, down 17.8% and agency business was \$10.4 million, down 0.9%. Exchange services revenues were \$324,000, down 20.1% but above our estimate of \$172,000. The company also recorded \$300,000 in realized losses (including \$345,000 in impaired investments). On the expense side, the claims provision was 12.5% versus our estimate of 12.0%, with continued elevated mechanic lien claims from the 2008 book. The agent retention ratio was 72.7%, up from 71.5% last quarter and 70.0% last year.

**Investment Opinion** – We were pleased with the top line this quarter, as overall revenues were down only 8% as a result of only a minimal year-over-year drop in agent business. The better revenues helped to offset higher than expected employee costs and a 120 bps expansion in the agent retention ratio (the loss provision was also 50 bps higher than our estimate). While these results are a good start to 2009 given industry-wide challenges related to a lengthening open to closed order timeframe, we are choosing to remain cautious on shares of ITIC given regional marketplace uncertainty.

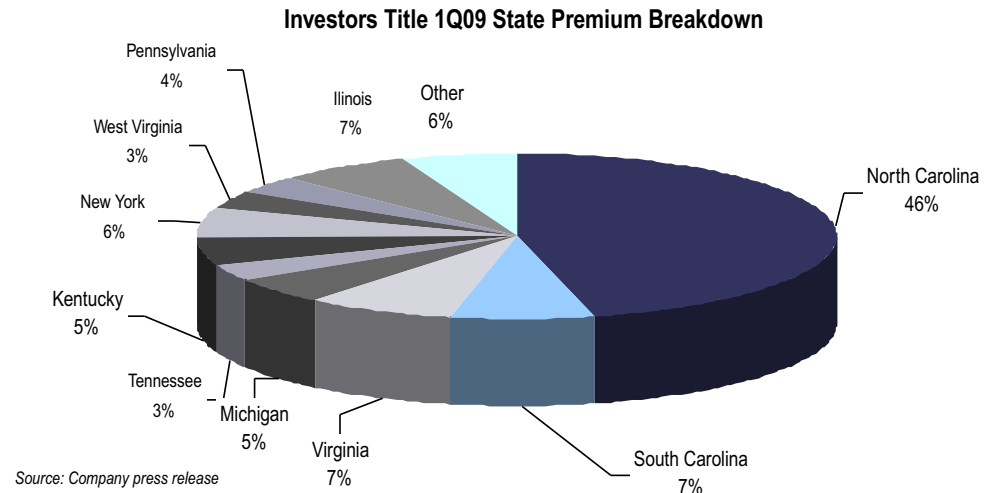
**Risk**

Risks to our price target include the following:

- The slowdown in real estate volumes materially exceeds expectations.
- Management is unable to control expenses as well as anticipated through the interest rate cycle change.

**Estimates/Price Target** - We are raising our full year 2009 operating EPS estimate to \$2.39 from \$2.07, primarily on the beat this quarter as well as increased premiums being partially offset by higher personnel and agent-related expenses. Our full year 2010 operating EPS estimate moves from \$2.08 to \$2.37 on increased revenue projections and a lower loss ratio being offset by slightly higher personnel and agent expenses. Our price target remains at \$41, reflecting 1.0x our projected 2009 book value.

**Geographic Breakdown** - Premiums from North Carolina represented 46% of net premiums, South Carolina represented 7% and Virginia represented 7%. Combined, these three states accounted for 60% of all premiums written by the company.

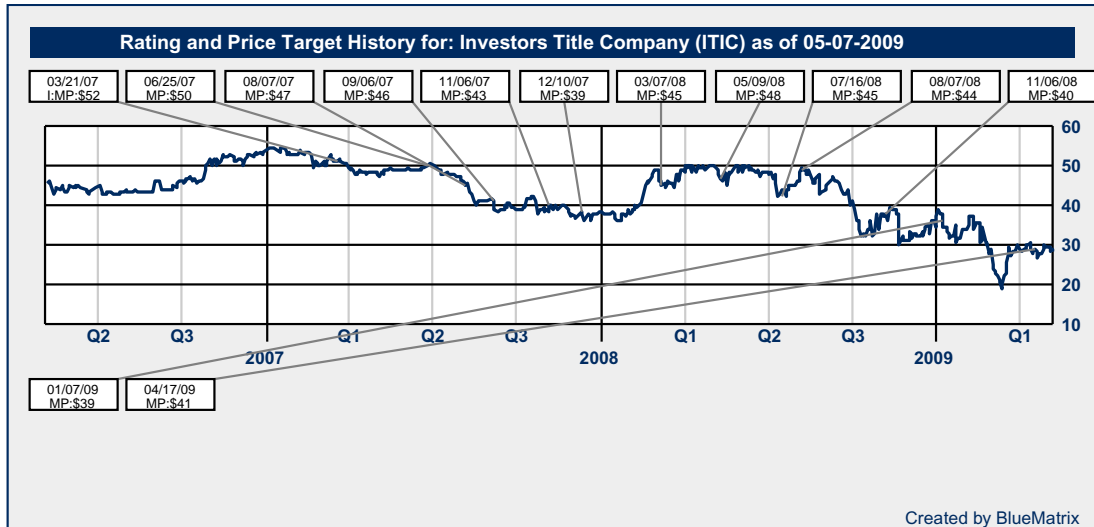


*For a complete 1Q09 earnings delta chart please refer to a PDF version of this document.*



	R: \$0.62		O: \$0.62		C: \$0.40		K: \$0.40	
Investors Title 1Q09	This Quarter	KBW	EPS, Diff.	Prior Quarter	Prior Year	Growth Rates		
						Seq.	Y/Y	KBW Y/Y Est.
<b>ITIC Operating EPS</b>	<b>\$0.62</b>	<b>\$0.40</b>	<b>\$0.22</b>	<b>(\$1.72)</b>	<b>\$0.87</b>	-136.3%	-28.3%	-53.7%
<b>Revenues</b>								
Direct title premiums	6,043	5,232	\$0.28	4,360	7,351	38.6%	-17.8%	-28.8%
Agency title premiums	10,367	8,536	\$0.64	8,029	10,462	29.1%	-0.9%	-18.4%
Total title premiums	16,410	13,768	\$0.93	12,389	17,813	32.5%	-7.9%	-22.7%
Investment income	990	1,101	(\$0.04)	1,087	1,279	-9.0%	-22.6%	-13.9%
Investment gains/(losses)	-300	0	(\$0.11)	-2,253	119	-86.7%	-352.0%	-100.0%
Exchange services	324	172	\$0.05	152	405	113.0%	-20.1%	-57.5%
Other Operating	1,259	991	\$0.09	938	1,245	34.2%	1.1%	-20.4%
Total revenues	18,682	16,032	\$0.93	12,313	20,861	51.7%	-10.4%	-23.1%
<b>Overall expenses</b>								
Agent commissions	7,532	5,976	(\$0.55)	5,741	7,319	31.2%	2.9%	-18.3%
Title Losses	2,047	1,652	(\$0.14)	6,877	2,049	-70.2%	-0.1%	-19.4%
Salary & employee benefits	5,138	4,290	(\$0.30)	3,542	5,498	45.1%	-6.5%	-22.0%
Office operations	1,099	1,282	\$0.06	1,267	1,364	-13.3%	-19.5%	-6.0%
Business development	263	471	\$0.07	482	485	-45.5%	-45.8%	-2.9%
Other taxes	157	105	(\$0.02)	163	193	-3.6%	-18.6%	-45.6%
Premium and retailatory taxes	367	272	(\$0.03)	252	367	45.7%	0.1%	-25.9%
Professional fees	302	351	\$0.02	289	521	4.5%	-42.0%	-32.6%
Other	-2	209	\$0.07	245	239	-100.7%	-100.7%	-12.6%
Non-recurring	0	0	\$0.00	0	0			
Title expenses	16,903	14,608	(\$0.81)	18,858	18,035	-10.4%	-6.3%	-19.0%
<b>Income</b>								
Total pre-tax income	1,779	1,424	\$0.12	-6,545	2,826	-127.2%	-37.1%	-49.6%
Income tax	344	499		-2,596	701			
Operating tax rate	19.3%	35.0%	\$0.12	39.7%	24.8%			
Overall tax rate	19.3%	35.0%		39.7%	24.8%			
<b>Net income</b>	<b>1,435</b>	<b>925</b>		<b>-3,949</b>	<b>2,125</b>	<b>-136.3%</b>	<b>-32.5%</b>	<b>-56.5%</b>
One-time benefit/(expense) (after-tax)	0	0	0	0	0			
<b>Operating income</b>	<b>1,435</b>	<b>925</b>	<b>\$0.22</b>	<b>-3,949</b>	<b>2,125</b>	<b>-136.3%</b>	<b>-32.5%</b>	<b>-56.5%</b>
<b>Title operating ratios</b>								
Overall company pre-tax margin (inc. inv & other)	9.5%	8.9%		-53.2%	13.5%			
Agency as % of title premium	63.2%	62.0%		64.8%	58.7%			
Direct as % of title premium	36.8%	38.0%		35.2%	41.3%			
Personnel expenses as % of direct	85.0%	82.0%		81.2%	74.8%			
Operating expenses as % of direct	36.2%	51.4%		61.9%	43.1%			
Agent retention	72.7%	70.0%		71.5%	70.0%			
Loss ratio	12.5%	12.0%		55.5%	11.5%			
Expense ratio	90.5%	94.1%		96.7%	89.7%			
<b>Other</b>								
Book value (est.)	\$39.86	\$39.53		\$39.19	\$41.28	1.7%	-3.4%	-4.2%
Book value ex. AOCI (est.)	\$39.06	\$38.83		\$38.48	\$40.08	1.5%	-2.5%	-3.1%
Diluted shares outstanding - thousands	2,296	2,293	0	2,293	2,437			

Source: KBW calculations and company press release  
\$ thousands, except per share calculations



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Rating	Count	Percent	*IB Serv./Past 12 Mos.	
			Count	Percent
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Market Perform [HOLD]	345	65.34	56	16.23
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Suspended [SP]	12	2.27	4	33.33

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