

**INVESTORS TITLE CO. (ITIC)**

**\$47.50**

Please see important disclosures and analyst certification on page 6 of this report.

**Equity Research  
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**Sales:** 800-536-6854  
**Trading:** 800-203-1004

**Statistics**

<b>52-Wk Range:</b>	\$50.88-\$35.50
<b>Market Value:</b>	\$114.0 mil.
<b>Dividend:</b>	\$0.28
<b>Yield:</b>	0.60%
<b>Shares Out.:</b>	2.4 mil.
<b>Float/Avg. Trading Volume:</b>	2.0 mil./2,714
<b>L-T Debt/Total Capital:</b>	Nil
<b>Est. 3-5 yr. EPS Growth:</b>	10%
<b>Book Value/Share (3/31/08):</b>	\$41.66

**Diluted Earnings per Share**

	2006A	2007A	2008E	Prior Est. 2009E	Prior Est.
<b>Mar. 1Q</b>	\$1.11	\$0.92	\$0.87A	\$0.71	NE
<b>Jun. 2Q</b>	\$1.68	\$0.46	\$0.99	\$0.93	NE
<b>Sep. 3Q</b>	\$1.44	\$1.40	\$1.29	\$1.27	NE
<b>Dec. 4Q</b>	\$0.91	\$0.43	\$0.75	\$0.84	NE
<b>FY</b>	\$5.14	\$3.35	\$3.90	\$3.75	\$4.25
<b>P/E</b>	9.2x	14.2x	12.2x	11.2x	

Rating: **NEUTRAL**  
Target Price: **NA**

**More Than Holding Its Own in Current Environment**

**Action**

Reiterate Neutral rating on valuation

**Key Points**

- **Good 1Q08 results:** Investors Title Company reported diluted 1Q08 EPS of \$0.87 vs. \$0.92 last year, easily exceeding our \$0.71 estimate. The main driver behind the upside for the quarter was better-than-expected premiums and commissions.
- **Premiums surprisingly strong:** Net written premiums advanced approximately 6% to \$17.8 million vs. \$16.8 million last year, well ahead of our \$16.2 million assumption. Premium growth was solid across most states, including the company's two largest states (North Carolina and South Carolina). We note that Investors Title's growth is all the more remarkable considering its peers continued to report title premium decreases in excess of 20% during the opening quarter of 2008.
- **Book Value/Investments:** Book value per share ended March at \$41.66, an increase of 1% compared to year-end 2007. Investment income grew nearly 6% to \$1.3 million, matching our expectations.
- **Adjusting estimates:** We are raising our 2008 EPS estimate to \$3.90 (from \$3.75), mainly reflecting the upside in the quarter and a slightly more favorable premium outlook for the year. We are leaving our 2009 EPS forecast of \$4.25 unchanged.
- **Investment opinion:** While we continue to remain impressed with Investors Title's results throughout the cycle, we are maintaining our Neutral rating on ITIC shares based on their current valuation. At 1.1x of book value, ITIC shares trade at a premium valuation to the shares of larger, more established companies, and we think the valuation fairly reflects the company's continued outperformance over the near term.

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**Recent Results, Outlook, Valuation**

Investors Title Company reported diluted 1Q08 EPS of \$0.87 vs. \$0.92 last year, easily exceeding our \$0.71 estimate. The main driver behind the upside in the quarter was better-than-expected premiums and commissions. The 1Q08 tax rate came in at 24.8%, compared with 21.8% in last year's first quarter. Net capital gains amounted to \$0.03 a share in 1Q08, compared with \$0.05 a share in the prior-year period. Margins held up quite well in the March period with the company posting a pretax margin of 13.5% vs. 14.6% for the same period a year earlier.

Commission expense rose to \$7.3 million from \$6.8 million, reflecting the slight uptick in agency premiums in the quarter. Salaries, employee benefits, and payroll taxes (in dollar terms) increased approximately 4% over last year's first quarter. We note that the company has preserved its double-digit operating margins without drastic cost-cutting actions throughout the down cycle, partially because we believe the company didn't expand employee headcount significantly during the housing boom. The 1Q08 loss provision amounted to 11.5%, up from 10.3% sequentially and 10.8% in the year-ago quarter. With the exception of 2Q07, claims activity since the housing downturn began has remained fairly steady and the company has yet to see the spiking loss provisions that its peers have been experiencing.

Net written premiums advanced approximately 6% to \$17.8 million vs. \$16.8 million last year, well ahead of our \$16.2 million assumption. Although the company reported two premium growth quarters last year, we note that this was the highest quarterly percentage premium growth rate since 4Q05. Agency-derived premiums inched higher to 59% of the total premium mix vs. 58% last year, continuing a slight shift in recent quarters in reaching out toward agencies to generate growth during this difficult housing market. Revenues in the Exchange Service unit amounted to \$0.4 million vs. \$1.2 million, which we believe is more a function of waning demand for these types of transactions in these times (and very low real estate turnover).

By state, premiums within its two largest states of North Carolina (50% of premiums) and South Carolina (11% of premiums) grew at a double-digit clip and helped drive overall top-line growth. North Carolina is an integral state for the company and comparably favorable housing trends and its dominant market share in the state translated into above-peer growth in the quarter. Aside from those states, we note that growth within its smaller non-core states contributed to the overall increase in net written premiums for the March quarter. On a dollar basis, growth in Michigan (+34%) and Kentucky (+49%) were the most notable non-core states that reported encouraging premium growth.

<b>Direct premiums written by state (\$ thousands)</b>			
	<b>1Q08</b>	<b>1Q07</b>	<b>% Chg.</b>
North Carolina	\$8,949	\$7,913	13%
South Carolina	1,903	1,716	11%
Virginia	1,522	1,561	-2%
Michigan	1,046	779	34%
Kentucky	817	550	49%
Illinois	590	389	52%
Tennessee	542	649	-17%
New York	512	578	1%
All other	1,927	2,803	-31%
<b>Total</b>	<b>\$17,807</b>	<b>\$16,868</b>	<b>6%</b>

Source: company reports

## INVESTORS TITLE CO. (ITIC)

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We are raising our 2008 EPS estimate to \$3.90 (from \$3.75), mainly reflecting the upside in the quarter and a slightly more favorable premium outlook for the year. Following our revision, we are now modeling in a 2% increase in premiums this year and EPS growth of 15%. We are leaving our 2009 EPS forecast of \$4.25 unchanged.

While we wouldn't go as far as saying that the company has been immune from the housing depression, the company's strong presence in its focus states has enabled Investors Title to deliver top- and bottom-line results superior to its peers over the past few quarters. We think that a lean cost structure along with a more stable revenue environment within the company's markets should enable Investors Title to continue to outperform peers from every standpoint over the balance of the year. Similarly, the company has managed to stay profitable throughout the entire downturn while gaining market share in certain markets.

At a time when a number of its peers are experiencing significant operating losses, Investors Title's results are holding up remarkably well and better than any publicly traded title insurer. We also note that the company has no balance sheet debt and hasn't endured steep losses, meaning the company isn't faced with the balance sheet concerns now plaguing some title insurers. While we continue to remain impressed with Investors Title's results throughout the cycle, we are maintaining our Neutral rating on valuation. At 1.1x of book value, ITIC shares trade at a premium valuation to the shares of larger, more established companies, and we think the valuation fairly reflects continued outperformance over the near term.

### **Balance Sheet/Investments**

Book value per share ended March at \$41.66 a share, an increase of 1% compared to year-end 2007. Investment income grew nearly 6% to \$1.3 million, matching our expectations. At the end of March, fixed income securities equated to 64% of total invested assets vs. 71% at the end of December 2007. The major difference was a shift toward the short-term investments account from fixed-income securities. Balance sheet claims reserves were \$37 million at the end of March, level with the end of last year. The company exited the quarter with no balance sheet debt.

### **2008 Mortgage Outlook: Let the Tough Times Roll**

Although housing activity could be approaching a trough, origination activity remains well off recent peak levels. A rising supply of homes on the market, foreclosures, and falling home prices continues to weigh on new and existing home sales originations. Simply put, consumers and investors have yet to be convinced that housing prices have hit rock bottom and excess home inventory levels aren't being soaked at a brisk enough pace to spark any kind of meaningful recovery.

Although order and cancellation decreases have narrowed in recent quarters, we believe this is more a function of going against easier comparisons. All eyes will be on the peak spring selling season; however, we aren't holding our breath since economic worries (gasoline prices, rising unemployment, waning consumer confidence) could keep the housing slump ongoing for several additional quarters. We would suspect that the economic downturn could push out forecasts for housing uptown further to sometime in 2009, compared with previous assumptions calling for a pickup in real estate activity toward the end of 2008.

While title stocks continue to trade with high degrees of volatility, we think that the bottom is essentially in for the group. Even though sector price/book valuations remain close to multi-year lows, the timing of the recovery (and magnitude) has a large group of investors on the sidelines. The good news is that 30-year mortgage rates are still hovering around the 6% threshold, a historically low level that can only help revive housing in the months ahead. Government actions targeted toward staving off foreclosures may also help soften the blow from the housing downturn but will probably do very little to spark title demand.

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**Mortgage Rates and Loan Volume, 1999 to 2009E**

Year	Total Loan Volume (billions)	Purchase Activity	Refinance Loan Volume	Refinance Percent	Purchase Percent	30-Year Fixed Interest Rates
1999	\$1,318	\$797	\$521	39.5%	60.5%	7.43%
2000	\$1,046	\$821	\$225	21.5%	78.5%	8.06%
2001	\$2,027	\$880	\$1,144	56.5%	43.5%	6.97%
2002	\$2,613	\$1,043	\$1,440	61.5%	38.5%	6.54%
2003	\$3,832	\$1,184	\$2,648	69.1%	31.9%	5.82%
2004	\$2,792	\$1,335	\$1,457	52.2%	47.8%	5.84%
2005	\$3,034	\$1,512	\$1,522	50.2%	49.8%	5.87%
2006	\$2,851	\$1,447	\$1,404	49.3%	50.7%	6.41%
2007	\$2,543	\$1,250	\$1,293	50.8%	49.2%	6.34%
2008E	\$2,116	\$929	\$1,188	56.1%	43.9%	5.88%
2009E	\$2,025	\$923	\$1,102	54.4%	45.6%	5.90%

Source: Fannie Mae

Fannie Mae tweaked its 2008 total origination forecast downward, reflecting softer activity for both refi and purchase transactions. Nevertheless, refi activity is anticipated to comprise a larger piece of the origination pie both this year and next year and will be driven by (1) historically low mortgage rates, (2) a meaningful quantity of ARMs resetting, and (3) as consumers exercise household belt tightening. Fannie Mae's most recent forecast is projecting nearly a 17% decline in total originations during 2008, weighed down by sluggish purchase activity. Refi transactions are now expected to comprise 56.1% of total originations (consistent with its last forecast) vs. 50.8% in 2007.

The MBA's April forecast is now predicting total originations of \$1.99 trillion during 2008, slightly ahead of its previous forecast of \$1.96 trillion issued earlier in the year. Purchase transactions are now expected to deteriorate 22% in 2008 followed by an expected 2% increase in 2009. Refinancings are expected to remain weak as well, generating expected decreases of 7% and 22% for the next two years, respectively. The MBA composite index reported a fairly sluggish reading of 655.4 for the week ended 5/07/08, down almost 4% compared to the identical period a year earlier. Purchase transactions remain in the doldrums with the MBA purchase activity index down in excess of 20% from the same period a year earlier. Aside from the past few weeks' readings, overall mortgage origination activity has generally been higher than year-ago levels with 13 of the 19 weeks this year showing increases over the prior-year period.

**Company Description**

Based in Chapel Hill, North Carolina, Investors Title is a holding company whose principal business is underwriting and issuing land title insurance policies to lenders and borrowers. Formed in 1972, the company has 30 branch offices and a network of agents in 23 states and the District of Columbia. Agent channels generate approximately 58% of premiums with direct channels producing the balance. More than 40% of premiums originate in North Carolina, where the company has approximately a 26% market share. The company is led by J. Allen Fine, the founder and chairman.

**INVESTORS TITLE COMPANY and Subsidiaries**
**Income Model & Selected Financial Data**

(\$ thousands, except per share)

	4Q06	2006A	1Q07	2Q07	3Q07	4Q07	2007A	1Q08A	2Q08E	3Q08E	4Q08E	2008E	2009E
<b>REVENUES</b>													
Premiums	16,199	\$ 70,197	16,793	18,626	18,994	15,571	\$ 69,983	17,813	18,626	19,089	15,727	\$ 71,255	\$ 73,468
Investment Income	1,261	4,326	1,210	1,272	1,302	1,414	5,197	1,279	1,300	1,319	1,325	5,223	5,174
Net Cap. Gains (Losses)	63	551	166	200	521	35	922	119	-	-	-	119	-
Exchange Service revenue	1,439	5,980	1,245	870	1,042	1,182	4,340	405	522	678	946	2,550	2,677
Other	672	3,607	920	1,139	1,199	1,240	4,499	1,245	1,150	1,200	1,200	4,795	4,800
<b>Total Revenues</b>	<b>19,634</b>	<b>84,661</b>	<b>20,334</b>	<b>22,107</b>	<b>23,059</b>	<b>19,442</b>	<b>84,941</b>	<b>20,861</b>	<b>21,598</b>	<b>22,286</b>	<b>19,197</b>	<b>83,941</b>	<b>86,119</b>
<b>EXPENSES</b>													
Salaries/Benefits	5,157	19,981	5,274	5,091	5,136	5,317	20,819	5,498	5,300	5,200	5,300	21,298	21,800
Commissions	6,346	26,715	6,845	7,733	7,461	6,386	28,425	7,319	7,644	7,725	6,365	29,053	29,732
Claims Provision	1,527	7,405	1,809	4,352	2,364	1,609	10,135	2,049	2,049	1,985	1,620	7,703	6,798
Operating Expenses	3,659	13,231	3,434	3,636	3,155	3,514	13,739	3,170	3,400	3,220	3,500	13,290	14,075
<b>Total Expenses</b>	<b>16,688</b>	<b>67,332</b>	<b>17,363</b>	<b>20,812</b>	<b>18,116</b>	<b>16,827</b>	<b>73,118</b>	<b>18,036</b>	<b>18,393</b>	<b>18,131</b>	<b>16,784</b>	<b>71,343</b>	<b>72,406</b>
Pretax Income	2,946	17,329	2,971	1,295	4,942	2,615	11,824	2,825	3,205	4,155	2,412	12,598	13,714
Provision for Taxes	623	4,144	649	141	1,085	1,547	3,422	701	769	997	579	3,046	3,291
Net Income from Ops.	2,323	13,185	2,322	1,154	3,857	1,068	8,402	2,124	2,436	3,158	1,833	9,551	10,422
Dil. Shares Outstanding	2,547	2,564	2,536	2,518	2,507	2,473	2,509	2,437	2,450	2,450	2,450	2,447	2,450
<b>Dil. EPS</b>	<b>\$0.91</b>	<b>\$5.14</b>	<b>\$0.92</b>	<b>\$0.46</b>	<b>\$1.54</b>	<b>\$0.43</b>	<b>\$3.35</b>	<b>\$0.87</b>	<b>\$0.99</b>	<b>\$1.29</b>	<b>\$0.75</b>	<b>\$3.90</b>	<b>\$4.25</b>
<b>Operating Dil. EPS</b>	<b>\$0.90</b>	<b>\$5.00</b>	<b>\$0.87</b>	<b>\$0.41</b>	<b>\$1.40</b>	<b>\$0.42</b>	<b>\$3.11</b>	<b>\$0.84</b>	<b>\$0.99</b>	<b>\$1.29</b>	<b>\$0.75</b>	<b>\$3.87</b>	<b>\$4.25</b>
<b>Growth Rates</b>													
Premiums	-12.1%	-8.2%	1.0%	-2.6%	4.1%	-3.9%	-0.3%	6.1%	0.0%	0.5%	1.0%	1.8%	3.1%
Investment Income	31.2%	29.7%	21.7%	22.9%	25.7%	12.1%	20.1%	5.8%	2.2%	1.3%	-6.3%	0.5%	-0.9%
Exchange Services Revenue	13.2%	31.6%	21.2%	-54.4%	-35.1%	-17.8%	-27.4%	-67.5%	-40.0%	-35.0%	-20.0%	-41.2%	5.0%
<b>Ratios</b>													
Expense Ratio*	93.6%	85.4%	92.6%	88.4%	82.9%	97.7%	90.0%	89.7%	87.7%	84.6%	96.4%	89.3%	89.3%
Loss Ratio	9.4%	10.5%	10.8%	23.4%	12.4%	10.3%	14.5%	11.5%	11.0%	10.4%	10.3%	10.8%	9.3%
Combined Ratio	103.0%	95.9%	103.4%	111.7%	95.4%	108.1%	104.5%	101.2%	98.7%	95.0%	106.7%	100.1%	98.6%
Operating Ratio	95.2%	89.8%	96.2%	104.9%	88.5%	99.0%	97.1%	94.1%	91.8%	88.1%	98.3%	92.8%	91.5%
Net Investment Yield	4.4%	4.0%	4.0%	4.2%	4.2%	4.4%	4.2%	4.0%	4.4%	4.3%	4.3%	4.2%	4.4%
Tax Rate	21.1%	23.6%	21.8%	10.9%	22.0%	59.2%	28.5%	24.8%	24.0%	24.0%	24.0%	24.2%	24.0%
Net After-Tax Margin	11.8%	15.6%	11.4%	5.2%	16.7%	5.5%	9.9%	10.2%	11.3%	14.2%	9.6%	11.4%	12.1%
Year-End Book Value		\$38.00					\$41.18					\$44.92	\$49.02
ROE (Beginning)		15.6%					8.8%					9.5%	9.5%

\*This includes branch expenses not related to acquisition costs.

Source: company documents and FBW estimates

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***Important Disclosures and Analyst Certification***

Prices herein are intraday May 9, 2008.

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Analyst Certification: We, Mark Dwelle, CFA, Scott Heleniak and Douglas Mewhirter, CFA, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their underlying securities. We further certify that we have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

**Ratings Distribution & Investment Banking Disclosure**

<b>Rating</b>	<b>Ratings Distribution ^</b>	<b>Investment Banking*</b>
Buy-rated	62%	15%
Hold (Neutral)-rated	35%	8%
Sell-rated	2%	0%

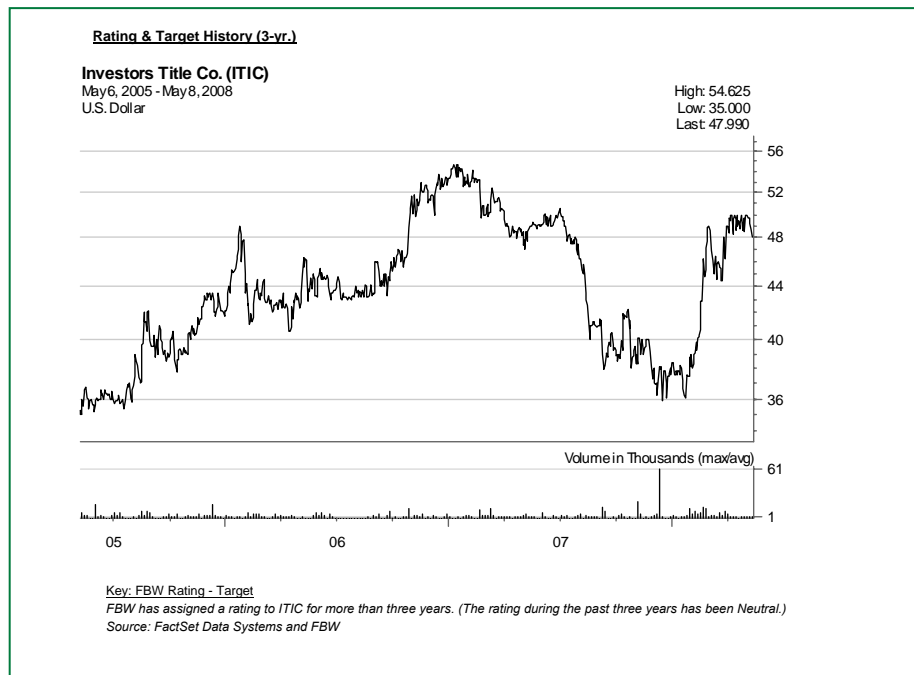
*^ Percentage of all FBW-covered stocks assigned an equivalent Buy, Hold, or Sell rating.*

*\* Percentage of companies within FBW-rated Buy, Neutral (Hold), and Sell categories for which FBW or an associated firm provided investment banking services within the past 12 months.*

*Data as of 3/31/08*

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To request further information regarding the companies discussed in this report, readers may send an email to [info@fbw.com](mailto:info@fbw.com) or may write to the Ferris, Baker Watts, Inc. Research Department, 100 Light Street 8th Floor, Baltimore MD 21202.

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