

INDEPENDENCE HOLDING CO

BUY					HOLD			SELL						BUY	RATING SINCE TARGET PRICE	06/16/2011 \$10.27
A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	E+	E			
Annual Dividend Rate \$0.05		Annual Dividend Yield 0.57%			Beta 1.44			Market Capitalization \$143.6 Million			52-Week Range \$6.81-\$11.10		Price as of 12/15/2011 \$8.75			

 Sector: **Financial Services** | Sub-Industry: **Life & Health Insurance** | Source: **S&P**
IHC BUSINESS DESCRIPTION

Independence Holding Company, through its subsidiaries, engages in the life and health insurance business in the United States, the District of Columbia, the Virgin Islands, Guam, and Puerto Rico. It writes excess or stop-loss insurance for self-insured employer groups.

STOCK PERFORMANCE (%)

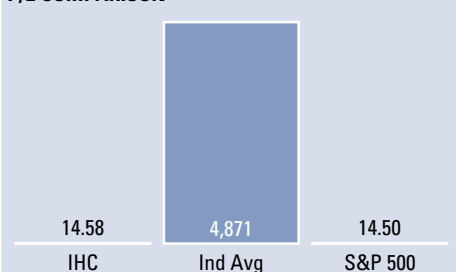
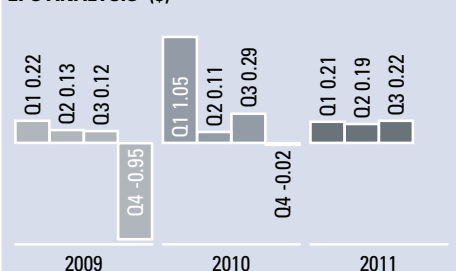
	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	9.37	12.90	35.59

GROWTH (%)

	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	-3.91	5.87	3.86
Net Income	-19.60	15.20	38.08
EPS	-24.14	20.00	40.43

RETURN ON EQUITY (%)

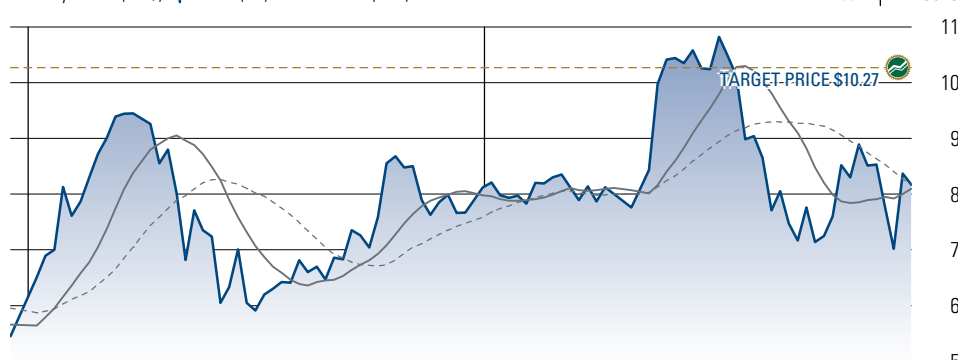
	IHC	Ind Avg	S&P 500
Q3 2011	3.62	7.23	14.22
Q3 2010	3.21	7.77	12.69
Q3 2009	-1.90	4.04	2.50

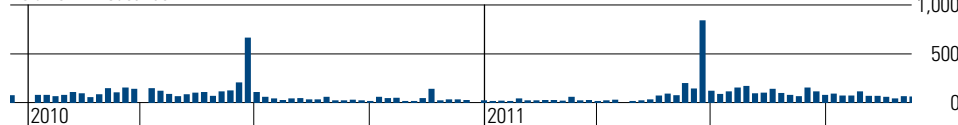
P/E COMPARISON

EPS ANALYSIS' (\$)


NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.

Weekly Price: (US\$) | SMA (50) — SMA (100) - - - 1 Year | 2 Years


Rating History

Volume in Thousands


COMPUSTAT for Price and Volume, TheStreet.com Ratings, Inc. for Rating History

RECOMMENDATION

We rate INDEPENDENCE HOLDING CO (IHC) a BUY. This is driven by a few notable strengths, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company's strengths can be seen in multiple areas, such as its largely solid financial position with reasonable debt levels by most measures, attractive valuation levels, expanding profit margins, solid stock price performance and notable return on equity. We feel these strengths outweigh the fact that the company shows weak operating cash flow.

HIGHLIGHTS

IHC's debt-to-equity ratio is very low at 0.18 and is currently below that of the industry average, implying that there has been very successful management of debt levels.

43.60% is the gross profit margin for INDEPENDENCE HOLDING CO which we consider to be strong. It has increased from the same quarter the previous year. Regardless of the strong results of the gross profit margin, the net profit margin of 3.40% trails the industry average.

Looking at where the stock is today compared to one year ago, we find that it is not only higher, but it has also clearly outperformed the rise in the S&P 500 over the same period, despite the company's weak earnings results. Turning our attention to the future direction of the stock, it goes without saying that even the best stocks can fall in an overall down market. However, in any other environment, this stock still has good upside potential despite the fact that it has already risen in the past year.

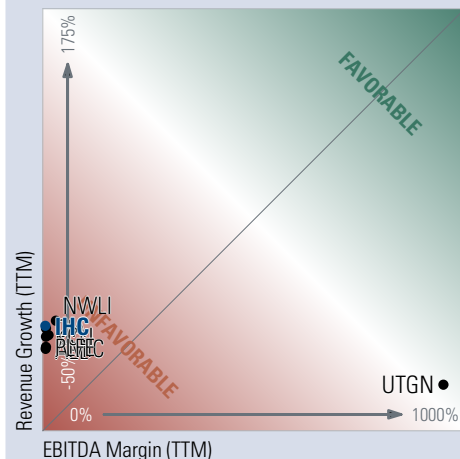
Regardless of the drop in revenue, the company managed to outperform against the industry average of 7.0%. Since the same quarter one year prior, revenues slightly dropped by 3.9%. The declining revenue appears to have seeped down to the company's bottom line, decreasing earnings per share.

Sector: Financial Services | Life & Health Insurance | Source: S&P

Annual Dividend Rate \$0.05	Annual Dividend Yield 0.57%	Beta 1.44	Market Capitalization \$143.6 Million	52-Week Range \$6.81-\$11.10	Price as of 12/15/2011 \$8.75
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PEER GROUP ANALYSIS

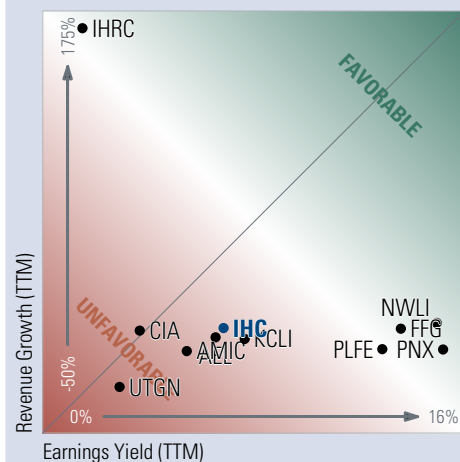
REVENUE GROWTH AND EBITDA MARGIN*



Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between \$19 Million and \$1 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD



Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -25.5% and 165.8%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The US insurance industry provides a broad range of financial security products for individuals and businesses. The industry includes primary insurers, reinsurers and agency and brokerage firms. Insurance companies can be categorized into life and health, property and casualty and reinsurance. Premiums and investment income are the primary component of overall revenue. The industry is mature and dominated by large companies with intense price competition. The US insurance industry has witnessed a great deal of merger and acquisition activity in recent years.

The life insurance industry remains highly competitive due to rapid product development and shortened product life-cycles. In recent years, the L&H segment has been characterized by a dramatic product shift from traditional life insurance to annuity and retirement asset management. Life insurance in the US expanded to more than \$578 billion, or nearly half of total business line. This can be attributed to an increased focus on retirement and estate planning, which has led to robust sales of combined savings protection products and annuities. The trend toward the single premium business and pension and annuities products drove sales. Sweeping national health insurance reform was signed into law in 2010 that allows young people to stay on their parent's health plan, begins to close the Medicare drug plan donut hole, and phases in mandatory coverage of all Americans.

Significant challenges have arisen for property and casualty insurance companies. However, the absence of any recent major casualty or natural calamity has benefited the industry.

The US reinsurance market has entered a soft phase of the cycle and will remain as such assuming no major catastrophes in the coming quarters. The primary and reinsurance sectors experienced divergent pricing trends, but the reinsurance market remains relatively stable.

The insurance industry is not immune to the financial troubles that plague the rest of the US economy. Despite having minor exposure to higher risk mortgage-related assets, the slowdown in the US economy may adversely impact insurers' performance in the near future. Insurers face challenges related to catastrophe losses, increasing price pressure and changes in the legal and regulatory environment, all of which could erode future underwriting performance and profitability. On a positive note, US insurers may embrace international market opportunities in response to increased market saturation at the domestic level.

PEER GROUP: Insurance

Ticker	Company Name	Recent Price (\$)	Market Cap (\$M)	Price/Earnings	Net Sales TTM (\$M)	Net Income TTM (\$M)
IHC	INDEPENDENCE HOLDING CO	8.75	144	14.58	418.22	9.36
AEL	AMERICAN EQTY INVT LIFE HLDG	10.37	618	15.25	1,201.45	45.59
UTGN	UTG INC	12.00	48	34.29	29.31	1.35
NWLI	NATIONAL WESTERN LIFE	131.51	452	6.69	592.53	71.50
CIA	CITIZENS INC	8.95	438	27.12	198.08	16.30
PNX	PHOENIX COMPANIES INC	1.58	410	6.58	1,911.70	18.50
AMIC	AMERICAN INDEPENDENCE CORP	4.75	40	18.27	87.64	2.15
KCLI	KANSAS CITY LIFE INS CO	31.09	353	13.06	426.55	27.25
PLFE	PRESIDENTIAL LIFE CORP	10.25	303	7.77	280.03	38.82
IHRC	INVESTORS HERITAGE CAP CORP	16.50	19	66.00	157.02	0.28
FFG	FBL FINANCIAL GROUP INC	33.86	1,019	7.36	1,102.56	143.24

The peer group comparison is based on Major Life & Health Insurance companies of comparable size.

Sector: Financial Services | Life & Health Insurance | Source: S&P

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COMPANY DESCRIPTION

Independence Holding Company, through its subsidiaries, engages in the life and health insurance business in the United States, the District of Columbia, the Virgin Islands, Guam, and Puerto Rico. The company writes excess or stop-loss insurance for self-insured employer groups; providers and managed care organizations, including provider hospital organizations, hospital groups, physician groups, and individual practice associations; and health maintenance organizations. It also sells group major medical insurance primarily to small employers; short-term medical products for people with transient needs for health coverage; group and individual dental products, such as indemnity and preferred provider organizations plans for employer groups and individuals; major medical plans for individuals and families; limited medical policies to hourly, part-time, and/or seasonal employees; and student accident and health insurance. In addition, the company offers group long-term and short-term disability; New York short-term disability; and group term life and annuities, such as group term life, accidental death and dismemberment (AD&D), supplemental life and supplemental AD&D, and dependent life products. Further, it provides individual accident and health, individual life, single premium immediate annuities, disability income, accidental medical and death, and AD&D insurance for athletes, executives and entertainers, and miscellaneous insurance business, as well as blanket accident insurance. The company distributes its group term life insurance products through managing general underwriters, managed care organizations, general agents, brokers, and specialized general agents. It offers its disability and group life products to school districts, municipalities, hospital employer groups, and military personnel and civil service employees through managing general agents and independent general agents. The company was founded in 1980 and is headquartered in Stamford, Connecticut.

INDEPENDENCE HOLDING CO

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STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of IHC shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock's strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock's valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR	SCORE					
Growth	2.5 out of 5 stars	★	★	☆	☆	☆
Measures the growth of both the company's income statement and cash flow. On this factor, IHC has a growth score better than 40% of the stocks we rate.		weak				strong
Total Return	4.5 out of 5 stars	★	★	★	★	☆
Measures the historical price movement of the stock. The stock performance of this company has beaten 80% of the companies we cover.		weak				strong
Efficiency	2.5 out of 5 stars	★	★	☆	☆	☆
Measures the strength and historic growth of a company's return on invested capital. The company has generated more income per dollar of capital than 40% of the companies we review.		weak				strong
Price volatility	3.5 out of 5 stars	★	★	★	☆	☆
Measures the volatility of the company's stock price historically. The stock is less volatile than 60% of the stocks we monitor.		weak				strong
Solvency	2.5 out of 5 stars	★	★	☆	☆	☆
Measures the solvency of the company based on several ratios. The company is more solvent than 40% of the companies we analyze.		weak				strong
Income	3.5 out of 5 stars	★	★	★	☆	☆
Measures dividend yield and payouts to shareholders. The company's dividend is higher than 60% of the companies we track.		weak				strong

THESTREET.COM RATINGS RESEARCH METHODOLOGY

TheStreet.com Ratings' stock model projects a stock's total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

INDEPENDENCE HOLDING CO

Sector: Financial Services | Life & Health Insurance | Source: S&P

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Consensus EPS Estimates² (\$)

IBES consensus estimates are provided by Thomson Financial

NA	NA	NA
NA	NA	NA

INCOME STATEMENT

	Q3 FY11	Q3 FY10
Net Sales (\$mil)	103.66	107.88
EBITDA (\$mil)	7.15	8.84
EBIT (\$mil)	6.20	7.70
Net Income (\$mil)	3.55	4.42

BALANCE SHEET

	Q3 FY11	Q3 FY10
Cash & Equiv. (\$mil)	36.73	43.73
Total Assets (\$mil)	1,367.62	1,381.08
Total Debt (\$mil)	48.15	45.65
Equity (\$mil)	260.33	240.79

PROFITABILITY

	Q3 FY11	Q3 FY10
Gross Profit Margin	43.57%	41.60%
EBITDA Margin	6.90%	8.20%
Operating Margin	5.98%	7.13%
Sales Turnover	0.31	0.29
Return on Assets	0.68%	0.59%
Return on Equity	3.62%	3.21%

DEBT

	Q3 FY11	Q3 FY10
Current Ratio	NA	NA
Debt/Capital	0.16	0.16
Interest Expense	0.52	0.50
Interest Coverage	12.02	15.42

SHARE DATA

	Q3 FY11	Q3 FY10
Shares outstanding (mil)	16	15
Div / share	0.03	0.03
EPS	0.22	0.29
Book value / share	15.81	15.81
Institutional Own %	NA	NA
Avg Daily Volume	12,854	32,625

² Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS

INDEPENDENCE HOLDING CO's gross profit margin for the third quarter of its fiscal year 2011 is essentially unchanged when compared to the same period a year ago. Sales and net income have dropped, however the growth has outpaced the average competitor within the industry.

During the same period, stockholders' equity ("net worth") has increased by 8.11% from the same quarter last year.

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RATINGS HISTORY

Our rating for INDEPENDENCE HOLDING CO has not changed since 6/16/2011. As of 12/15/2011, the stock was trading at a price of \$8.75 which is 21.2% below its 52-week high of \$11.10 and 28.5% above its 52-week low of \$6.81.



MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
6/16/11	\$10.70	Upgrade	Hold	Buy
5/19/10	\$7.73	Upgrade	Sell	Hold
12/15/09	\$5.48	No Change	Sell	Sell

Price reflects the closing price as of the date listed, if available

RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET.COM RATINGS

(as of 12/15/2011)

37.70% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

33.61% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

28.69% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

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VALUATION

BUY. The current P/E ratio indicates a significant discount compared to an average of 4871.15 for the Insurance industry and a value on par with the S&P 500 average of 14.50. To use another comparison, its price-to-book ratio of 0.55 indicates a discount versus the S&P 500 average of 1.96 and a significant discount versus the industry average of 339.47. The price-to-sales ratio is well below both the S&P 500 average and the industry average, indicating a discount. Upon assessment of these and other key valuation criteria, INDEPENDENCE HOLDING CO proves to trade at a discount to investment alternatives within the industry.

Price/Earnings	1	2	3	4	5
	premium		discount		

IHC 14.58 Peers **4871.15**

- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- IHC is trading at a significant discount to its peers.

Price/Projected Earnings	1	2	3	4	5
	premium		discount		

IHC NA Peers **13.58**

- Neutral. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth potential.
- Ratio not available.

Price/Book	1	2	3	4	5
	premium		discount		

IHC 0.55 Peers **339.47**

- Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- IHC is trading at a significant discount to its peers.

Price/Sales	1	2	3	4	5
	premium		discount		

IHC 0.34 Peers **382.93**

- Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- IHC is trading at a significant discount to its industry on this measurement.

Price/CashFlow	1	2	3	4	5
	premium		discount		

IHC 9.18 Peers **2818.36**

- Discount. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- IHC is trading at a significant discount to its peers.

Price to Earnings/Growth	1	2	3	4	5
	premium		discount		

IHC NA Peers **2.41**

- Neutral. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- Ratio not available.

Earnings Growth	1	2	3	4	5
	lower		higher		

IHC 20.00 Peers **-48.07**

- Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- IHC is expected to have an earnings growth rate that significantly exceeds its peers.

Sales Growth	1	2	3	4	5
	lower		higher		

IHC 5.87 Peers **7.39**

- Lower. A sales growth rate that trails the industry implies that a company is losing market share.
- IHC trails its peers on the basis of sales growth

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