

**MARKET TEMPERATURE: NIPPY**

# Adios, Au Revoir, Farewell 2009

## And Good Riddance

At the start of 2009, agencies were at a crossroads, not knowing whether to buy, sell or implement new or improved organic growth strategies. The path was uncertain, but it was widely believed M&A activity would continue at a brisk pace throughout 2009 as it did in 2008.

Instead, announced transactions were at the lowest levels in six years and the second least active of the decade. Total deal count was 185 compared with 307 in 2008, a 40% decline. As expected, both public and privately held brokerages continued to lead consolidation efforts with 131 deals. Trailing far behind were insurance and financial service companies, with just 33, and banks, with just 21—the lowest in 10 years.

Brown & Brown, which has historically been the most active acquirer each year, was surpassed for the first time since 2000 by Arthur J. Gallagher. The top six most active acquirers were Gallagher (11), Hub International (9), Brown & Brown (8), Marsh & McLennan (7), and—tied for fifth place—(6 each) Wells Fargo Insurance Services and Ascension Insurance. These six brokerages accounted for 25% of M&A last year.

Buyer demand picked up in December with 25 deals, but it was weak all year for five main reasons:

- Uncertainty about the economy
- The threat of nationalized healthcare
- Instability in the credit markets
- Bank focus on strengthening balance sheets and increasing stock prices
- Lack of capital and increased cost of debt, which reduced private equity group activity.

Another factor affecting M&A was transaction valuation multiples. Valuations fell from 2008 and created a significant valuation gap between buyers and sellers. Many sellers took a wait-and-see approach, waiting for valuations to increase and seeing if a buyer would pay their asking price.

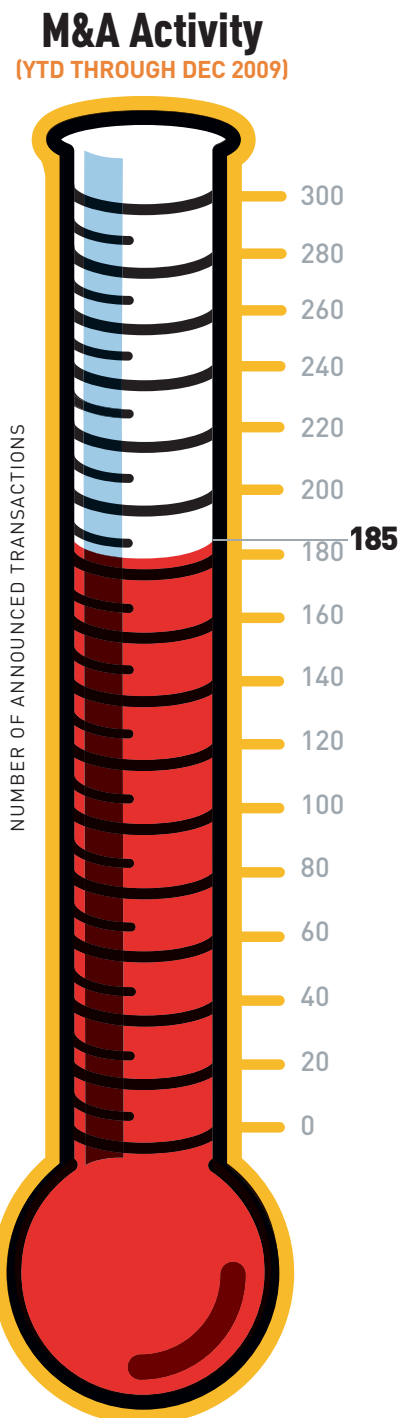
Clearly, the threat of nationalized healthcare and the broader prospect of overall healthcare reform greatly affected acquisitions of employee benefit agencies. There were 43 benefits deals in 2009 versus 99 in 2008—a decline of 57%. Some buyers completely took a pass while others cautiously moved forward with deals in the works.

January is typically a very active month, but average activity stayed the course with 16 deals. Insurance brokerages accounted for 15. For the most part, banks will play a minor role in brokerage consolidation going forward, with the exception of Wells Fargo and BB&T.

Not all is dim, as the outlook for 2010 M&A activity looks rosy. Buyer demand and seller supply should both increase as the economy improves and answers surrounding healthcare reform become clearer. The valuation gap should narrow as valuations increase slightly and sellers better accept and understand current valuation multiples. The transformation of the healthcare distribution model, a pending rise in the capital gains rate, the ever-increasing age of the average, independent agency owner, and the inability to perpetuate internally, along with several other variables, will continue to drive consolidation.



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Disclosure: Scorecard year-to-date totals may change from month to month should an acquirer contact Hales to request an earlier acquisition be included in the Scorecard that was not publicly announced. As always, Hales welcomes your announcements.

### Retail vs. Wholesale Acquisitions

OCTOBER-DECEMBER 2009



## [ THE REAL DEAL ] Recent M&A Action

ACQUIRER	ANNOUNCED	TARGET FIRM
<b>BROKERAGES</b>		
American Westbrook Ins. Services	01/01/10	<b>American Patriot Insurance Agency</b> Ill. p-c insurance agency specializing in the construction field
Aon Corp.	12/07/09	<b>Allied North America</b> N.Y. surety and construction insurance brokerage firm <b>Price:</b> \$145m <b>Revenue:</b> \$88m
Aon Corp.	12/15/09	<b>FCC Global Insurance Services</b> Spain-based captive brokerage and subsidiary of Fomento De Construcciones Y Contratas, specializing in infrastructure, environmental and related public services
Brown & Brown	12/31/09	<b>Alamo Insurance Group</b> Texas brokerage providing p-c insurance, employee benefits insurance, personal insurance, and risk management products and services <b>Revenue:</b> \$4.3m
Capacity Coverage	12/28/09	<b>EJA &amp; Associates</b> N.J. full-service insurance agency
CBIZ	01/12/10	<b>National Benefit Alliance</b> Utah firm specializing in the design, implementation and administration of employee benefit plans to service government contractors as well as the traditional commercial market <b>Revenue:</b> \$2m
Cochrane & Co.	01/14/10	<b>Zurich</b> transportation accounts from Calif.-based <b>Trans Cal</b> , a general agent and surplus lines brokerage
EAGIL Financial Group	01/27/10	<b>Goebel Insurance Agency</b> Pa.-based agency offering a full line of p-c and life insurance products
Frank Crystal & Co.	01/01/10	<b>Gables Financial Group</b> Fla. brokerage specializing in corporate employee benefits, pension and retirement planning
Higginbotham & Assoc.	12/21/09	<b>McKinney Insurance Group</b> Texas commercial and personal p-c insurance brokerage
Hub International	12/08/09	<b>Associated Insurance Managers</b> Mont. full-service insurance brokerage
Hub International	12/31/09	Commercial lines and life & health books of business of Calif.-based <b>Wescom Insurance Services</b> , a wholly owned subsidiary of Wescom Credit Union
Hub International	12/31/09	<b>Ogilvy, Gilbert, Norris &amp; Hill d/b/a Ogilvy Hill Insurance</b> Calif. insurance brokerage offering commercial, personal and employee benefits products and services to its client base of businesses and individuals <b>Revenue:</b> \$7m
Integro	12/17/09	<b>William E. Kelly Agency</b> N.Y. personal lines agency specializing in insuring yachts
Integro	01/04/10	<b>London Market Insurance Brokers</b> U.K. brokerage with a specialty in marine coverage solutions
Investor Group led by Mgmt. of Millennium Brokerage Grp.	01/21/10	<b>Millennium Brokerage Group</b> Tenn. life insurance brokerage and subsidiary of Enterprise Financial Services Corp. <b>Price:</b> \$4m
Jardine Lloyd Thompson Group	12/01/09	<b>HSBC Actuaries and Consultants</b> U.K. firm and subsidiary of HSBC Holdings, providing actuarial and pension consultancy services, financial planning services, employee benefit services and pension administration to U.K. companies <b>Price:</b> \$44.9m <b>Revenue:</b> \$65.9m
Johnson & Johnson	01/07/10	<b>Sunbelt General Agency</b> Ala. full-service managing general agency and subsidiary of American Modern Insurance Group
Karen & Michael Quigley Ins. Agency	01/26/10	<b>Elmer R. Jordan Insurance Agency</b> Calif. agency offering personal insurance, business insurance, and financial services
Lawson-Hawks Insurance Assoc.	12/04/09	<b>J6 Insurance Services</b> Calif. insurance brokerage specializing in construction and environmental insurance
Lockton Companies	01/21/10	Significant stake in <b>IMI</b> South Korean insurance brokerage
Marsh & McLennan Cos.	12/18/09	<b>HSBC Insurance Brokers</b> U.K. international provider of risk intermediary and risk advisory services and wholly owned subsidiary of HSBC Bank <b>Price:</b> \$219.3m
Marsh & McLennan Cos.	12/21/09	<b>The NIA Group</b> N.J. brokerage providing p-c insurance, employee benefits, personal insurance and life insurance/estate planning <b>Revenue:</b> \$62m
Mgmt. of Alliance Insurance Agency	01/04/10	<b>Alliance Insurance Agency</b> Va. full-service insurance agency and subsidiary of Alliance Bankshares Corp. <b>Price:</b> \$5m
Mgmt. of NB&T Insurance Agency	12/29/09	<b>NB&amp;T Insurance Agency</b> Ohio full-service insurance agency and wholly owned subsidiary of The National Bank and Trust Co.
NSM Insurance Group	01/27/10	<b>Condon &amp; Skelly Collectible Vehicle Insurance</b> N.J. insurance brokerage serving the antique, classic car, and street rod market
Risk Strategies Co.	01/20/10	<b>GSM Insurance Services</b> Calif. specialty insurance organization with a focus on construction services, environmental and professional liability
Shepherd Insurance Agency	12/04/09	<b>DeTrude &amp; Co.</b> Ind. employee benefits firm serving several business sectors, including law firms, manufacturers, service organizations and governmental agencies
The Securus Group	12/02/09	<b>The Dunlop Agency</b> Merger between two Pa. full-service insurance agencies
TRC Stevenson	12/23/09	<b>Merritt &amp; McKenzie</b> Ga. full-service insurance agency and subsidiary of First Horizon National Corp.
TriCounty Insurance	12/08/09	<b>Steve Brooks Insurance Services</b> Merger between two Calif. full-service insurance agencies
United Insurance	12/15/09	Mexico agency business of Maine-based <b>Northeast Bank Insurance Group</b> , a wholly owned subsidiary of Northeast Bank
Willis Group Holdings	01/06/10	<b>Dickson &amp; Co. Insurances</b> Ireland commercial and personal lines brokerage
Willis Group Holdings	01/06/10	<b>McCausland Light &amp; Rankin</b> Ireland commercial insurance brokerage specializing in transportation insurance and a wide range of property insurance, varying from single occupancy to industrial estates
<b>INSURANCE AND FINANCIAL SERVICES</b>		
Independence Holding Co.	01/18/10	<b>Alliance Underwriters</b> Fla. managing general underwriter of employer stop loss
Northeast Delta Dental	12/31/09	<b>Combined Services</b> N.H. general insurance agency and subsidiary of Fort Dearborn Life Insurance Co. offering a full portfolio of employee benefits insurance products and administrative services throughout Maine, N.H. and Vt.

## [ THE REAL DEAL ] Recent M&A Action

ACQUIRER	ANNOUNCED	TARGET FIRM
<b>BANKS</b>		
TowneBank	12/31/09	<b>Taylor Johnson Group</b> Va. full-service insurance agency
Wells Fargo & Co.	12/08/09	<b>Orca Bay Benefits</b> Wash. insurance brokerage providing employee benefits services including, healthcare reimbursement arrangements (HRAs), healthcare savings accounts (HSAs), individual and large group medical insurance plans, and a full range of value added benefits services
Wells Fargo & Co.	12/08/09	<b>iLeader Risk Management Solutions</b> Fla. brokerage providing risk management services and insurance brokerage solutions to the healthcare, transportation, retail, and hospitality industries, as well as providing PEO/staffing solutions for large and mid-sized organizations
<b>OTHER</b>		
Stone Point Capital	12/14/09	49% minority interest in Texas-based <b>Higginbotham &amp; Associates</b>
Watson Wyatt Worldwide	12/18/09	<b>Towers, Perrin, Forster &amp; Crosby</b> Merger between two global consulting firms <b>Price: \$4b Revenue: \$1.76b</b>

## [ SCORECARD ] Our World in Play

COMPANY	OCT-DEC	YTD 12/31	COMPANY	OCT-DEC	YTD 12/31	COMPANY	OCT-DEC	YTD 12/31
<b>BANKS</b>								
AF Financial Group	0	1	Aon Corp.	3	3	Marsh & McLennan Cos.	4	7
Allegacy Federal Credit Union	0	1	Apex Global Partners	0	1	Marshall & Sterling Insurance	0	1
Ameriana Bancorp	0	1	Armstrong/Robitaille/Riegle	0	2	MBL Advisors Holdings	0	1
Aquesta Bank	1	1	Arthur J. Gallagher & Co.	3	11	McNeary	0	1
BB&T Corp.	1	1	Ascension Insurance	0	6	McQueary Henry Bowles Troy	0	1
City Holding Co.	0	1	Ash Brokerage Corp.	0	1	New York Long-Term Care Brokers	1	1
Eastern Bank Corp.	0	1	Associated Insurance Mgmt.	1	1	NIF Group	0	1
FedFirst Financial Corp.	0	1	Atlantic Risk Specialists	0	1	NII BSA	0	1
First Horizon National Corp.	0	1	Atlas Insurance Agency	0	1	NIP	1	1
Kinderhook Bank Corp.	0	1	Bearence Management Group	0	1	Owners and employees of Galloway-Chandler-McKinney Ins. Agency	0	1
National Penn Bancshares	0	1	Bollinger	1	2	Premier Insurance	0	1
Northeast Bancorp	0	1	Bradley & Parker	0	1	Propel Insurance	0	1
TowneBank	1	1	Brower Insurance Agency	0	1	Scirocco Financial Group	0	1
UMB Financial Corp.	0	2	Brown & Brown	2	8	Seubert & Associates	1	1
Wells Fargo & Co.	3	6	Capacity Coverage	1	1	Shepherd Insurance Agency	1	1
<b>Total</b>	<b>6</b>	<b>21</b>	CBIZ	1	2	Texas Security General Insurance Agency	0	1
<b>INSURANCE AND FINANCIAL SERVICES</b>								
American Financial Group	0	1	Chastain & Assoc.	0	1	The Buckner Co.	1	1
Beazley Group	0	1	CIA Group	0	1	The Buren Insurance Group	1	1
Catlin Group	0	1	Cooper Gay	1	1	The NIA Group	0	1
Citadel Reinsurance Co.	0	1	Cottingham & Butler	0	1	The Securus Group	1	1
Clear Choice Health Plans	0	1	Dean & Draper Ins. Agency	1	1	TRC Stevenson	1	1
Comprehensive Care Corp.	0	1	Demetriou General Agency	0	1	TriCounty Insurance	1	1
Fortegra Financial Corp.	0	1	Diablo Valley Insurance Agency	0	1	United Insurance	1	1
HCC Insurance Holdings	0	1	Eastern Insurance Acquisition Group	0	1	USI Holdings Corp.	0	1
Ironshore	0	1	Edgewood Partners Insurance Center	0	2	Wagner Insurance Agency	0	1
Manulife Financial Corp.	1	1	Frenkel & Co.	0	1	Warranty Title Agency	0	1
Markel Corp.	0	2	Glatfelter Insurance Group	0	1	Western States Insurance Agency	0	1
Northeast Delta Dental	1	1	GNW-Evergreen Insurance Services	0	2	Weymouth & Smith	0	1
Pan-American Life Insurance Group	0	1	Group Benefit Services	1	1	William Gallagher Assoc.	1	1
Physicians Healthcare Mgmt. Group	0	1	Hector Fortun, former owner of Fortun Ins. Agency	0	1	Willis Group Holdings	0	1
Primary Group	0	1	Higginbotham & Associates	1	3	Woodruff-Sawyer & Co.	1	1
Randall & Quilter Investment Holdings	0	1	Hix Insurance Associates	0	1	York International Agency	0	1
Tower Group	1	1	Hub International	4	9	<b>Total</b>	<b>41</b>	<b>131</b>
W.R. Berkley Corp.	0	1	Insurance Specialty Group	0	1	<b>OTHER</b>		
XL Capital	1	1	INSURICA Services	0	1	AHM Corp. Holdings	1	1
XN Financial	0	1	Integro	1	1	Astorg Partners	1	1
<b>Total</b>	<b>4</b>	<b>21</b>	Jardine Lloyd Thompson Group	1	1	Evolution Capital Partners	0	1
<b>BROKERAGES</b>								
53 Group Holdings	0	1	John O. Bronson Co.	0	1	LTC Global Solutions	0	1
A.N. Ansay & Associates	0	1	Keenan & Suggs	0	1	Management team and Fund Management Group	1	1
ACI Specialty Benefits	0	1	Keystone Insurers Group	1	1	MEDEX Global Group	0	1
American Westbrook Ins. Services	0	1	Knight Crockett Miller Ins. Group	0	1	Stone Point Capital	1	1
AmWINS Group	0	4	KPD Insurance	0	1	Undisclosed buyer	0	4
			Lawson-Hawks Ins. Associates	1	2	Watson Wyatt Worldwide	1	1
			Management of NB&T Insurance Agency	1	1	<b>Total</b>	<b>5</b>	<b>12</b>
			Management of Sovereign Benefits Consulting	0	1			

### What's Being Bought OCTOBER-DECEMBER 2009

Full Service	32
P-C Commercial	13
Benefits	9
P-C Personal	1
Life, LTC, and/or DI	1
TPA	0
Title	0

### Who's Buying OCTOBER-DECEMBER 2009

Insurer & Other	9
Insurance Broker	41
Bank	6