



MARKET TEMPERATURE: ARCTIC

M&A Activity on Life Support

Deal fervor comes to a halt.

Clearly, deal interest and activity has taken a “wait and see” approach so far in 2009. Just when you’re thrown a bone by Fed Chairman Bernanke who raised eyebrows—and, briefly, the stock market—in February when he said, “There’s a ‘reasonable prospect’ the economy will bottom this year and be in recovery in 2010,” hopes are just as quickly dashed. One week later, AIG reported a record loss for a U.S. company and needed an additional \$30 billion of new capital from a fourth government bailout. Economic news is consistently dismal, and the economic recovery is said to be at the mercy of the government’s ability to stabilize the financial markets.



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The economic tsunami is without a doubt having an adverse effect on deal activity. Only six deals—yes, only six—were announced in February. Deal activity hasn’t been this low since November 2003. But times were different back then. The soft market was just beginning. The composite of overall organic revenue growth rates for the public brokerage, of which there were eight back then, exceeded acquired growth by more than double: 11.2% vs. 5.1%. The need to acquire wasn’t as imperative, and only 182 deals were done compared to the 307 in 2008. Once the economic turmoil dissipates, doesn’t it stand to reason consolidation will continue in earnest?

Many leading acquirers had their most active year in 2008 in terms of the number of transactions and/or purchased revenues. As such, several leading acquirers are on the sidelines digesting and integrating their acquisitions. Others are waiting for the right opportunity at the right price, and that is not something agency owners are too eager to lower, despite likely taking a haircut on their own top and bottom lines. The current market cycle may present ample buying opportunities to acquirers, but sellers are hesitant due to decreased valuation and pricing as well as lack of reinvestment opportunities. The question of “In what vehicle can I invest my sales proceeds?” has become all too familiar but, likewise, shocking to hear.

All buyer categories except “other” were represented in February. With only 30 deals announced in two months, Arthur J. Gallagher leads the pack with three. Property-casualty commercial agencies outnumbered other agency categories nearly two-to-one, largely fueled by the acquisitions of wholesalers.

Too many unknowns—from available financing sources to healthcare reform, capital gains, personal income tax rates, economic recovery, and when insurance rates might harden—all lend to sitting on the fence. It’s too early to predict whether 2009 will be another record year for M&A, and February activity alone would portend not, but keep in mind that none of the dynamics that drive consolidation have changed. So let’s just wait and see.

SEND YOUR M&A ANNOUNCEMENTS TO AUDRA SZOLLOSY AT Audra.Szollosy@LeadersEdgeMagazine.com.

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.

[THE REAL DEAL] Recent M&A Action

ACQUIRER	ANNOUNCED	TARGET FIRM
BROKERAGES		
Arthur J. Gallagher & Co.	02/12/09	Fidelity Benefits & Insurance Services Texas employee benefits consultancy and insurance brokerage offering a broad range of employee benefits insurance and consulting services to Texas clients.
Arthur J. Gallagher & Co.	02/06/09	PartnerSource Texas retail insurance brokerage and consultancy specializing in the design, implementation and ongoing support for non-subscription programs, an alternative for Texas workers compensation, and non-medical employee benefits programs. Price: \$17.7m
Marsh & McLennan	02/02/09	Remaining 49% stake in Companias DeLima S.A. , a Colombian insurance brokerage.
INSURANCE AND FINANCIAL SERVICES		
Beazley Group	02/17/09	First State Management Group Mass. underwriting manager specializing in excess and surplus lines commercial property insurance. Price: \$35.4m
Primary Group	02/11/09	Underwriters & Brokers Mich. agency handling middle-market commercial risks with a particular focus on professional liability and liquor liability lines of business.
BANKS		
Kinderhook Bank Corp.	02/13/09	The Kleeber Agency N.Y. insurance agency offering commercial and personal lines of p-c insurance.

[SCORECARD] Our World in Play

COMPANY	JAN-FEB	YTD 2/28
BANKS		
Eastern Bank Corp.	1	1
Kinderhook Bank Corp.	1	1
Total	2	2
INSURANCE AND FINANCIAL SERVICES		
Beazley Group	1	1
Citadel Reinsurance Co.	1	1
Clear Choice Health Plans	1	1
Comprehensive Care Corp.	1	1
HCC Insurance Holdings	1	1
Markel Corp.	1	1
Primary Group	1	1
W.R. Berkley Corp.	1	1
Total	8	8
BROKERAGES		
Armstrong/Robitaille/Riegle	1	1
Arthur J. Gallagher & Co.	3	3
Ash Brokerage Corp.	1	1
Atlantic Risk Specialists	1	1
Bearence Management Group	1	1
Bradley & Parker	1	1
Brown & Brown	1	1
Diablo Valley Insurance Agency	1	1
Eastern Insurance Acquisition Group	1	1
Edgewood Partners Insurance Center	1	1
Glatfelter Insurance Group	1	1
Hix Insurance Associates	1	1
Hub International	1	1
KPD Insurance	1	1
Marsh & McLennan	1	1
NIF Group	1	1
Texas Security General Insurance Agency	1	1
USI Holdings Corp.	1	1
Total	20	20

Retail vs. Wholesale Acquisitions

JANUARY-FEBRUARY 2009

Retail	20	
Wholesale	10	

What's Being Bought

JANUARY-FEBRUARY 2009

Full-Service	9	
P-C Commercial	16	
Benefits	2	
P-C Personal	1	
Life, LTC, and/or DI	1	
TPA	1	
Title	0	

Who's Buying

JANUARY-FEBRUARY 2009

Insurer & Other	8	
Insurance Brokerage	20	
Bank	2	