

MARKET TEMPERATURE: BRRRRRR

Stagnant M&A Activity

The Song Remains the Same

Thirty-plus years later and insurance brokerage M&A activity appears to be best personified in the title of a soundtrack album by the English rock group Led Zeppelin. For the past four months, the song has remained virtually the same month after month.

Perpetuating monthly lows over a several year period, 11 deals were announced in May, pushing the market barometer to 67. On an annual run-rate, M&A activity is on course to be at its lowest level in 10 years. Thirty-five deals were announced during the three-month period March through May, compared to 59 in the same timeframe last year.

Although insurance brokers continue to dominate the acquisition landscape, the players—i.e., buyers—have changed a bit. Many newcomers in the likes of regional brokerages, who weren't invited to play in the sandbox these past couple of years, are finding strategic opportunities in acquisitions. Despite the disparity in deal count on a year-over-year basis, there are nearly as many different insurance brokerage buyers today as there were a year ago—the key word being different.

COULD HEALTHCARE REFORM CHANGE THINGS?

Benefits firms continue to be an attractive option for some acquirers. Some 26% of deal activity in the past three months is attributed to acquisitions of benefits firms. Compare that to 29% a year ago. Although interest in benefits firms has remained relatively stable, some buyers are taking a wait-and-see approach. They are waiting for any possible legislative changes in healthcare policy that will have a meaningful—and negative—impact on healthcare distribution. Others see a sustainable business model that likely will not drastically change at the swipe of a pen, and they have great interest in acquiring benefits firms. These proactive acquirers already have these firms in their pipelines and will be ready to consummate a transaction at the hint of anything that maintains the status quo or that is otherwise beneficial to the industry.

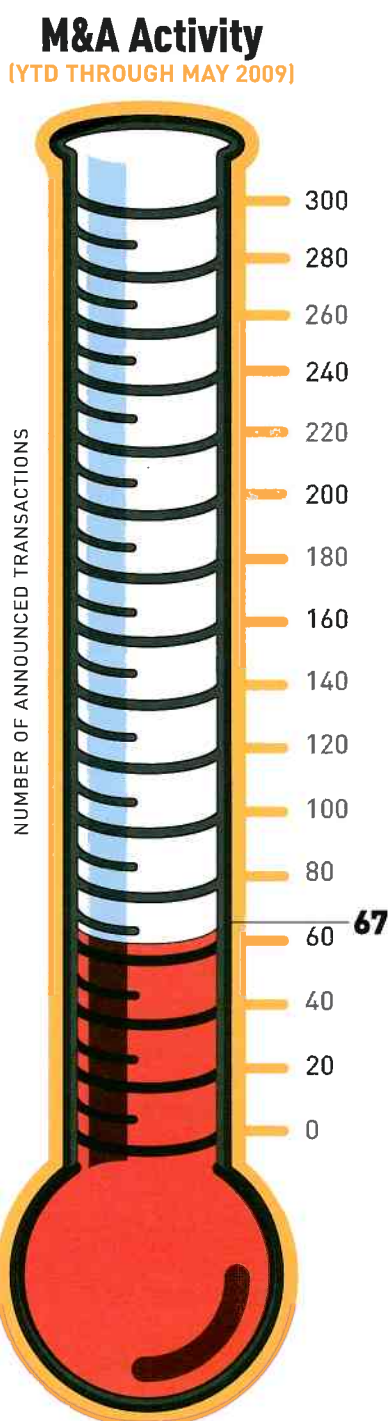
Like the renaissance of regional brokerages, regional banks have been more acquisitive of insurance brokerages. Of the eight bank deals this year, six are regional acquisitions. Still modestly acquisitive after the Wachovia purchase, Wells Fargo leads the bank category with two acquisitions through May.

For the first time in 29 months, there were no wholesale transactions announced in May. This should be good news to retailers concerned with the possible effects on their relationships and market access anytime consolidation takes place in the wholesale arena. The soft market has taken a particular toll on many wholesale agencies, and while these conditions have presented some opportunity for buyers and sellers to take advantage of the adage “two is better than one,” others are waiting for a little more certainty and firming in the commercial p-c markets before making any moves.

As the end of the second quarter passes and attention turns to summer—if only for a week or two of uninterrupted solitude at the beach—the number of announced transactions thus far certainly doesn't reflect a voracious acquisition appetite. However, many consistent and steadfast consolidators will continue to seek strategic opportunities if even at a more modest pace than in recent years.



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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

MARCH-MAY 2009



[THE REAL DEAL] Recent M&A Action

ACQUIRER	ANNOUNCED	TARGET FIRM
BROKERAGES		
Arthur J. Gallagher & Co.	05/08/09	Sellers Group Texas employee benefits brokerage offering a full range of group employee benefit products and consulting services. Price: \$2 mil
	05/18/09	Nurse Insurance Brokers Calif. brokerage offering personal and commercial p-c insurance products and services to clients throughout the western U.S.
Atlas Insurance Agency	05/18/09	Bank of Hawaii Insurance Services Hawaii agency providing comprehensive insurance programs for businesses and consumers on Oahu, Maui and the Big Island.
Bollinger	05/06/09	Gail Steinberg & Co. N.Y. brokerage providing employee benefit products and services to small and mid-sized companies in the greater N.Y. area.
Brown & Brown	05/12/09	Irving Weber Associates N.Y. brokerage specializing in insurance programs primarily for the fabricare industry, which is comprised of drycleaners, linen supply, uniform rental and commercial laundry operations. Revenue: \$4 mil
Hub International	05/22/09	Meier Insurance Agency Wash. full-service insurance brokerage offering commercial lines, personal lines and employee benefit products and services to customers throughout the Pacific Northwest.
	05/27/09	Rettenmier Benefits Group Wash. employee benefits consulting and insurance brokerage serving businesses and individuals in the Pacific Northwest.
Wagner Insurance Agency	05/12/09	Kettering Insurance Agency Merger between two Ohio p-c insurance brokerages.
BANKS		
Ameriana Bancorp	05/27/09	Chapin-Hayworth Insurance Agency Ind. multi-line p-c insurance agency.
Northeast Bancorp	05/19/09	Goodrich Insurance Assoc. Maine agency offering p-c insurance as well as commercial lines for Berwick and surrounding markets. Price: \$.7 mil
OTHER		
Undisclosed buyer	05/07/09	Franchise business of N.Y.-based DCAP Group . Price: \$.2 mil

[SCORECARD] Our World in Play

COMPANY	MAR-MAY	YTD 05/31	COMPANY	MAR-MAY	YTD 05/31	COMPANY	MAR-MAY	YTD 05/31
BANKS			BROKERAGES			OTHER		
Allegacy Federal Credit Union	1	1	53 Group Holdings	1	1	Insurance Specialty Group	1	1
Ameriana Bancorp	1	1	AmWINS Group	3	3	Knight Crockett Miller Ins. Group	1	1
Eastern Bank Corp.	0	1	Armstrong/Robitaille/Riegle	0	1	KPD Insurance	0	1
FedFirst Financial Corp.	1	1	Arthur J. Gallagher & Co.	2	5	Marsh & McLennan Companies	1	2
Kinderhook Bank Corp.	0	1	Ascension Insurance	1	1	MBL Advisors Holdings	1	1
Northeast Bancorp	1	1	Ash Brokerage Corp.	0	1	NIF Group	0	1
Wells Fargo & Co.	2	2	Atlantic Risk Specialists	0	1	NII BSA	1	1
Total	6	8	Atlas Insurance Agency	1	1	Scirocco Financial Group	1	1
INSURANCE & FINANCIAL SERVICES			Bearence Management Group	0	1	Texas Security General Ins. Agency	0	1
Beazley Group	0	1	Bollinger	1	1	USI Holdings Corp.	0	1
Citadel Reinsurance Co.	0	1	Bradley & Parker	0	1	Wagner Insurance Agency	1	1
Clear Choice Health Plans	0	1	Brown & Brown	3	4	Total	25	45
Comprehensive Care Corp.	0	1	Diablo Valley Ins. Agency	0	1	OTHER		
Fortegra Financial Corp.	1	1	Eastern Ins. Acquisition Group	0	1	Evolution Capital Partners	1	1
HCC Insurance Holdings	0	1	Edgewood Partners Ins. Center	0	1	LTC Global Solutions	1	1
Market Corp.	0	1	Glatfelter Ins. Group	0	1	Undisclosed buyer	1	2
Physicians Healthcare Mgmt. Group	0	1	Hector Fortun, former owner of Fortun Ins. Agency	1	1	Total	3	4
Primary Group	0	1	Higginbotham & Assoc.	1	1			
W.R. Berkley Corp.	0	1	Hix Insurance Assoc.	0	1			
Total	1	10	Hub International	4	5			

What's Being Bought MARCH-MAY 2009

Full Service	14	
P-C Commercial	8	
Benefits	9	
P-C Personal	0	
Life, LTC, and/or DI	3	
TPA	0	
Title	1	

Who's Buying MARCH-MAY 2009

Insurer & Other	4	
Insurance Broker	25	
Bank	6	