

MARKET TEMPERATURE: TEMPERATE

# Kickin' It Up a Notch

## Back to basics and buying.

The number of 2008 transactions through September 30 is slightly ahead of the same period in 2007. Activity in the third quarter was hearty with 67 transactions (24 in September) announced versus 55 during the same period last year. The year-to-date total is 207.

Brokers dominated this quarter by acquiring 40 firms (60%). Although bank M&A activity has been sluggish, several had quite a showing in the third quarter, acquiring 14 firms (21%). Despite resurgence in the third quarter, it appears the number of bank acquisitions overall will be the lowest since Hales began tracking this data in 2000.



By Audra Szollosy

Of particular interest is what's being bought. For the three-month period, employee benefit acquisitions have outnumbered full-service agencies (and all other categories), accounting for 19 (28%) of 67 deals. The reasons for acquiring a benefit shop are diversification, declining p-c revenue, and continued rate increases in benefit products. Reasons for selling likely include: fear of tax rate changes; legislative change in healthcare; or simply, taking a few chips off the table.

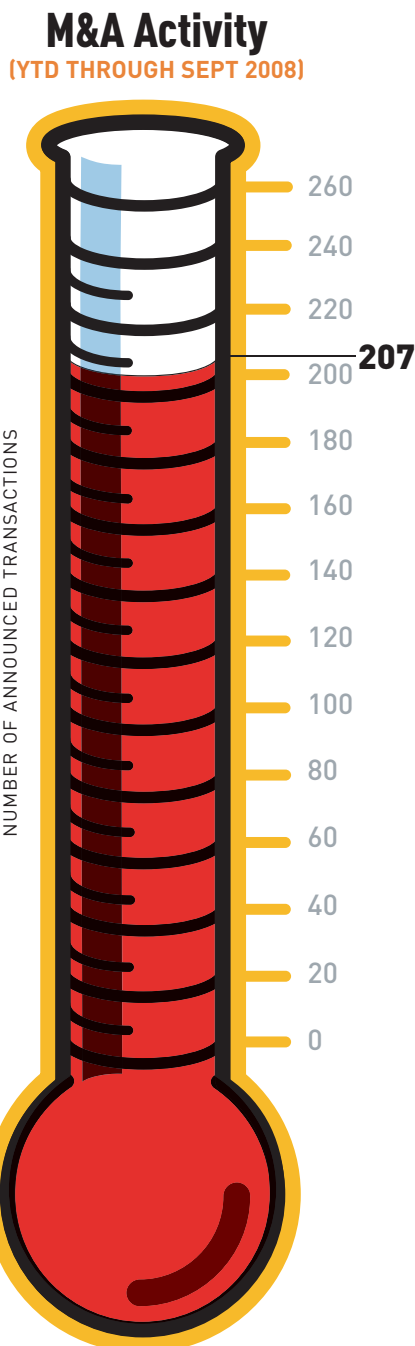
Leading the broker category in the third quarter were Brown & Brown, Arthur J. Gallagher, and Hub International—six, five and four deals, respectively. These acquisitions bring their totals to 21, 19 and 10 through September. They account for roughly 25% of all deal activity. Wells Fargo scooped up five out of its six 2008 acquisitions during the third quarter. BB&T acquired three this quarter, bringing its year-to-date total to eight, leading all bank buyers.

Many other banks have not fared as well. From the biggest bank failure in U.S. history, that of Washington Mutual, to the closing of the local bank no one hears about, the number of bank closings, failures and buyouts continues to rise. Several of these banks have insurance brokerage operations. One notable example is Wachovia. Originally slated to go to Citigroup sans its insurance business under a federally assisted transfer, Wachovia has accepted a buyout by Wells Fargo, which—without federal aid—will keep the bank and its units intact, including its insurance business.

Given the fragile state of our economy, will consolidation continue? Common sense says yes. Many agencies are struggling. Some agency owners will need to sell, and others will need to buy. These worst case scenarios don't bode well for either party. The major risk for buyers is the possibility of an even deeper soft market, which would lower cash flows of targets and, thus, lower the return on investment. Fortunately, rates continued trending through August relatively the same on a composite basis. The purchase of an insurance brokerage operation still may be the best option for putting one's cash to work. And therein lies the rub.

Typically, unstable world market conditions shut down M&A, especially for larger transactions that are heavily debt dependent. During this time of economic uncertainty, credit markets are extremely tight. On the day the first financial rescue plan was rejected, U.S. financial markets plunged. When the final bailout was approved, down they went again. Not even the Money Honey, a.k.a. Maria Bartiromo from CNBC, can make the bad days on Wall Street look good during Closing Bell.

While buyers' pipelines are plentiful, the quantity of high-performing, high-quality agencies is dwindling. The shift toward a buyers' market persists, and the possibility of real downside pricing pressure coupled with creative deal structuring exists. As we journey through the fourth quarter of 2008, the effect on our corner of the world remains to be seen.



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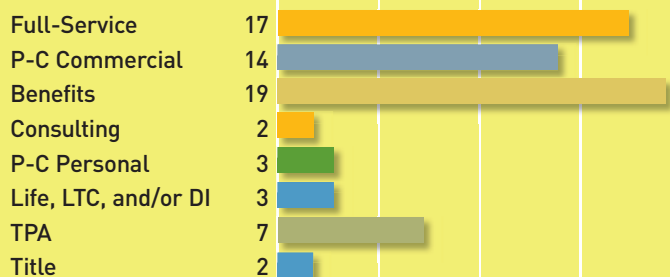
### Retail vs. Wholesale Acquisitions

JULY-SEPTEMBER 2008

Retail	54	
Wholesale	13	

## What's Being Bought

JULY-SEPTEMBER 2008



## Who's Buying

JULY-SEPTEMBER 2008



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

ACQUIRER	ANNOUNCED	TARGET FIRM
<b>BROKERAGES</b>		
Provider Insurance Group	9 /30/08	Personal lines business of Mass.-based <b>James Gorman Insurance Agency</b>
Apex Global Partners	9 /24/08	<b>Global Benefit Solutions</b> Texas benefits broker providing health and welfare insurance brokerage and consulting, retirement planning, exec comp, HR consulting to corporate clients.
Confie Seguros	9 /24/08	<b>West Coast Auto Ins. Svcs.</b> Calif. auto insurance brokerage serving Hispanic customers.
Business Benefits	9 /23/08	<b>Hammerlein Garner Insurance Agency</b> Ky. full-service insurance agency.
Arthur J. Gallagher & Co.	9 /17/08	<b>Summit Insurance Group</b> Texas benefits consulting and brokerage with emphasis on planning, design, implementation, cost containment and plan administration for groups with 50 or more.
	9 /16/08	<b>Oxygen Insurance Masters</b> London Financial Services Authority authorized underwriting agency specializing in international classes of insurance such as liability, extended warranty.
	9 /12/08	<b>California Insurance Center</b> Retail broker offering risk mgmt., commercial p-c in western U.S. specializing in construction, real estate/hospitality, marine, private equity and manufacturing.
Hub International Limited	9 /16/08	<b>Pickett &amp; Adams Insurance Agency</b> Ala. full-service insurance agency. <b>Revenue:</b> \$3.5m
	9 /9 /08	<b>Fredricksen Insurance Services</b> and <b>PMT</b> Calif. wholesale broker specializing in equine and agri-related risks throughout the U.S., as well as PMT, Fredricksen's retail subsidiary.
	9 /4 /08	<b>Arnold and Associates</b> Ariz. employee benefits agency.
Armstrong/Robitaille/Riegle Bus. & Ins. Solutions	9 /11/08	<b>Balance Insurance Agency</b> Calif. specialty surety agency.
Comegys Insurance Agency	9 /08 /08	<b>Jakhotia Insurance Group</b> Fla. agency specializing in hotels/motels as well as other specialized retail segments throughout Fla.
Hilb Rogal & Hobbs Co.	9 /2 /08	<b>G.A. Pearson and Associates Insurance Brokers</b> Calif. agency specializing in commercial, construction, and complex property insurance. <b>Revenue:</b> \$3.8m
<b>INSURANCE AND FINANCIAL SERVICES</b>		
Argo Group International Holdings	9 /29/08	<b>Insight Insurance Services</b> Ill. program administrator providing professional liability insurance for architects, engineers, accounting professionals and insurance agents.
Prudential Financial	9 /11/08	<b>MullinTBG Insurance Agency Services</b> Calif. firm providing executive benefit solutions and financing strategies, including deferred-compensation programs, and related entities.
Hallmark Financial Services	9 /2 /08	<b>Heath XS</b> and <b>Hardscrabble Data Solutions</b> (Heath Group) N.J. underwriting facility of lower hazard, middle market, excess commercial auto and commercial umbrella risks. <b>Price:</b> \$15m
Hudson Insurance Group	9 /2 /08	<b>CropUSA Insurance Agency</b> Kan. managing general underwriter for Hudson in the crop insurance sector.
<b>BANKS</b>		
Wells Fargo & Co.	9 /11/08	<b>Herder-Tarricone Associates</b> N.J. agency providing a range of corporate coverages, employee benefits and financial services products to both businesses and individual customers.
	9 /9 /08	<b>Professional Benefits Associates</b> N.C. agency providing individual, fully insured and self-insured group benefit products for businesses and individual customers.
	9 /3 /08	<b>Char Clark Associates</b> Wash. agency providing group and individual health, life, disability, dental and vision coverages.
VIST Financial Corp.	9 /4 /08	<b>Fisher Benefits Consulting</b> Pa. employee benefit firm. <b>Revenue:</b> \$1m
BB&T Corp.	9 /2 /08	<b>Commercial Title Group</b> Va. Title insurance agency.
	9 /2 /08	<b>Southern Risk Operations</b> S.C. excess and surplus brokerage specializing in broad range of risks, including high-risk personal and commercial properties along East Coast.
<b>OTHER</b>		
Undisclosed buyer	9 /5 /08	<b>United Insurance Group Agency</b> Mich. sub of <b>Penn Treaty American Corp.</b> distributing life and health products through captive agency and brokerage operations throughout U.S.