

Market Temperature: Warming

## The Countdown Begins: Crossing the Finish Line

By Audra M. Szollosy

If you've ever run cross-country, you know that, with the finish line out of sight, it can feel like you'll never cross it. Parties to an M&A transaction know exactly how the cross-country runner feels. Sometimes you just wonder: Will I ever get this deal done?

Fortunately, M&A activity in September didn't appear to suffer from deal fatigue. It was the third most active month this year with 21 transactions announced, making the third quarter the most active with 61 deals, versus 36 last year. Through September 30, deal volume is 28% higher than during the same 2009 period. Year-to-date, the mercury in the market barometer has reached 167.

Consolidation among insurance brokerages continues to dominate the M&A landscape. Of all acquisitions, 85% were brokerages buying other brokerages. During the height of M&A activity two years ago, that was 69%, and last year it was 70%. Clearly, other buyers—carriers, banks, private-equity firms and conglomerates—have nearly flown the coop. Surprisingly, banks are the second most active acquirers with only 10 deals, which is less than half of total bank deals in 2009. This is the least active M&A mode for banks in a decade!

September saw the usual suspects upping their deal count, but interestingly, several deal makers were local or regional agencies buying for the first time (or the first time in a long time)—buying their neighbor, buying their competitor, or buying the agency with no existent perpetuation strategy. Ninety different insurance brokerages have acquired 142 firms.

Both Arthur J. Gallagher (AJG) and Brown & Brown (B&B) reign on the M&A scorecard with 14 deals each. Both brokerages expanded their other operating areas outside of brokerage. AJG's subsidiary, Gallagher Bassett Services, acquired the third party administrator assets and managed care service operations of GAB Robins North America and its subsidiary MedInsights. A subsidiary of B&B acquired substantially all the assets of Crowe Paradis and two related entities, which became part of B&B's Services Division. Crowe Paradis, a provider of Social Security and Medicare advocacy services as well as second injury fund recovery services, has annual revenues of \$23 million. This is one of the largest transactions in terms of revenue B&B has done in several years. Hub International added to its deal count acquiring 75% of its eight total deals in the third quarter.

Several brokerages have three deals under their belts, one of which is new to the leading acquirer ranks. Dawson Companies, specializing in property-casualty, surety bonding and employee benefits, is headquartered in Cleveland, Ohio. Dawson has picked up three agencies this year, all located in its home state.

The complexity of healthcare reform and surrounding uncertainties will force consolidation among many employee benefit firms. One company set to capitalize and expand its local market presence by acquiring top-performing brokerages in U.S. cities is **Digital Insurance**, an employee benefits agency specializing in insurance for small businesses and mid-sized companies. Digital, typically known for servicing small books of business, acquiring small books or joint venturing, made its first two acquisitions under its new agency acquisition model in September.

M&A activity in the fourth quarter should be brisk unless the long-distance stamina of the deal parties begins to wane and the finish line proves unreachable. With rampant talk of extending the Bush tax cuts, those eager to close a transaction by the end of the year may just decide to walk to the finish line instead of run.