Deals round-up: 2009 officially worst year for insurance M&A

Sub-£40m deals total a record low, while larger transactions at one-third of previously weakest year

SIMON POOLE

WELL, NOW IT'S official. Across the board, by whatever measure you take, the statistics show that 2009 was the worst ever year for deal-making in the insurance sector – and that's comparing it with all the ups and downs of the ten preceding years.

As usual, the charts, produced by Experian Corpfin, are divided into transactions with value above and below £40m. In each case, they only include deals completed in the period where the amount paid has been publicly disclosed and the buyer or seller operates in the UK.

For the year as a whole, there were just 15 smaller deals (value below £40m) recorded – which was less than two-thirds of the minimum in the preceding ten years – and the total value of deals was similarly at a record low of £170m.

The final quarter does not show any particularly encouraging signs of an improvement, with lower volumes and aggregate values than either of the first two quarters of the year. Perhaps some comfort can be drawn, though, from an uptick in the final quarter compared to the third, however.

The story is similar for larger transactions. At three larger deals for a total of £500m, 2009 was by both measures showing less than a third of the activity of the preceding weakest year. The only comfort was that the second half of 2009 was the stronger, so perhaps larger deal practitioners can also be encouraged that the worst is over.

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Taking into account deals where no value has been disclosed, including for example a number of acquisitions by CCV, gives a similar result: a weak year with a slight uptick towards the end.

This picture of insurance deals is similar to that around the wider M&A marketplace. All sectors are reporting one of the weakest, if not the weakest, year in the last ten or more.

But, also across the board, there is a growing sense of optimism that first emerged in the last quarter of 2009. The question then was whether the optimistic mood would be sustained through the Christmas break. The good news is that the early signs are positive, as evidenced by a wide variety of sources. These are just a few of them:

The private equity journal *Unquote* carries out a quarterly survey of future expectations in relation to sales of businesses via management buy-outs. At the turn of the year, this showed a bullish view on smaller deals, with roughly 80% of survey respondents expecting deal activity to increase. Likewise, around 60% were optimistic about larger deals – up from 45% in a similar survey carried out three months earlier.

Unquote also looks at the proportion of deals funded in part with bank debt, as opposed to equity alone, and found a significant increase in debt-funded transactions. So the banks appear to be coming back into the market – normally an indicator of increased deal-making.

The stock market, which for many months had been almost completely closed to new issues, is showing signs of life. First, there was a handful of niche businesses – in property, fund management and similar activities – coming to the market in the final months of last year. Then, at the start of this year, an increasing number of firms in a wider range of sectors – retail, leisure, food, banking – have announced their intention to float. Insurance is not yet on the list but cannot be far behind.

And then, of course, there is simply the fact that there is a back-log of deals to be done. One private equity funder commented to us that his firm had not done a deal for 18 months, and his team is now "really hungry" to get a transaction over the finishing line. Another firm, fed up with finding itself the under-bidder in too many auctions, is increasingly prepared to bid at higher multiples than in recent months.

So the market certainly appears to expect a continued increase in deal activity. And maybe 2010 will be a great vintage year, with not just an increasing number of deals but also some highly profitable ones – for those brave enough to buy. **IT**

Simon Poole is a partner at Corbett Keeling, which advises on funding buy-outs and selling insurance businesses

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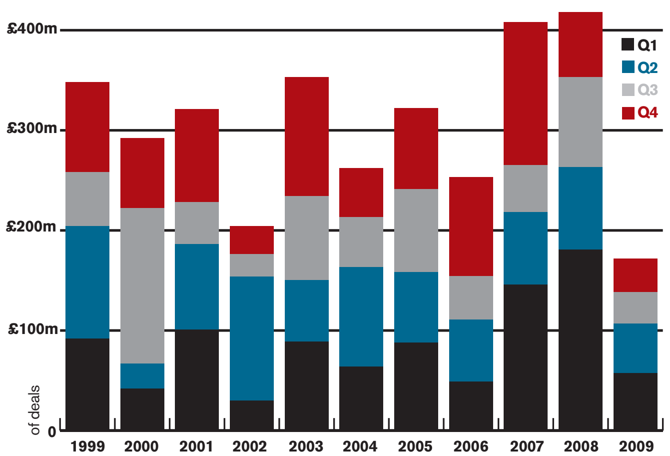
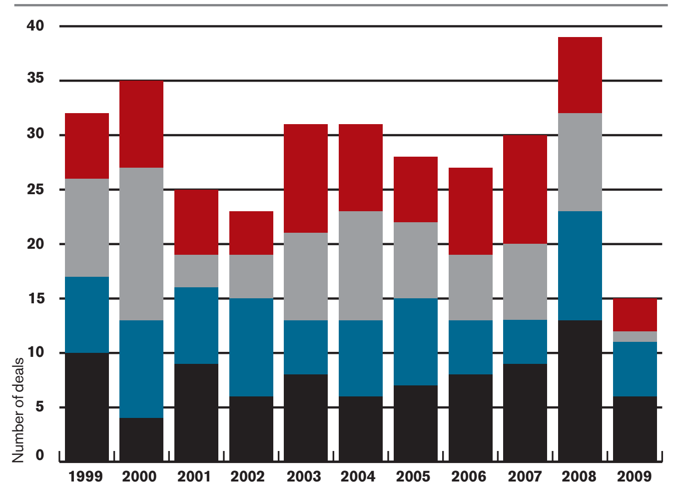
DEALS BY VALUE: LESS THAN £40M



DEALS BY VOLUME: LESS THAN £40M



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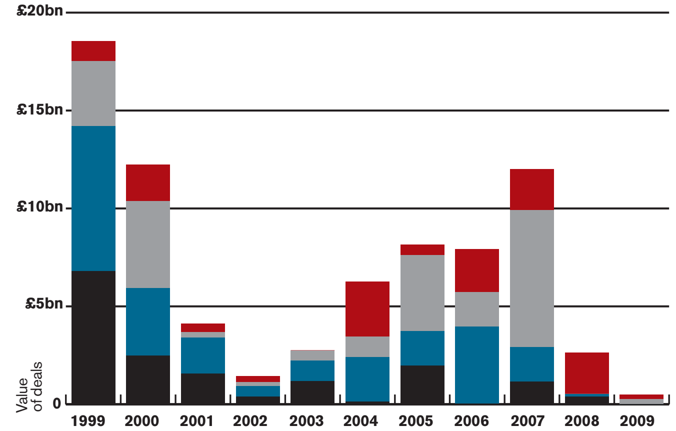
DEALS BY VALUE: MORE THAN £40M



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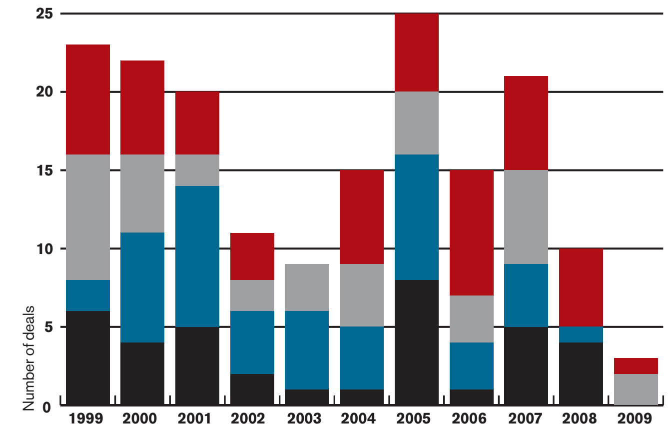
SOURCE: EXPERIAN CORPFIN



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