

# Buyout firm steers United National to \$230M IPO

by Peter Moreira

Just days after private equity firm **Fox Paine & Co.** took it over, property and casualty insurer **United National Group Ltd.** has revealed plans for an initial public offering designed to raise \$230 million.

The IPO, announced Wednesday, caps off a month of restructuring for the holding company, which owns Bala Cynwyd, Pa.-based United National Insurance Co., and comes as several general insurers are taking advantage of the insurance cycle upturn to raise equity capital.

Already this year, **Endurance Specialty Holdings Ltd.** of Hamilton, Bermuda, **Direct General Corp.** of Nashville and **Infinity Property & Casualty Corp.** of Birmingham, Ala., have launched offerings in the United States despite the shortage of IPOs.

“The overall environment is fairly positive from a premium standpoint” for insurers, said analyst Cathy Seifert, who covers insurance equities for **Standard & Poor’s**. “As long as you have premiums holding up, capital will continue to flow into the industry.”

The United National offering is the latest chapter in the recent restructuring of the insurer, which specializes in excess and surplus, or E&S, lines of insurance—special insurance products not offered by regular insurers in a given jurisdiction.

This summer, Foster City, Calif.-based Fox Paine said it planned to take control of the 43-year-old insurer. And in August the PE firm set up a Cayman Islands holding company to take ownership of the business.

On Sept. 5, Fox Paine invested \$240 million in the company,

taking 10 million Class B common shares and 14 million Series A preferred shares. That money allowed United National to buy out Wind River Investment Corp., the previous holding company for the U.S. business owned by trusts affiliated with the Ball family of Philadelphia.

United National plans to use up to \$175 million of the IPO proceeds to redeem all the Series A preferred shares, of which Fox Paine now owns 83%, the Ball family the remainder. That means the private equity company will recoup the \$140 million it paid for the preferred shares earlier this month.

Fox Paine now owns 82% of the common shares, which gives it 88% of the voting rights. Though the preliminary prospectus did not reveal the number or price of the shares to be issued, it does say Fox Paine will retain control of United National and appoint most of the directors.

Fox Paine also received a \$13.2 million management fee for its work on United National.

Seifert, who would not discuss United National specifically, said a few large, well-capitalized players tend to dominate the E&S insurance lines. Last year, United National was the sixth-largest provider of E&S insurance. Its net income nearly tripled in the first half from the previous first half to \$16.8 million while net premiums earned were essentially flat at \$94.4 million.

Its only bottom-line loss in the past five years came last year when it lost \$61.7 million, largely due to a \$47.8 million transfer to the net loss reserves.

**Merrill Lynch & Co., Banc of America Securities LLC** and **Dowling & Partners Securities LLC** will handle the IPO.