

Q&A: Mystic Capital Advisors managing director Kevin Donoghue

September 6, 2006

By Adam Van Deusen

SNL Financial recently had the opportunity to speak with Kevin Donoghue, managing director and co-founder of Mystic Capital Advisors Group LLC, an advisory firm providing financial consulting services to the insurance and financial services industries.

Donoghue has worked for fifteen years in various merger, acquisition and financial consulting roles. He co-founded Mystic in 2001 with two fellow co-workers from BMG Capital Advisors Group, a subsidiary of Hartford Financial Services Group Inc. Since then, Mystic has grown to be one of the top in the business. In the first half of 2006, Mystic was ranked first among broker and agency deal advisors, based on number of deals. The firm is credited with advising on seven deals worth \$108.0 million during the first six months of the year. The firm's business is growing rapidly, and Mystic just recently announced the hiring of Allen Go as a senior associate focusing on North America-based insurance transactions, effectively expanding the firm to five employees.

Donoghue spoke with SNL about the future outlook for the firm and the insurance broker M&A sector.

What follows is an edited transcript.

SNL: You topped SNL's list for insurance broker and agency deal advising during the first half of 2006. To what do you attribute this performance?

Donoghue: We have for the last five years spent a lot of time getting to know face-to-face agents, brokers, insurance companies, as well as MGAs [managing general agents] and wholesalers. A lot of that is just a matter of time catching up to us in our favor. We started Mystic in October of 2001. We're coming up on our fifth year anniversary, and I think a

lot of the hard efforts we've put in over the last five years are starting to pay off. Our pipeline is packed with opportunities and deals that we're working on. And certainly, that's another reason why adding Allen to our staff is exciting for us.

Do you attribute your success more to additional M&A activity in the pipeline in general, or is it something that you're doing differently than your competitors?

There's probably a little bit of both. Certainly, I think some of our clients have come to us because some of our competitors were not effective for them. To some extent we're drawing in clients, as we do things a little bit differently. But I think the overall M&A environment has definitely picked up in '06 versus '05. So it's a combination of both.

Speaking of competitors, Allen Go came from WFG Capital Advisors. What do you think brought him to your firm?

I think just more opportunities and certainly more deal flow. And I think New York is a little bit more of a vibrant marketplace than Harrisburg [Pa.].

What does Go bring to the table for your firm?

He brings three years of solid industry experience to the table. He's a smart individual and should add some breadth to what we're offering our clients.

Do you think Mystic might look to branch out beyond the insurance brokerage sector?

We are currently working on a number of microcap insurance deals, so we're outside the sector already. There will soon be announcements of a few microcap companies we've been involved with. We're really focused on the microcap

insurance space. To date, most of that has been in the wholesale MGA and retail brokerage sector, but insurance companies are quickly going to be adding into the tables for us.

Who do you think is driving insurance broker M&A demand more, the larger banks or brokerage firms?

Banks have been relatively quiet in comparison to past years, so I think this year has been somewhat of a downturn for banks. I think much of the demand has been driven by the public brokers as well as the regionals. In the wholesale MGA space, the demand has been twofold. Existing market participants, which recently included retail brokers, also include insurance companies that are starting to really look at MGAs again. With specialty MGAs, basically they're just buying a product line they can underwrite. So it's a true acquisition for them, in which they roll up the book of business from one market to another.

Do you expect more consolidation in the brokerage industry in the coming months?

I would expect so, given the pipeline we're looking at. Certainly demand is still up and the publics still need to grow and acquisition is their prime growth driver, so I would expect that to hold.

Do you think the regulatory cloud over broker M&A following Eliot Spitzer's broker contingent commission investigation is lifting?

I think it's lifting, if not lifted completely. I think this cloud of uncertainty on contingencies is somewhat disappearing. There are certainly some people worrying about them still, but overall, we think that cloud has passed. Some of the settlements out there certainly indicate that it may have passed completely. *i*