

## FREMONT AND TPG BUY DIRECT GENERAL FOR \$628M

BY LUISA BELTRAN AND PETER MOREIRA

**PRIVATE EQUITY** In an unusual foray by private equity firms into retail insurance, **Fremont Partners** and **Texas Pacific Group** agreed Tuesday to acquire **Direct General Corp.**, a Nashville-based auto insurer, for \$628.2 million in cash and assumed debt.

Direct General stockholders will receive \$21.25 per share in the take-private, roughly a 29% premium to the stock's \$16.51 closing share price Monday. With 20,347,675 shares outstanding, the offer values Direct General's equity at about \$432.4 million. The company, which sells so-called nonstandard insurance to drivers who do not qualify for coverage with other carriers, has roughly \$200 million in debt.

Fort Worth- and San Francisco-based Texas Pacific and Fremont, also of San Francisco, will each hold 50% stake, an official said.

**Bear, Stearns & Co.** is leading debt financing, while **Cohen & Co.** is providing preferred trust financing, one person said.

Direct General shares surged \$4, or 24%, to \$20.50 in afternoon trading.

The 52-week high for the shares had been \$18.79 in the spring, but the stock had slumped to \$11.51 in August on disappointing earnings and a rising loss ratio. Direct General has been under pressure due to the highly competitive nonstandard auto market conditions, according to a research note by Lara Devieux, a senior analyst

at Wachovia Securities LLC.

Direct General went public in August 2003 at \$21 a share.

Direct General offers auto insurance in 12 states in the Southeast, including Arkansas, Florida, Kentucky, Louisiana, Mississippi and Missouri. It was founded by the family of chairman and chief executive William Adair Jr. The company's largest shareholder, the William C. Adair Trust, has committed its 21% to the private equity firms.

William Adair Jr. will step down as chairman and CEO but continue as a director. His wife, Jacqueline Adair, will step down as executive vice president and chief operating officer, according to the Dec. 4 merger agreement filed with the Securities and Exchange Commission. Their daughter, Tammy Adair, will continue as president while J. Todd Hagely will stay on as executive vice president and chief financial officer, the filing said.

William Adair Jr. said in a statement that the buyers plan to expand "our product line, geographic reach and customer service"

A spokesman for the investor group declined to comment beyond the release. Calls to Direct General were not returned.

**SunTrust Robinson Humphrey** advised Direct General's special committee of independent directors and provided a fairness opinion. **Baker, Donelson, Bearman, Caldwell &**

**Berkowitz PC** was counsel to the board, while **Dorsey & Whitney LLP** represented the special committee.

Bear, Stearns & Co. was financial adviser to Fremont and Texas Pacific. Ken King, Leif King, Kristine Dunn, Robert Sullivan and Todd Freed of **Skadden, Arps, Slate, Meagher & Flom LLP** were counsel to Fremont, and Paul Shim and Gregory Pomerantz of **Cleary Gottlieb Steen & Hamilton LLP** advised TPG.

Mark Williamson, David Lorsch, Kevin Baker, Tim Heston and Ethan Thurow led the deal team for Fremont, while Marshall Haines led the team for TPG.

Private equity firms invested heavily in the reinsurance industry after the Sept. 11, 2001, attacks took a toll on the property/casualty industry. TPG, for instance, invested in Bermuda-based **Ariel Reinsurance Co. Ltd.**

But investments in direct insurers have been few. In October, **Affirmative Insurance Holdings Inc.**, a portfolio company of **Delaware Street Capital** and **J.C. Flowers & Co. LLC**, agreed to buy privately held automobile insurance provider **USAgenies LLC** for \$200 million in cash.

The Baton Rouge, La.-based target sells nonstandard auto coverage through retail stores in Alabama, Illinois and Louisiana as well as through the Internet and call centers. ■



AS FEATURED IN

The Daily Deal

WWW.THEDEAL.COM

The Daily Deal (ISSN1545-830X) is published Monday through Friday by The Deal, LLC.  
© 2006 The Deal, LLC. The Copyright Act of 1976 prohibits the reproduction by photocopy machine or any other means of any portion of this publication except with the permission of the publisher. The Daily Deal is a trademark of The Deal, LLC.