ALTERNATIVE INVESTMENTS

Private-Equity Firm HGGC, Co-Founded by Football Legend Steve Young, Buys PCF Insurance

By Luisa Beltran April 1, 2020 7:00 am ET

The mergers and acquisitions market may be on hold but HGGC, the private-equity firm co-founded by football legend Steve Young, has closed its purchase of PCF Insurance.

HGGC said April 1 that it acquired PCF, with management and PCF employees taking part in the deal. BHMS Investments and Madison Capital Funding are also reinvesting. Financial terms of the transaction, which closed March 31, weren't announced.

PCF, which was formerly known as Peter C. Foy & Associates Insurance Services, launched in 1987. The Woodland Hills, California, broker provides risk management and employee benefits solutions to more than 40,000 customers. It employs over 400 people. Foy, who is CEO, is staying with PCF. No job cuts or management changes are expected at PCF, HGGC executives said.

BHMS acquired PCF in 2017. The Westport, Connecticut, investment firm targets the middle market, investing in companies in business and healthcare services as well as insurance. BHMS could not be reached for comment.

PCF follows a rollup strategy, common in private equity-backed insurers. Consider Hub International, the insurance broker owned by Hellman & Friedman. Hub has made dozens of add-ons since H&F acquired the company in 2013. PCF, for its part, has completed 18 add-on acquisitions since 2018.

HGGC also uses the rollup model. The Palo Alto, California, buyout shop owns Davies Group and Integrity Marketing Group. Davies, a U.K. provider of insurance services, has completed 17 add-ons under HGGC's ownership, while Integrity, a distributor of life and health insurance products, has done two dozen.

HGGC invests in sectors including business services, healthcare, software and financial services. Last year, the firm sold a passive, minority stake to Dyal Capital Partners, a division of Neuberger Berman.

The PCF deal is notable for its timing. While talks to buy PCF began in 2019, HGGC closed the investment as covid-19 shuttered the M&A market. "This is a very difficult environment," Young said on a call with *Barron's*. PCF was "able to withstand all the scrutiny put on it between ourselves, both sides and the lenders," he said.

"[PCF] is a business that is very defensible today," said Young, who is president of HGGC and is a former quarterback for the San Francisco 49ers. "Not a lot of businesses can say that."

Private equity firms like insurance companies because the sector is fragmented and ripe for consolidation. The broker business model is known for its high customer retention, sticky revenue and little capex, said Rich Lawson, an HGGC co-founder, chairman and CEO.

With the M&A market on pause, many small and medium sized companies don't have the option of selling their businesses right now, Lawson said. This provides an opportunity for HGGC to invest in companies that don't want to offload all of their companies, he said.

HGGC typically takes controlling stakes in such deals, which it calls "partnerships." The PE firm likes sellers, such as BMHS, to retain a minority. "We're getting more calls now because few folks want to think about controlled buyouts or those models," Lawson said.

Waller Helms Advisors provided financial advice to HGGC, while Sica Fletcher and TAG Financial Institutions Group acted as sell-side advisors to PCF.