

Commerce sale the end of an era

Spanish owner says it is planning no changes

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WEBSTER— The Spanish insurer seeking to buy Commerce Group Inc. sketched out an ambitious road map for the property and casualty insurer yesterday as local investors tallied their profits from a business founded 36 years ago behind a Main Street restaurant.

Shares of Commerce jumped 17 percent yesterday, closing at \$36.49 a share, slightly below the \$36.70 a share Mapfre SA of Madrid said Tuesday night it would pay for Commerce Group, the largest automobile insurer in Massachusetts.

In a conference call with analysts yesterday, officials with Mapfre, Spain's largest insurer, said the \$2.2 billion deal, which represented an 18 percent premium over Commerce's closing price Tuesday, was fairly priced and came at a time when the exchange rate is highly favorable compared to the U.S. dollar.

Commerce directors will recommend approval of the transaction and Mapfre executives hope to close the deal in the second quarter of 2008 following a positive vote by Commerce shareholders at a meeting tentatively scheduled for January.

Mapfre Vice Chairman Domingo Sugranyes said Commerce was a perfect fit for his company, the 10th largest nonlife insurer in Europe. Mapfre had been seeking an entry point in the United States and found one in Commerce, a company with strong brand recognition, excellent agency relationships and a market leader in Massachusetts.

Officials at Commerce did not return calls seeking comment yesterday. The deal includes a provision that would require Commerce to pay Mapfre \$68 million if the merger is terminated under certain circumstances, according to documents filed with the Securities and Exchange Commission.

1971 - Commerce Insurance Co. incorporates	1993 - Commerce stock moves from over-the-counter "pink sheets" to Nasdaq
1972 - Commerce Insurance begins writing policies in Massachusetts	1995 - The company shifts its listing to the New York Stock Exchange; acquires Commerce West Insurance Co.
1976 - Commerce Group Inc. incorporates	2003 - Commerce Insurance becomes the largest insurer writing homeowners policies in Massachusetts
1981 - Citation Insurance Co. incorporates	2005 - The company's estimated share of the Massachusetts personal auto insurance market hits 31.2% and is ranked the 19th largest personal automobile insurance group by A.M. Best; founder Arthur J. Remillard Jr. retires
1986 - The company dedicates new headquarters on Main Street in Webster	2007 - Mapfre SA, Spain's largest insurer, announces \$2.2 billion deal to buy Commerce Group Inc.
1987 - Commerce Group Inc. goes public	
1989 - The company dedicates new office park on Gore Road (Route 16), Webster	
1990 - Commerce Insurance becomes largest writer of personal property and casualty insurance in Massachusetts; tops 1,000 employees	

Source: Commerce Group Inc., Telegram & Gazette archives.

T&G Staff/STACEY ARSENAULT

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  **Like Microsoft has been to Seattle, Commerce has been to Webster. They all put their own money up. It really is an American success story right here in Central Massachusetts.** ”

Gary H. Sherr,
CARL P. SHERR & CO.

In a presentation, Mapfre officials said it intends to retain Commerce's management team while designing a growth strategy in a number of new states, including providing dedicated services to the Hispanic community.

Commerce, with annual premiums of \$1.9 billion, has been trying to grow its market outside of Massachusetts but the company, founded by Arthur J. Remillard Jr. behind a Friendly's, still generates 88 percent of its premiums from Massachusetts.

Mr. Sugranyes said Commerce had many of the attributes his company was seeking.

"What we've found with this proposed transaction with Commerce is an excellent platform to do precisely that much better than we could do on our own," he said. "This will be a very good and profitable investment immediately."

Mapfre said yesterday its profit for the first nine months rose 11 percent to \$730 million, or 505.2 million euros, compared with a pro-forma profit of 456.6 million euros a year ago.

Commerce posted net earnings for the first nine months of \$171.4 million, down from \$182.1 million for the same period a year earlier.

Mapfre, which does some business in Florida and New Jersey, has skills and products useful to Commerce, Mr. Sugranyes said.

Mapfre has diverse product lines, an integrated information technology platform, and a small bilingual operation in Florida that can be used in other states. The company may also aid Commerce in purchasing reinsurance products.

Commerce, which once produced a company brochure describing itself as "The Opportunity Maker" was not thought to be up for sale, but the deal makes sense for several reasons, some analysts said.

Commerce, which controls 31.5 percent of the Massachusetts automobile market, prospered under a 30-year-old system in which state regulators established annually a rate that all automobile insurers had to charge the state's 4 million drivers.

But Gov. Deval L. Patrick has led an effort to scrap that system and his administration has authored a so-called managed competition plan that will enable insurers to establish their own rates beginning April 1, 2008.

Keefe, Bruyette & Woods analyst Dean Evans yesterday raised his rating on Commerce from "underperform" to "market perform" and said in an interview Commerce was facing significant headwinds because of declining rates and deteriorating loss trends.

"I tend to think the switch to managed competition was a negative for them," he said. "I view this deal as richly priced, and for Commerce shareholders, they should jump at the offer."

Mapfre executives said they would retain Commerce's existing management but did not specify, what, if anything, would happen to the company's 2,200 employees, including 1,800 in Webster. Commerce officials said Tuesday night Mapfre has indicated it would maintain Commerce's employees in Central Massachusetts.

That scenario makes sense as there is no labor consolidation savings, as Mapfre does not have any U.S. operations, said FTN MidWest analyst Charles D. Hamilton. Employees are likely surprised by the deal but they won't see any impact, he said.

Mr. Hamilton said he expects Commerce will alter its premium base both demographically and geographically. Mapfre wants to add revenues from the Hispanic community which likely means Commerce will enter markets in Florida, Puerto Rico, and elsewhere, he said.

"I expect this will push the accelerator down a lot harder," he said.

Webster Selectmen Chairman Mark G. Dowgiewicz said company officials called him and Town Administrator Raymond W. Houle Jr. Tuesday to alert them to the sale.

"That was real nice of them. When it comes to jobs in Webster, Commerce is it," Mr. Dowgiewicz said.

"To lose them would have been a catastrophe, but they assured me nothing was going to change in town. The employees are staying. The upper management are staying."

Commerce is the town of Webster's biggest taxpayer, with taxes of \$455,117 in fiscal 2007, according to Tax Collector Maryann C. McGeary.

That tax bill accounts for about 3 percent of the total \$14.8 million that Webster raised in taxes for fiscal 2007.

The all-cash deal prompted a flurry of phone calls yesterday from local investors, said Gary H. Sherr, vice president of Carl P. Sherr & Co., a Worcester investment advisory and brokerage service company. Before Commerce was listed on the Nasdaq Stock Market and the New York Stock Exchange, Mr. Sherr's company was the sole market maker for Commerce, Mr. Sherr said.

"Investors should like this deal but it creates some uncertainty because they'll have to pay taxes," said Mr. Sherr. "But it's a good problem to have."

Mr. Sherr echoed Mr. Hamilton's comments, suggesting the sale, while unexpected, is a positive outcome for a company whose founder had retired and was facing a change in how it needed to do business.

Mr. Remillard's earliest investors included white-collar professionals from Worcester and blue-collar laborers from Webster, everyone from lawyers to janitors, Mr. Sherr said.

"Like Microsoft has been to Seattle, Commerce has been to Webster," he said. "They all put their own money up. It really is an American success story right here in Central Massachusetts."

Telegram & Gazette reporter John Dignam contributed to this story.