

Straight A's

by Kelly Hollman

It often takes years for the relationship between a private equity firm and a corporate executive to gel to the point of a deal. But few take 44 years.

That's what it required in the case of Seth D. Freudberg, president and CEO of insurer **United National Group**, and Saul A. Fox, the CEO of San Francisco private equity house **Fox Paine & Co.** On March 18, they announced a deal under which Fox Paine will acquire a majority stake in UNG, the ninth-largest surplus lines insurer in the U.S. Terms were not disclosed.

The ties between the two dealmakers go back to 1959 in suburban Elkins Park, Pa. That was where Fox, then 5, met fellow nursery schooler Frank Freudberg, Seth's older brother. They formed a friendship that endured from elementary school to adulthood.

"Frank seemed prosperous to me," Fox recalls, "and I remember asking what his father did, and he told me his father owned an insurance company."

Little did Fox know then that he would end up buying the Bala Cynwyd, Pa.-based company, which is now the nation's biggest underwriter of fire insurance for vacant buildings.

Fox went on to become a tax lawyer at **Latham & Watkins** in Los Angeles, where he advised clients such as **Kohlberg Kravis Roberts & Co.** In 1984 he joined KKR and eventually became a general partner.

In the mid-1980s, as KKR found itself increasingly stuck bidding against other buyout shops in auctions, the insurance industry caught Fox's eye. "There were very few firms then that were actively focused on insurance," Fox says.

After extensive research, Fox coordinated the \$1.5 billion leveraged buyout of American Reinsurance Co. Inc. in 1992; the largest-ever leveraged buyout of an insurance company in the U.S. Later, he engineered another insurance transaction, the \$161 million acquisition of Canadian General Insurance Group Ltd. in 1995.

But he never forgot about UNG and the Freudbergs, who had sold their interest in the company to the Ball family of Philadelphia in 1978. He had stayed in touch with Seth, whose father, Raymond Freudberg, ran UNG from 1961 to 1987, when Seth became CEO.

"I knew how profitable and well-run the business was," Fox explains.

When Fox left KKR and formed his own shop in 1997 with W. Dexter Paine III—a former general partner of **Kohlberg & Co.**, another KKR spinoff—he approached Seth Freudberg and the Ball family, which was a limited partner in Fox Paine's private equity funds, about buying UNG. But a transaction wasn't in the stars. Fox Paine made another run at UNG in 2000, holding serious talks with management and the company's owner. But, again, it didn't come together.

"Fundamentally, we got close [to a deal], but there was enough of a perception in difference of value that we couldn't bridge the gap," Fox says, noting the firm was investing a \$500 million fund at the time that he says was "stressing things."

The Balls and Fox Paine started talking again this year. "This time we were able to come up with a structure that satisfied the ownership and management," Fox says, noting UNG was looking for additional equity growth capital.

Fox declined to discuss the financial details of the transaction, citing pending regulatory processes. But, he says, it was easier to do a deal this time because Fox Paine now has a \$1 billion fund that closed in December 2000, so it had more capital to support the transaction.

But chemistry was a big part, too.

"We were able to move very fast which was important to them," Fox says. Moreover, because of the two parties' long-standing relationship "They understood and trusted us," he says.