



Core Specialty boosts commercial auto presence with Lancer deal

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Core Specialty is to combine with the parent of commercial auto insurer Lancer Insurance Company in the first M&A deal for the former StarStone US platform since it was rebooted under new management with private equity backing last November.

- Core Specialty and Lancer Insurance
- Cash and stock transaction is first M&A deal by Core Specialty since reboot last November
- Lancer will operate as a separately managed division
- Commercial auto insurer reported \$187.8mn of DWP last year
- It generated a combined ratio of 98.3% and operating profit of \$29.0mn
- CEO and major shareholder Dave Delaney to join Core Specialty board
- Transaction adds ninth specialty P&C business unit to Core Specialty

The transaction with Lancer Financial Group will see the carrier continue to operate as a separately managed division of Core Specialty, retaining its brand and management team led by CEO Dave Delaney.

It will become the ninth specialty P&C business unit for Core Specialty, as the carrier's management led by CEO Jeff Consolino and executive chairman Ed Noonan continue to build out the platform.

The combination of the two firms builds upon a partnership announced in January to provide excess liability limits for local, intermediate and long-haul trucking accounts and general commercial and public auto companies.

In a statement announcing the deal this morning, the two carriers said the transaction will be structured as a merger, with Lancer shareholders receiving a combination of Core Specialty common shares, preferred shares and cash.

The newly issued Core Specialty preferred shares will mandatorily convert into common shares upon a Core Specialty initial public offering or certain other specified events.

They added that post-merger Core Specialty will be a further diversified company with a clean balance sheet and over \$1bn in equity capital.



“Lancer is a leader in the specialty transportation market with a long track record and a senior management team we know and admire”
Core Specialty CEO Jeff Consolino comments on the deal to combine with the US commercial auto insurer

The transaction – which has been unanimously approved by both companies’ boards of directors – is expected to be accretive to Core Specialty’s earnings per share and return on equity in 2021.

The merger is expected to be completed during the third quarter of 2021.

In the statement, the companies confirmed that Consolino will continue to lead the combined platform as president and CEO with his former Validus colleague Noonan as Core Specialty executive chairman.

Delaney will join the Core Specialty board and work closely with Consolino and senior management on the integration of the businesses.

Matthew Jenkins, Lancer’s president and COO, will serve as president of Core Specialty’s Lancer division after the deal closes.

Consolino commented: “Lancer is a leader in the specialty transportation market with a long track record and a senior management team we know and admire.”

Continued build-out

He highlighted the progress in building out the Core Specialty platform from four business units when it was recapitalised.

The build-out has seen the formation of a new E&S property division and the addition of a new marine and energy division, as well as separating and hiring new leadership for its errors and omissions professional liability and directors’ and officers’ management professional liability divisions and launching an agriculture division.

Noonan added: “I have known Dave Delaney for over 30 years. He is an excellent specialty P&C insurance operator and I am excited that he will be joining the Core Specialty board.

“We are also pleased and honoured that after decades of building Lancer as an independent, family-controlled enterprise, Dave and his co-shareholders have the confidence in Core Specialty’s management, business plan and investors to exchange their Lancer equity for the opportunity to join their future prospects with ours.”

Delaney commented: “I have no doubt Lancer and Core Specialty’s combined operating and financial resources will create tremendous growth opportunities for our shareholders, employees, policyholders and distribution partners.”

Lancer is being advised by Waller Helms and Dowling Hales as financial advisors, and Nixon Peabody LLP as transaction counsel. Core Specialty is being advised by JP Morgan as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP as transaction counsel.

Core Specialty is the former StarStone US business that was recapitalised to over \$900mn with \$610mn of new private equity investment from Dragoneer Investment Group, SkyKnight Capital and Aquiline Capital Partners, along with a rollover of Enstar's existing holding and \$60mn from management and other investors.

As previously reported, Lancer had teamed up with VJ Dowling last year in a bid to buy up the Class A shares in Protective Insurance Corporation, before pulling out of a consortium that also included Delaney.

At that time Delaney indirectly owned over 46 percent of Lancer and controlled over 54 percent of its outstanding stock.

The carrier covers a range of commercial auto risks, including long-haul trucking. It has over 400 employees in locations including New York, Florida, Ohio, Texas and Washington.

Last year Lancer wrote \$187.8mn of direct premiums, down from \$258.0mn in 2019, according to statutory filings.

It had capital and surplus of \$244.7mn at the year end and delivered a combined ratio of 98.31 percent and a pre-tax operating profit of \$29.0mn.