

Earlier this year when rumors surfaced that a new “white knight” (in the words of city councilor Konnie Lukes), was inserting itself in the CitySquare discussions, movers-and-shakers in Worcester had a pretty good idea of who it was. And when the final announcement came out that Hanover would assume the role of developer after six years of stalling by Berkeley Investments, there was a direct correlation between the renewed excitement versus the lack of surprise at the name behind the momentum.

It’s more than just a \$75 to \$85 million charitable gift masquerading as an investment. Eppinger believes CitySquare will change the city for the better.

While Hanover hasn’t been an investor in its own property before, Eppinger sees this new direction as a solid business decision.

With projects like CitySquare, the problem with outside investors (as was Boston’s Berkeley Investments) is that they look for the greatest return in the shortest amount of time.

“The problem in my mind was that (CitySquare’s funding) was mostly out-of-the-city money,” he explains. “They’re going to have a very short term view; get in, invest, make a buck.”

With Hanover involved now, the time frame for an investment return lengthens.

They’ve locked up their first tenant, Unum, with a 17-year lease and are in talks with other companies (although nothing has progressed to a point where Hanover is ready to say with whom or how many).

“Is it unusual? Sure. It was an opportunity to do something,” he says. But he balks at the idea that shareholders were nervous about this new arm of the company. “I can look at that and say it’s not risky for us.”

DeLeon, and Neil Daf Gupta, another analyst at AM Best, agree with Eppinger: That \$85-million investment may sound huge to Worcester, but it barely made a ripple in the financial world.

“That amount isn’t a tremendous amount of their investment assets,” says DeLeon.

“We would look at what this investment means in terms of their surplus,” says Daf Gupta, pegging that figure as somewhere

around \$1.7 billion. “If (the investment) went south, they’d be ok.”

While Daf Gupta can’t think of a parallel situation in another part of the country where a property-insurance company comes in essentially as a landlord and developer, DeLeon points out that this is still a well-utilized PR move. Hanover brands another building in the city (to go along with the theater and Hanover Insurance Park at Fitton Field at the College of the Holy Cross, home of the Worcester Tornadoes) much like other financial groups do with professional sports stadiums.

“Hanover’s involvement in CitySquare and the theater speak to Fred’s business savvy and experiences. He told me straight up that Opus would buy CitySquare only if it is a solid investment for his board and stockholders,” says O’Brien. “I can tell you his team worked through months and months of due diligence, and he reviewed all to verify, before any moves to purchase.”

Eppinger is bullish on Worcester and it’s not something he hides. He also doesn’t see himself doing it alone.

He cites that 150 people gave over \$10,000 when the Hanover Theatre was in its fundraising stage.

He praises the CSX deal and work at WPI and Becker for bringing more investment into the city.

“This city has so much potential. It’s good, but it’ll be great,” he says. “If our company is better and better, it’s because Worcester is better and better.”

“He says it so well when he cites that the success of Hanover is intimately tied to the success of the city,” says O’Brien.

But it could really be the other way around.

A LIST OF HANOVER’S CITYWIDE INVESTMENTS:

- Hanover sponsors the Worcester Public School’s AVID program, a tutorial program for 1,500 middle- and high-school students who fall into the oft-overlooked “academic middle,” mainly C- and D-average students. According to Eppinger, 99 percent of 377 graduating high school students in the AVID program last year went on to college.



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- Hanover attached its own \$5,000 incentive to the City’s “Buy Worcester Now” program that financially rewarded those who purchased a home in Worcester in the past two years. Thirty-five homes have been sold to Hanover employees.
- In 2008, Hanover and Eppinger led an effort to renovate the Hanover Theatre on Southbridge Street. Two years later and in the middle of a financial crisis, the theater continues to operate.
- In March of 2010, Hanover announced it would invest \$75 – \$85 million to rescue the CitySquare development project, and also purchased the Notre Dame church next door.
- At least 25 percent of Hanover’s employees volunteer in Central Massachusetts, a number that could actually be much larger.
- The company’s contributions to the United Way of Central Massachusetts have doubled under Eppinger’s tenure, rising from \$350,000 to beyond \$760,000, a figure that includes employee donations. Eighty percent of Hanover employees donate to the United Way.
- In the midst of a jobs downturn and companies enacting hiring freezes, in the past year, Hanover has hired 500 employees.

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{ person of the year }

Success in the City

By **Jeremy Shulkin**

In 2003, Worcester had an energetic and young mayor in Tim Murray, and the beginnings of a plan that would tear down the Worcester Common Outlets, reconnect downtown with the rest of the city and spur economic growth.

But the project soon stalled. Despite the plans and white papers, the charettes and support of state funding, no wrecking crews appeared. Initial developer, Boston’s Berkeley Investments had trouble securing the capitol to start working and the project went stagnant. The current city manager at the time, Tom Hoover, was often slammed as slow moving and uncreative in driving economic growth.

That same year, Worcester’s once flagship insurance company, Allmerica Financial Corporation, was literally in shambles. Hemorrhaging tens of millions of dollars a quarter, hundreds of millions of dollars a year, they suffered ratings downgrades from major agencies like Moody’s Investors Service and AM Best, and were under scrutiny by state regulators. The company’s stock value dropped so significantly and quickly that the Securities and Exchange Commission opened an investigation. (No charges were ever brought.)

The company faced heavy criticism from investors, and the post-9/11 economic lull turned into an excuse that no one was buying. Employees left key positions and weren’t replaced. In the Fall of October 2002, Allmerica’s CEO John O’Brien (not the same O’Brien who heads UMass Hospital) stepped down and the company’s board took over, headed by Worcester lawyer and Allmerica chairman Michael



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Angelini, beginning a search for someone else to helm the company as it flirted with bankruptcy.

AS GOES HANOVER...

That search culminated in the hiring of Fred Eppinger. In the near decade that Eppinger has been CEO and president of the now Hanover Insurance Group, people have started to notice not only the company’s dramatic turnaround, but its involvement in Worcester—a large city, but barely a blip on the map in the investment world. But anecdotally, as goes the Hanover Insurance Group, so goes Worcester.

It’s a little disconcerting to see a \$500 million city tied so closely to one particular company—especially one in the insurance and financial sectors, but that’s what Eppinger’s seven-year tenure has shown.

For instance, the creation of The Hanover Theatre as a new performance space and the building’s extensive renovation, which

became a \$3 million investment by the company (plus another \$150,000 from the Eppingers personally), may not be the economic spin-off the city had hoped for, yet it still transforms downtown Worcester at least on nights when there’s a show. The company has aligned itself with a number of causes and charities, and boosts local recreational causes like the EcoTarium and Worcester Tornadoes.

In the past two years of the city’s “Buy Worcester Now” homeowners’ incentive, Hanover has attached its own rewards leading to 35 homes sold to Hanover employees.

Even Worcester’s and Hanover’s timelines are strikingly similar. Eppinger took the reins of a company on the verge of bankruptcy in August of 2003 and has turned it into one of the premier companies of its industry and size. Seven months after Eppinger came back to Worcester, Hoover forcibly resigned from his position as city manager and current manager Michael O’Brien stepped in. Almost seven years to the day, Hanover announced that its new investment arm, Opus Investments, was assuming the role of developer for

a major portion of square footage of the gasping-for-breath CitySquare project. “[Its] successes are our successes,” says O’Brien of Hanover.

THE RETURN

Fred Eppinger is, by all intents and purposes, a Worcesterite. Despite living in Grafton now, his older brothers both attended Nelson Place School and his family owned a farm on Worcester’s west side. When the 1953 Worcester Tornado leveled their property, Assumption College later bought it up, and the Eppingers moved to a chicken farm in Spencer.

Eppinger attended the College of the Holy Cross. During his senior year he lived in a Main South apartment and drove a Dodge Duster with a driver’s-side door so rusted out that he had to weld it shut. The car was frequently stolen by neighborhood youths for joyrides, but always dropped off somewhere nearby so he could find it again. (Ironically, insuring this kind of vehicle would be any insurance company’s nightmare.)

Despite all the finance classes at a widely renowned institution of higher learning, Eppinger preferred working with his hands. He hitched rides to his parents’ house on the weekends to tend to the farm.

After Holy Cross, he studied business at Dartmouth, where he eventually met his wife, Patty. After a stint with the consulting firm McKinsey & Company, Eppinger took a vice president’s job at Connecticut insurance company The Hartford.

These past experiences support and influence all that Eppinger has been able to do since his return to Worcester. The small-town work ethic that he garnered while working on the farm has helped him forge invaluable bonds within the city. Traveling around the country for his job at McKinsey & Company exposed him to the successes and failures of other cities — successes and failures that he can now draw insight and comparisons from.

“I will call him on a weekend,” writes City Manager Michael O’Brien via e-mail. “He

will be in his backyard laying sod for a new lawn, or working on a carpentry project in his shed side-by-side with his children.”

Like Eppinger, O’Brien needs physical labor to balance out the weekdays spent number-crunching.

“Our casual conversations often turn to our latest DIY home-improvement efforts or power tools on the market. There’s a bit of good-hearted competition there.”

As Allmerica sought a new CEO to change the direction of the company (or, as many analysts predicted, break it apart and sell it off piece by piece), Angelini found Eppinger when he was at The Hartford.

At first, Eppinger balked at the offer to come home and try to salvage a company that had been in the city since 1844. Yet Angelini kept calling Eppinger to seek references on other candidates for the position that he had initially turned



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down. Finally, Eppinger couldn’t resist the allure of coming home.

“The more he thought of it, it intrigued him to come back,” says Angelini, who is still at the Hanover Insurance Group as the chairman of the board of directors. On August 19, 2003 Allmerica announced that it had lured 44-year-old Eppinger back to Worcester.

“High point of my life right there,” laughs Angelini.

The board of directors installed Eppinger as the new CEO later that month. Eppinger knew that the company couldn’t stay on the track that it was on, if it wanted to stay competitive, let alone solvent. He wasted no time, immediately making

critical changes to the way the company had been doing business.

“They went back to basics,” says Fred DeLeon, a senior analyst at AM Best who has tracked Hanover for the past decade.

Allmerica shed its life-insurance division off to Goldman-Sachs, which was sapping money away from its steadily performing property and casualty division. “They were using (P&C) to keep the company afloat,” adds DeLeon.

Eppinger then went a step further. The company renamed itself the Hanover Insurance Group Inc., which performed the double duty of giving the company a fresh start, as well as tying the company back to its property and casualty roots after it sold off its life insurance division. (Hanover was the name of a property-and-casualty-insurance company that Allmerica merged with in the 1960s,

back when Allmerica went by the name State Mutual of Worcester.)

Eppinger began selling the vision of a profitable Hanover, one that would be the envy of the insurance companies yet humble enough to improve its own backyard. The company scored high-profile personnel acquisitions, filling important roles that had remained vacant since the mass exodus of the Allmerica transition, plus the company immediately began donating to charities and investing in foundations and community groups.

Despite being chided by those in the insurance industry for not being bullish enough in the very bullish mid-2000s,

the Wall Street Journal reported that the company showed the best five-year return in the industry. When the market crashed the next year, Hanover was the only insurance company to receive ratings upgrades from all three major investor service agencies: Moody’s, Standard & Poor’s and AM Best.

The CEOs that had wondered why he was playing so conservatively were now pulling the moves Eppinger steered Hanover through years earlier, and as a result Hanover was making money when the industry around them was falling apart. In the past year, during this “job-less recovery,” Hanover, with a workforce nation-wide of 4,200, added 500 new jobs. In the past four years, as the industry has shrunk, Hanover has grown \$1 billion.

THE TURNAROUND

When the company first started turning profits again, Eppinger reignited Hanover’s charitable giving, despite protests from critics who thought the company wasn’t solvent enough to make donations. “You’ve got to act like a great company from day one,” says Eppinger, sitting at a boardroom-sized table in his office.

His thick moustache and frame — long and muscular — fit with his Swiss-German name and farmer background. His office is neat and organized, but not sterile. The chrome ceremonial sledgehammer and white hardhat given out to politicians and those involved with the CitySquare development are propped up in the back corner.

“If you had interviewed 1,000 people in the industry, all of them would’ve said we wouldn’t survive,” he says of 2003.

“It’s easy to be nice when things are great. People watch what you do when things are tough, because that’s a test of character.”

The key to Hanover’s do-over is that Eppinger has made it personal. When analysts thought the best move for him to make when he took over was to sell off small chunks of the company — even if that meant there was nothing left in Worcester — Eppinger gathered all his



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employees and told them that was not going to be the case.

“Right out of the gate I had to convince people that we had a future,” he says. “You don’t come back to your hometown to sell off a company.”

At the gathering he pointed out that he had an aunt and an uncle who both worked there when it was State Mutual. He read a letter his aunt wrote to him, in which she talked about how proud she was that he was in charge now, but left him with this warning: “Don’t screw up. I have a pension.”

The employees have bought into Eppinger’s tenure, and it’s showing beyond the companies rising stock prices or expanding bottom line.

The company has become tied to charity and community work in Worcester, forging relationships with the United Way of Central Massachusetts and the Worcester Public School’s AVID program, a tutoring and college preparedness program for B and C students in what’s called the “academic middle.”

Hanover also encourages its employees to give back as well, even offering grants to the organizations or charities employees are involved with. During Eppinger’s tenure, 80 percent of Hanover’s employees donate to the local United Way. According to Tim Garvin, the executive director of the local group, this is 60 percent higher than the national average. Nationally, Hanover’s contributions to the United Way totaled \$1.3 million last year. The Worcester branch alone received \$760,000 from Hanover and its employees. Before Eppinger, only about 23 percent donated to the United Way.

“Within the United Way world, that’s exceptional,” says Garvin.

It goes beyond dollar figures too. Both Eppinger and Garvin say Hanover employees are hot commodities for nonprofits seeking board members.

“I don’t know a single nonprofit that doesn’t hope to have a Hanover employee on their board,” says Garvin, noting that the United Way has two.

Indeed, this is where Eppinger’s wife Patty has made a name for herself in the city. She’s involved with a number of charity groups and receives more invitations to join others by the week.

Eppinger is the first to call his charity work and donations a self-serving mission. To compete with investment and insurance groups like Fidelity or Liberty Mutual in cities like Boston or New York City, Worcester has to be an attractive place for potential employees.

“I’ve got to get the best and brightest to want to be here,” he says. “Good companies know the importance of where they’re located.”

THE INVESTMENT

“Fred is the standout,” says executive director of the Hanover Theatre Troy Siebels, when asked if there’s anyone else in the city poised to jumpstart these important projects. “He’s not just the cheerleader, but he does what it takes to make the city successful.

“He’s not doing it because he likes the theatre itself, he’s doing it to make the city better.”