

Agent-Broker
Mergers & Acquisitions
2012 - A Year in Review



Chicago, Illinois

February 20, 2013

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Agent-Broker Mergers & Acquisitions

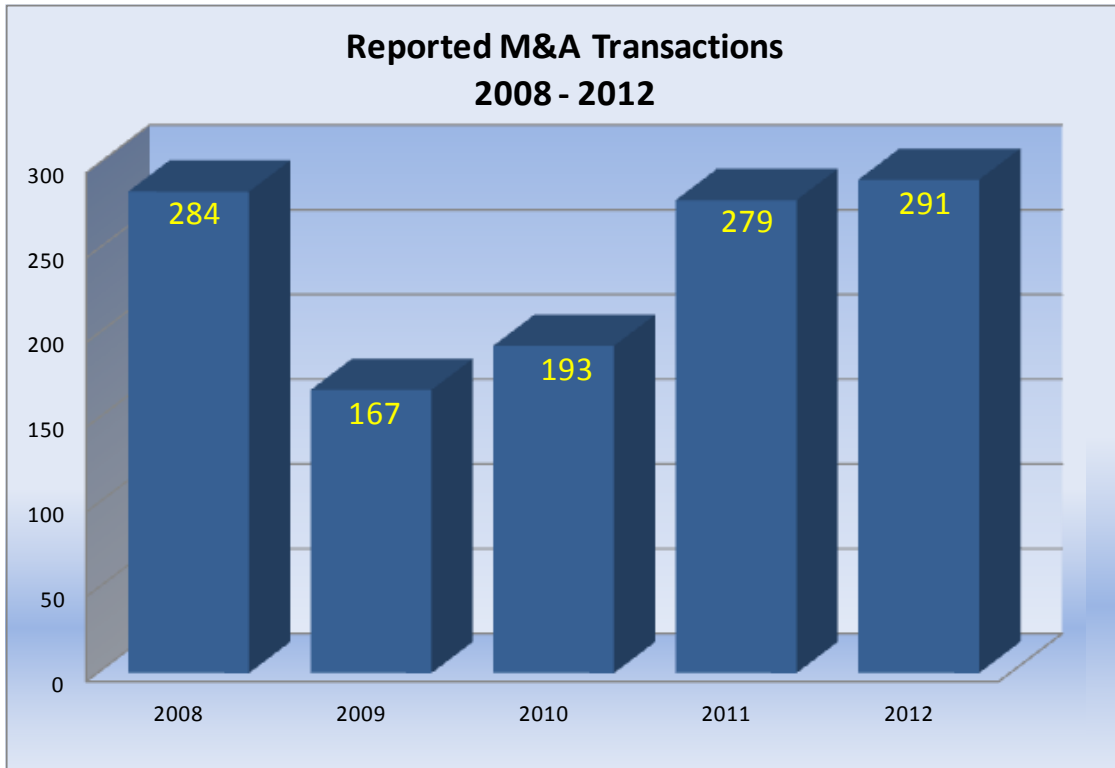
Source of Data:

Data is for US and Canadian transactions in the insurance “Distribution Sector”; Retail and Wholesale incl. MGA/MGU; Property & Casualty, Employee Benefits and life/financial services.

Data has been obtained for reported transactions from various sources including, but not limited to, press releases, the trade press and company websites.

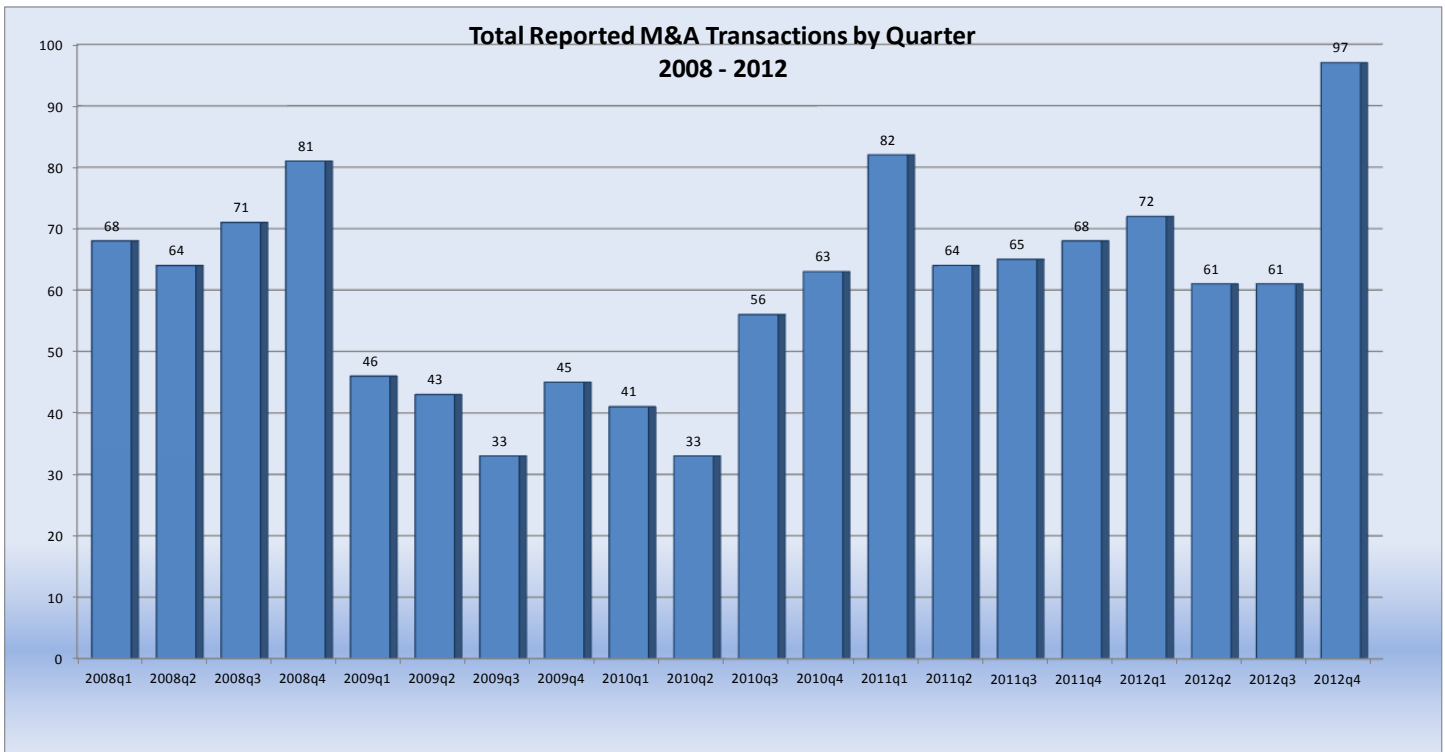
Firms with Private Equity (“PE”) backing shown throughout this document and on Table D (pp. 13-15) includes the PE firm names in parentheses; e.g. Hub International (APAX).

From the depths of the recession and the lean years of 2009 and 2010, insurance agency-brokerage Merger & Acquisition (“M&A”) activity certainly appears to have fully recovered.



There were 291 announced agent-broker M&A transactions in 2012, the largest number since 2000. Previously the “best ever” year was 2008 with a total of 284 transactions. The meager years of 2009 and 2010 with 167 and 193 transactions, respectively, was reflective to a significant degree to the collapse of the economy. The market rebounded dramatically in 2011 with 279 transactions as the economy showed signs of recovery, albeit spotty, and the heretofore active buyers were ready to effect transactions in a big way. Sellers, too, were more confident in their ability to close a deal at attractive financial terms. The graph on Table A (p. 10) displays the total number of transactions from 2000 through 2012.

Quarterly trends in 2012 were generally similar to prior years with a reasonably active first quarter, scaled back second and third quarters, but then with a huge fourth quarter. Notwithstanding the first quarter of 2012 showed promise for an active M&A year, it did not commence with an indication it would be a record breaking year until the end of the year. The fourth quarter of 2012 significantly exceeded all prior year quarterly M&A levels; the 97 transactions in this quarter were almost one-third of the year's total and over 40% greater than the fourth quarter of 2011.



Total activity in 2012 and the fourth quarter in particular were clearly impacted to a significant degree by a highly motivated group of sellers joined together with a hardy buy-side climate. Sellers were especially interested in getting their deals done before year end 2012 to avoid the impending higher capital gains tax rate of 20% (versus 15%) and the new capital gains surtax for certain taxpayers of 3.8% as mandated by the Patient Protection and Affordable Care Act (“PPACA”). A sale transaction deferred to 2013 from 2012 will likely result in after-tax proceeds nearly 10% less as the result of these tax law changes.

The total number of transactions in 2012 was only marginally higher than 2011 and 2008, but the changes in the activity of the various buyer groups over time is interesting, to say the least.

<u>M&A Transactions: 2008 - 2012</u>						
All Buyer Types	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	Private Owned	77	68	78	101	93
Private Equity	49	28	48	75	86	286
Public Brokers	68	26	44	53	67	258
Bank	42	24	18	37	24	145
All Other	48	21	5	13	21	108
Totals	284	167	193	279	291	1,214
% Chg by Year		-41%	16%	45%	4%	

The privately owned agency group actually declined in 2012 from the prior year, perhaps due to greater competition for deals as the public brokers and PE backed firms gobbled up ever bigger pieces of the M&A pie, accounting for 53% of the deals in 2012 compared to only 45% in 2011. In 2008, the public and PE backed firms only represented 41% of the total deals. On a stand-alone basis, PE firms have grown from 17% of the total in 2008 to 30% in 2012, a significant and steady increase over the past five years.

The graphs in Tables B and C (pp. 11-12) display the referenced transactions by Buyer Type for 2008-2012 by the number of transactions and as a percentage of the total number of transactions.

M&A Transactions: 2008 - Dec 2012

All Buyers with > 10 Announced Transactions

Most Active Buyers	Ownership	2008	2009	2010	2011	2012	Total	% Total
Gallagher	Public	24	11	16	21	30	102	8.4%
Brown & Brown	Public	35	8	21	17	15	96	7.9%
Hub International	PE	16	8	14	32	21	91	7.5%
Confie Seguros	PE	3	0	3	8	18	32	2.6%
USI Holdings	PE	7	1	4	8	10	30	2.5%
Assured Partners	PE	0	0	1	5	17	23	1.9%
Marsh McLennan Agencies	Public	0	2	4	8	9	23	1.9%
Wells Fargo Insurance Services	Bank	8	6	4	5	0	23	1.9%
Digital Insurance	Public (*)	0	0	2	10	9	21	1.7%
Ascension	PE	4	6	2	4	2	18	1.5%
Bollinger	PE	4	2	3	5	3	17	1.4%
BB&T Insurance Services	Bank	10	1	1	3	1	16	1.3%
Western Financial Group	Bank	0	2	0	7	5	14	1.2%
CBIZ	Public	1	2	2	3	5	13	1.1%
AmWINS Group	PE	1	4	1	3	2	11	0.9%
Ryan Specialty	Private	0	0	4	2	5	11	0.9%
Most Active Buyers		113	53	82	141	152	541	44.6%
All Others		171	114	111	138	139	673	55.4%
Totals		284	167	193	279	291	1,214	100.0%
% Chg			-41%	16%	45%	4%		

(*) Privately owned until acquired by Fidelity National Financial on Dec 31, 2012

Acquisitions by firms with PE backing increased 15% in 2012 from 2011 as Hub, Confie Seguros, USI, and Assured Partners combined completed 66 transactions last year compared to 53 in 2011. Hub continues to be the most active PE backed buyer with 21 transactions in 2012, down from their record high of 32 deals in the prior year, and second only to Gallagher in the total number of deals completed.

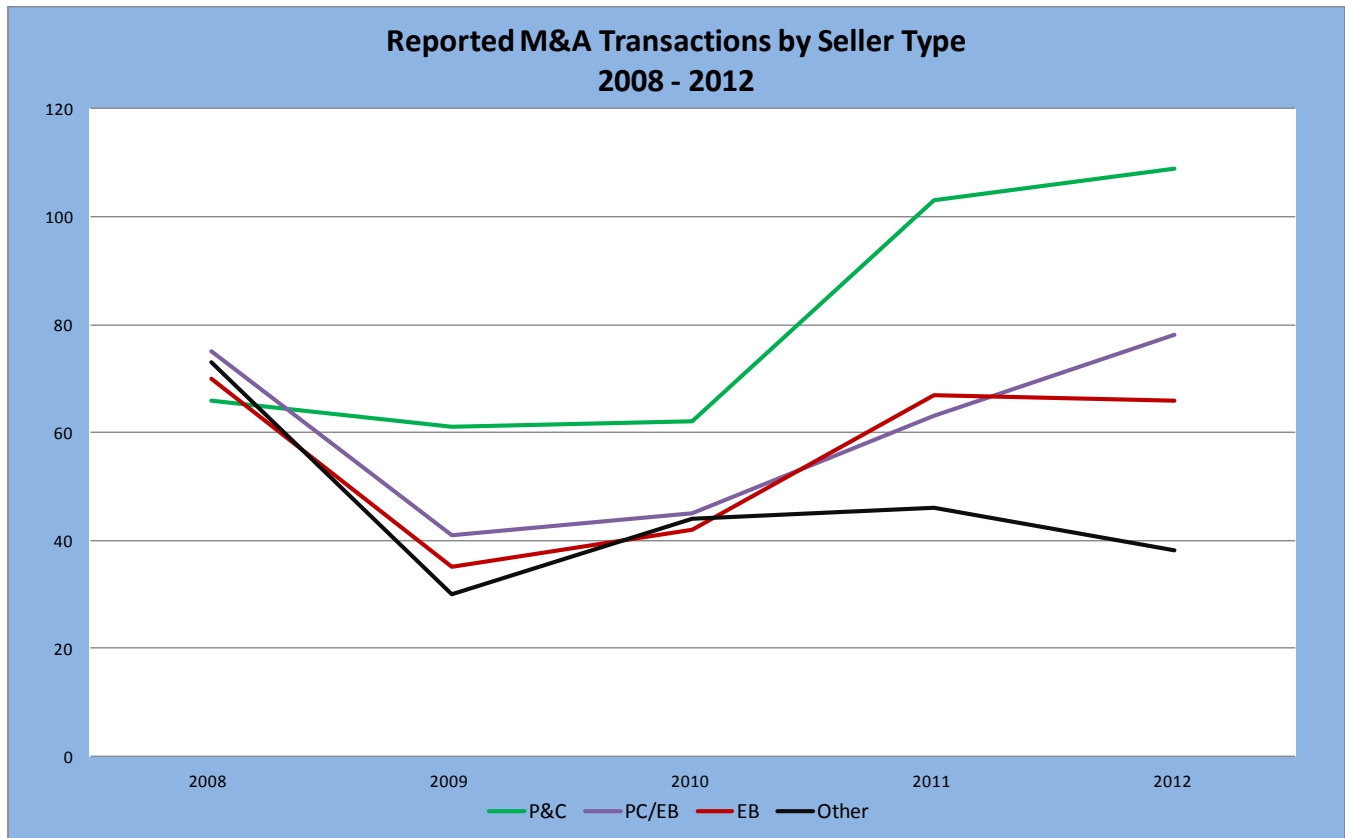
On the public broker side, Gallagher announced 30 transactions in 2012 followed by Brown & Brown with 15. Marsh McLennan Agencies, the middle market retail broker Marsh started in 2008, completed nine deals last year on top of eight in 2011.

There was only one active bank acquirer in 2012, Western Financial Group, with five announced transactions following seven deals in 2011. Western Financial is a bank and financial services company based and operating exclusively in Canada. BB&T Insurance Services did close one large transaction on the wholesale side with the acquisition of Crump in February 2012, but otherwise BB&T Insurance Services and Wells Fargo Insurance Services were both all but inactive. The rest of the bank-financial

institution buyers were scattered and diverse. On the flip side, there were a number of divestitures in 2012 of bank owned agency platforms.

Though not a conventional M&A deal, there were three noteworthy transactions involving recapitalizations whereby a PE firm's equity was purchased by a new PE entity. PE firms commonly effect such recapitalizations in a five plus year cycle in order to capitalize their investment. The three noteworthy transactions were: Goldman Sachs sold its interest in USI to Onex Corp (Canada); Blackstone Capital's interest in Alliant was acquired by KKR; and lastly, Genstar Capital's ownership in Confie Seguros was sold to ABRY Partners.

The primary business focus of the agencies being sold (P&C, Employee Benefits or "EB" and PC/EB) is also of interest especially with the relatively significant number of transactions on the EB side. Although the number of pure EB firms sold in 2012 was down slightly from 2011, the numbers are still consistent with 2008 levels before the passage of PPACA. Given the uncertainty of how PPACA will impact EB firms' revenue and the complexity of implementing the legislation at the Federal and State levels, the large number of EB firms being sold is interesting. A number of EB focused firms may have felt the pressure due to PPACA to have a larger offering of value added and other resources for delivery to their clients and were thereby influenced to sell and partner with a larger organization in order to maintain a competitive edge.



Looking back over the last five years, three firms have clearly been the dominant buyers; Gallagher closed 102 transactions while Brown and Brown and Hub closed 96 and 91, respectively. All of the PE activity is indicative of continued interest by the PE sector in insurance agents-brokers. PE firms find insurance agents-brokers to be attractive investments due to the predictability of its cash flow and the fact it does not require significant capital to grow and expand.

Marsh & McLennan Agencies (“MMA”) likewise had another busy year in 2012 with nine announced transactions after completing eight deals in 2011. In addition, it is relevant to note both Assured Partners and MMA purchased several large firms and have thereby accumulated significant volume in a relatively short period of time. Finally, Digital Insurance, with a singular focus on EB business, has been very busy over the last two years with 19 total transactions. Digital was privately owned firm until being acquired on December 31, 2012 by Fidelity National Financial.

Nearly 45% of all announced transactions came from the buyers that have completed more than 10 transactions over the last five years. This distribution, however, has migrated somewhat significantly for the most active buyers from a low of 32% in 2009 to a high of 52% in 2012. The majority of this increase has come from the PE backed buyers.

Tables D1-D5 (pp. 13-17) provides additional detail on the most active acquirers from 2008-2012 by Buyer Type.

Of note were a number of “Top 100” type transactions in 2012 as reflected per the following:

- Arrowhead General Insurance was acquired by Brown & Brown
- Assured Partners acquired Dawson Companies
- Schiff Kreidler Shell was acquired by Gallagher.
- Payne Financial Group acquired Western States Insurance
- BB&T’s acquired Crump
- Digital Insurance was acquired by Fidelity National Financial.

Management guru Peter Drucker said “Dealmaking beats working. Dealmaking is exciting and fun and working is grubby. That’s why you have deals that make no sense.” In addition for the need to be cautious, disciplined and focused at the front end, the significant secondary challenge in the M&A world is making the acquisition work. The challenge, in part, is related to the task or work of integrating what has been acquired into the acquirer’s platform. The active acquirers have the experience and knowledge to effectively fold the acquired enterprise into their platform with a common culture and structure. Good practices make it perfect or at least nearly perfect.

M&A activity will likely continue to be a major factor in the growth of the publicly traded brokers and the vehicle for investment opportunities by the PE backed buyers. It is not likely the record setting year of 2012 will be repeated in 2013 due to the lack of tax-driven seller motivation and the absorption of a large part of the available seller inventory. The buy-side atmosphere is strong and active and a portion of the 2012 momentum will likely continue into 2013 regardless of the current higher capital gains tax rates and the PPACA surtax for some. Sellers will adapt to the new tax rates, but it may take a little time for reality to set in.

The agent-broker industry is afflicted with a large “boomer” population with over one-third of all agency principals over the age of 55. The only realistic option for the majority of this group is to effect a sale transaction and thus it should provide a robust inventory of sale candidates for the buy-side group. In addition to the current crop of PE backed acquirers who will likely remain active, there could possibly be new PE backed firms to add to the already competitive atmosphere. Even with the record number of transactions in 2012, this is still a very fragmented industry with literally thousands of potential sellers and a large number of experienced well-positioned buyers that will be more than enough to create opportunities for those that are interested in joining the M&A fray.

Table A – Summary of Reported Transactions by Year, 2000 thru 2012

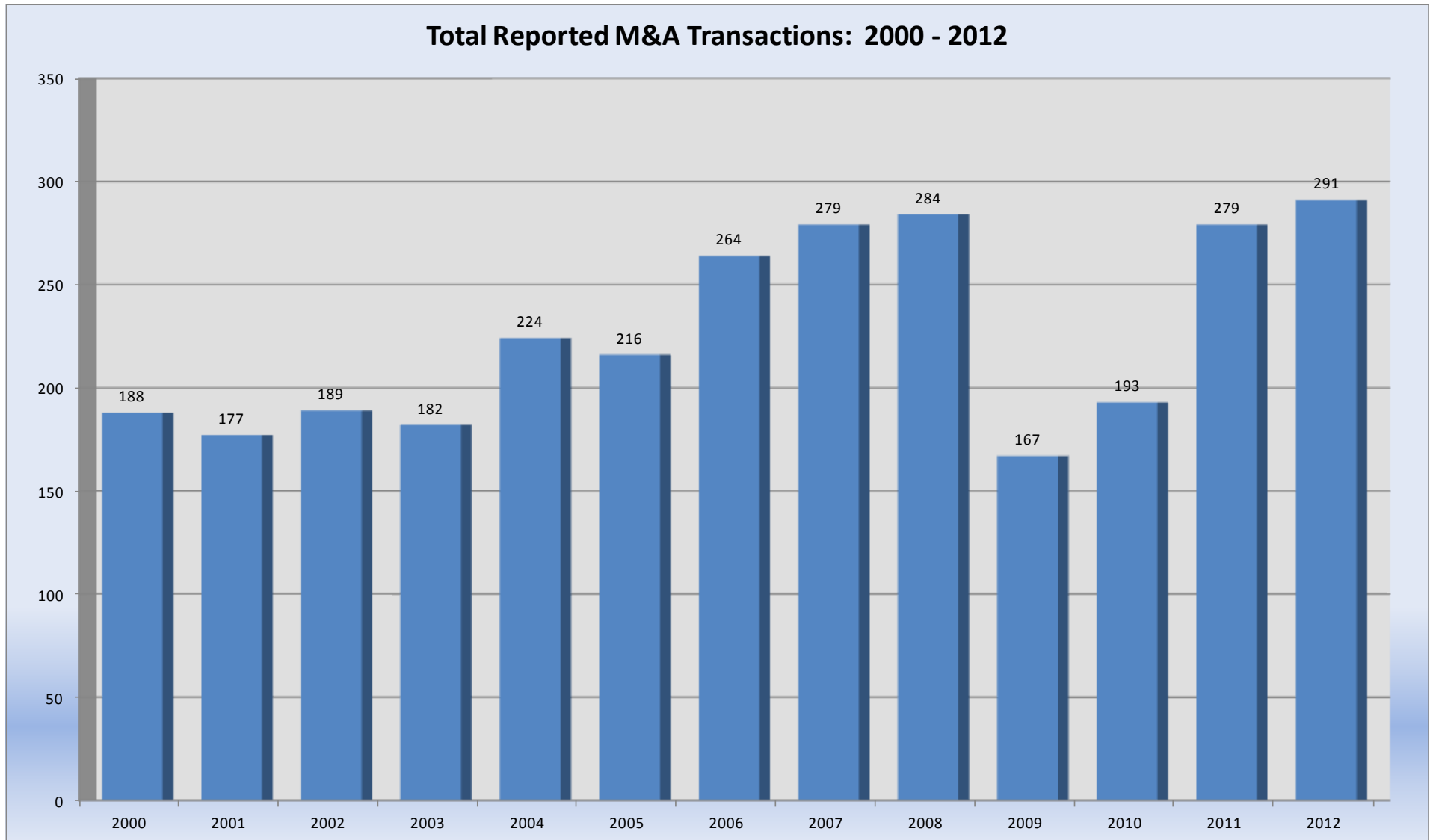


Table B – Summary of Reported Transactions by Buyer Ownership, 2008 thru 2012

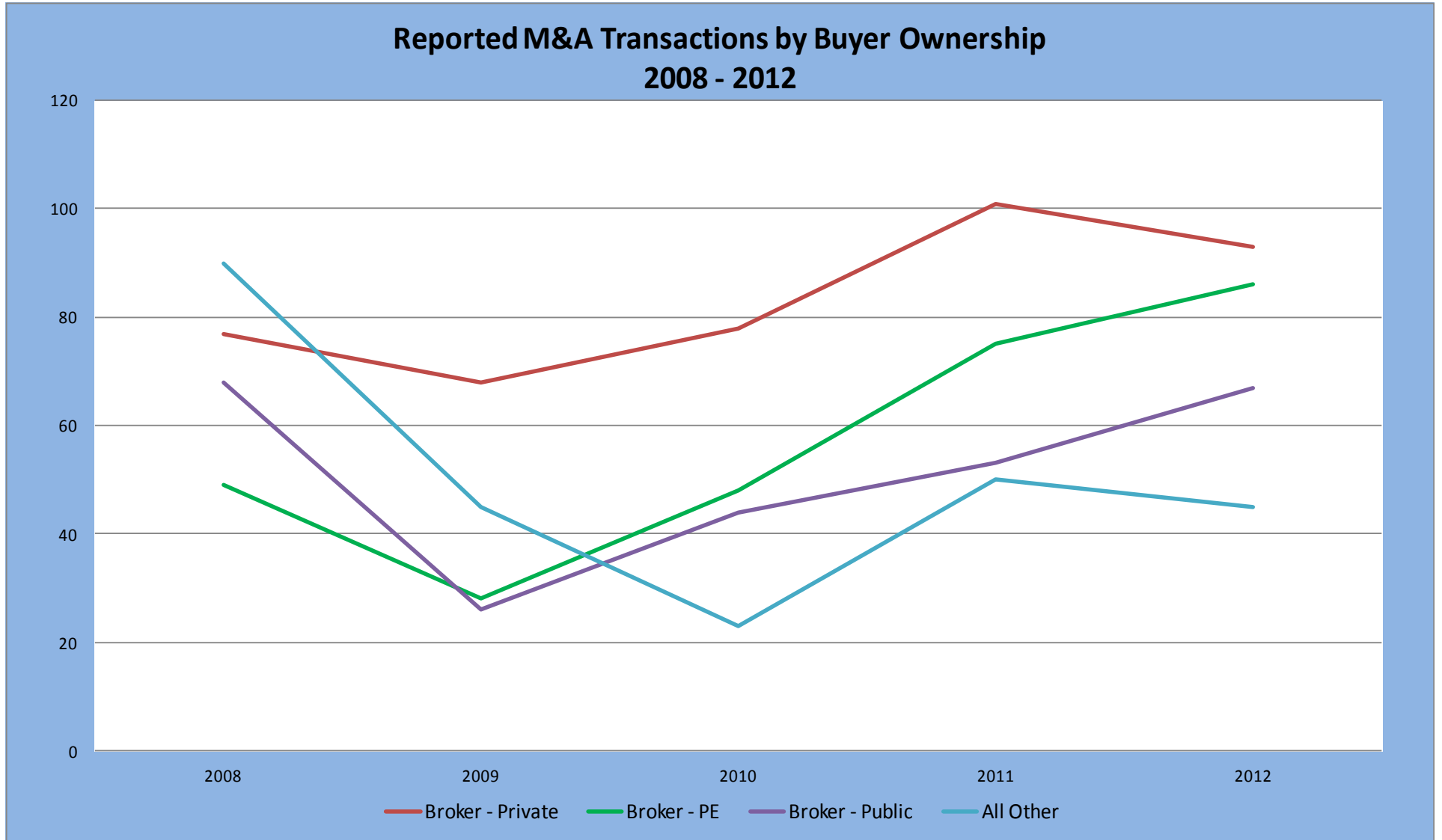


Table C – Summary of Reported Transactions by Buyer Ownership as a percentage of total transactions, 2008 thru 2012

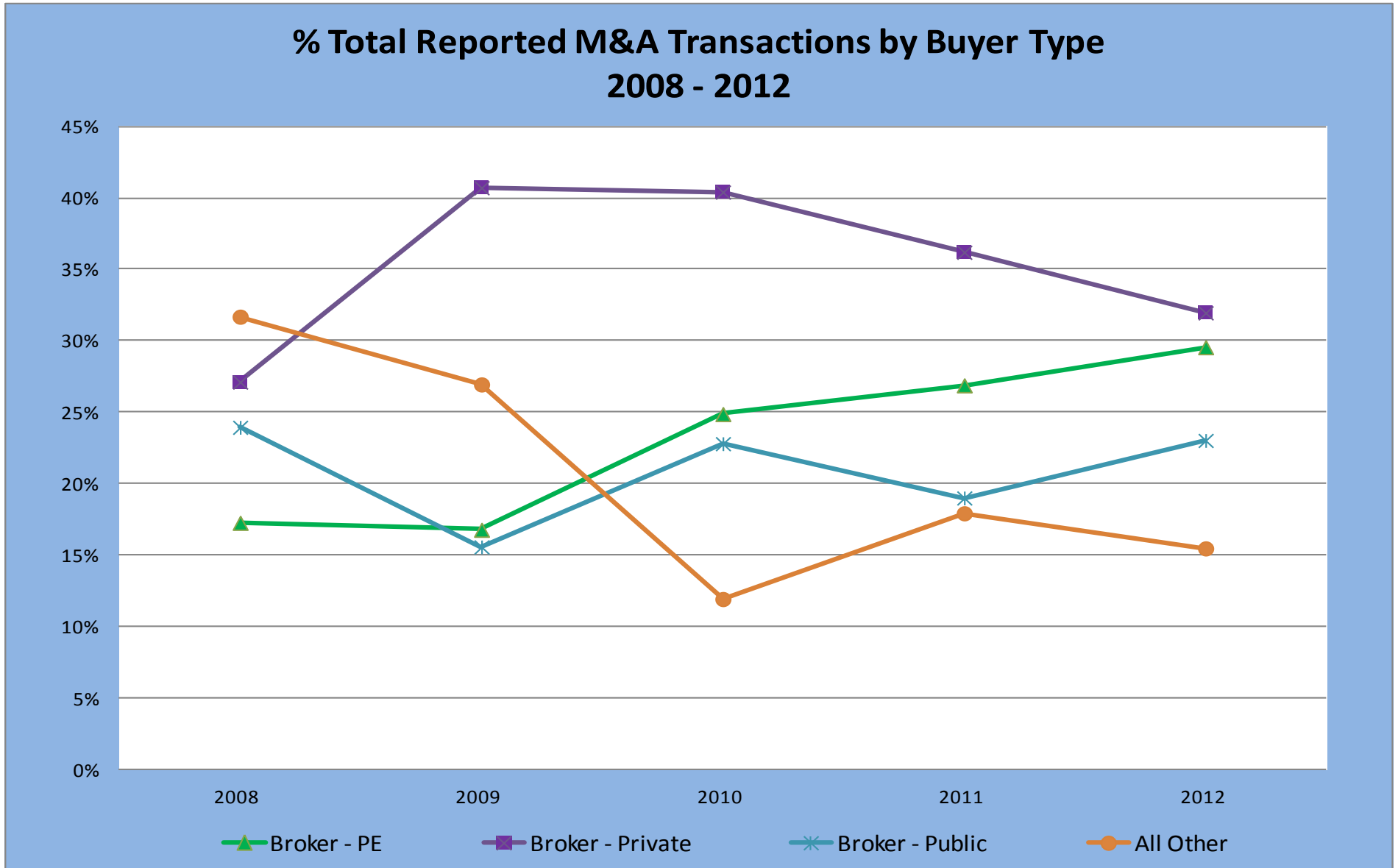


Table D1 – List of Major Buyers by Type, 2008 thru 2012

Privately Owner Buyers:

M&A Transactions: 2008 - 2012

Privately Owned Buyers

Buyers w > 5 Transactions:

Digital Insurance (acq by Fidelity National Dec 2012)
 Ryan Specialty
 Acentria, Inc.
 Dawson Co. (acq. by Assured Partners Jan 2012)

Most Active Buyers

All Others

Totals

% Chg

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Digital Insurance (acq by Fidelity National Dec 2012)	0	0	2	10	9	21
Ryan Specialty	0	0	4	2	5	11
Acentria, Inc.	0	0	0	5	0	5
Dawson Co. (acq. by Assured Partners Jan 2012)	0	0	4	1	0	5
Most Active Buyers	0	0	10	18	14	42
All Others	77	68	68	83	79	375
Totals	77	68	78	101	93	417
% Chg		-12%	15%	29%	-8%	

Table D2 – List of Major Buyers by Type, 2008 thru 2012

Private Equity backed Buyers:

M&A Transactions: 2008 - 2012

Private Equity Backed:

Buyers w > 5 Transactions:

Hub International (APAX)
 Confie Seguros (ABRY Partners)
 USI Holdings (Onex)
 Assured Partners (GTCR)
 Ascension (Parthenon and Century)
 Bollinger (Evercore)
 AmWINS Group (New Mountain)
 Higgenbotham & Assoc (Stonepoint)
 Integro, Ltd (Various)
 Alliant Insurance Services (KKR)
 The Hilb Group (BHMS)
 Edgewood Partners Ins Center (Stonepoint)
 Risk Strategies Company (Berkley)

Most Active Buyers

All Others

Totals

% Chg

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Hub International (APAX)	16	8	14	32	21	91
Confie Seguros (ABRY Partners)	3	0	3	8	18	32
USI Holdings (Onex)	7	1	4	8	10	30
Assured Partners (GTCR)	0	0	1	5	17	23
Ascension (Parthenon and Century)	4	6	2	4	2	18
Bollinger (Evercore)	4	2	3	5	3	17
AmWINS Group (New Mountain)	1	4	1	3	2	11
Higgenbotham & Assoc (Stonepoint)	1	2	3	1	2	9
Integro, Ltd (Various)	1	1	3	2	1	8
Alliant Insurance Services (KKR)	1	0	3	1	1	6
The Hilb Group (BHMS)	0	0	2	1	3	6
Edgewood Partners Ins Center (Stonepoint)	2	2	1	0	0	5
Risk Strategies Company (Berkley)	1	0	1	1	2	5
Most Active Buyers	41	26	41	71	82	261
All Others	8	2	7	4	4	25
Totals	49	28	48	75	86	286
% Chg		-43%	71%	56%	15%	

Table D3 – List of Major Buyers by Type, 2008 thru 2012

Publicly Traded Buyers:

M&A Transactions: 2008 - 2012

Publicly Owned Buyers

Buyers w > 5 Transactions:

Gallagher

Brown & Brown

Marsh McLennan Agencies

CBIZ

National Financial Partners

Aon

Most Active Buyers

All Others

Totals

% Chg

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Gallagher	24	11	16	21	30	102
Brown & Brown	35	8	21	17	15	96
Marsh McLennan Agencies	0	2	4	8	9	23
CBIZ	1	2	2	3	5	13
National Financial Partners	0	0	0	2	6	8
Aon	3	2	1	0	0	6
Most Active Buyers	63	25	44	51	65	248
All Others	5	1	0	2	2	10
Totals	68	26	44	53	67	258
% Chg		-62%	69%	20%	26%	

Table D4 – List of Major Buyers by Type, 2008 thru 2012

Bank Buyers:

M&A Transactions: 2008 - 2012

Banks

Buyers w > 5 Transactions:

Wells Fargo Insurance Services

BB&T Insurance Services

Western Financial Group

Most Active Buyers

All Others

Totals

% Chg

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Wells Fargo Insurance Services	8	6	4	5	0	23
BB&T Insurance Services	10	1	1	3	1	16
Western Financial Group	0	2	0	7	5	14
Most Active Buyers	18	9	5	15	6	53
All Others	24	15	13	22	18	92
Totals	42	24	18	37	24	145
% Chg		-43%	-25%	106%	-35%	

Table D5 – List of Major Buyers by Type, 2008 thru 2012
All Other Buyers:

M&A Transactions: 2008 - 2012

Insurance Companies & Other

Buyers w > 5 Transactions:

LTC Global Solutions

Most Active Buyers

All Others

Totals

% Chg

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
LTC Global Solutions	5	1	0	0	0	6
Most Active Buyers	5	1	0	0	0	6
All Others	43	20	5	13	21	102
Totals	48	21	5	13	21	108
% Chg		-56%	-76%	160%	62%	

Data prepared by:



53 W. Jackson Blvd.; Suite 1562

Chicago, IL 60604

312 235-0081

www.optisins.com

cunningham@optisins.com

menzer@optisins.com

OPTIS Partners, LLC is a boutique investment banking and consulting firm with headquarters in Chicago and an office in Minneapolis, focused exclusively in the insurance distribution marketplace. We provide buy-side and sell-side M&A services, ownership succession planning, fair market valuation and related consulting services. OPTIS was ranked as the fifth most active agent-broker M&A advisory firm in 2012 by SNL Financial.