

Agent-Broker
Mergers & Acquisitions

June 2013
A Six-Month Update

“Relative Calm After the Perfect Storm”



Chicago, Illinois

August 5, 2013

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Agent-Broker Mergers & Acquisitions

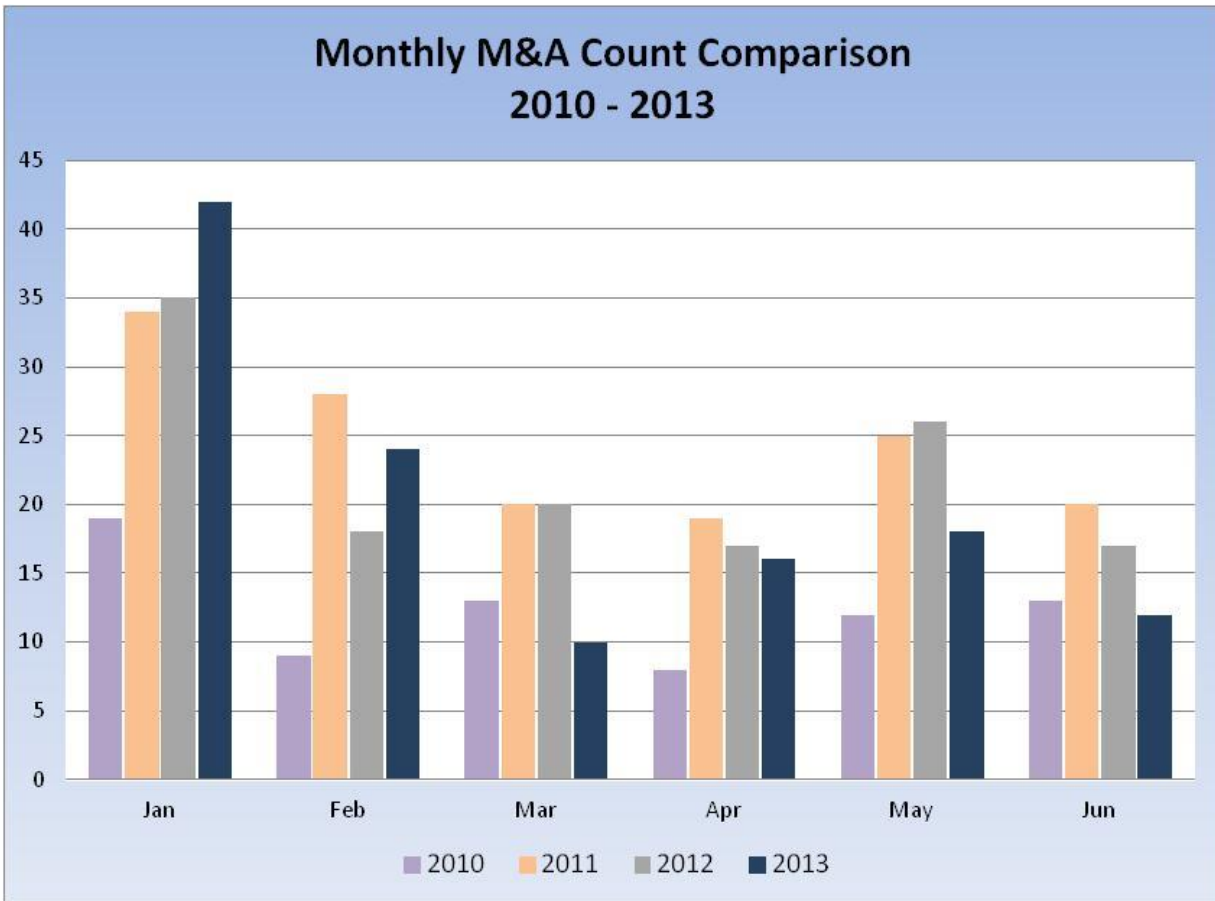
Source of Data:

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 on Table C2 (p. 15) includes the PE firm name.

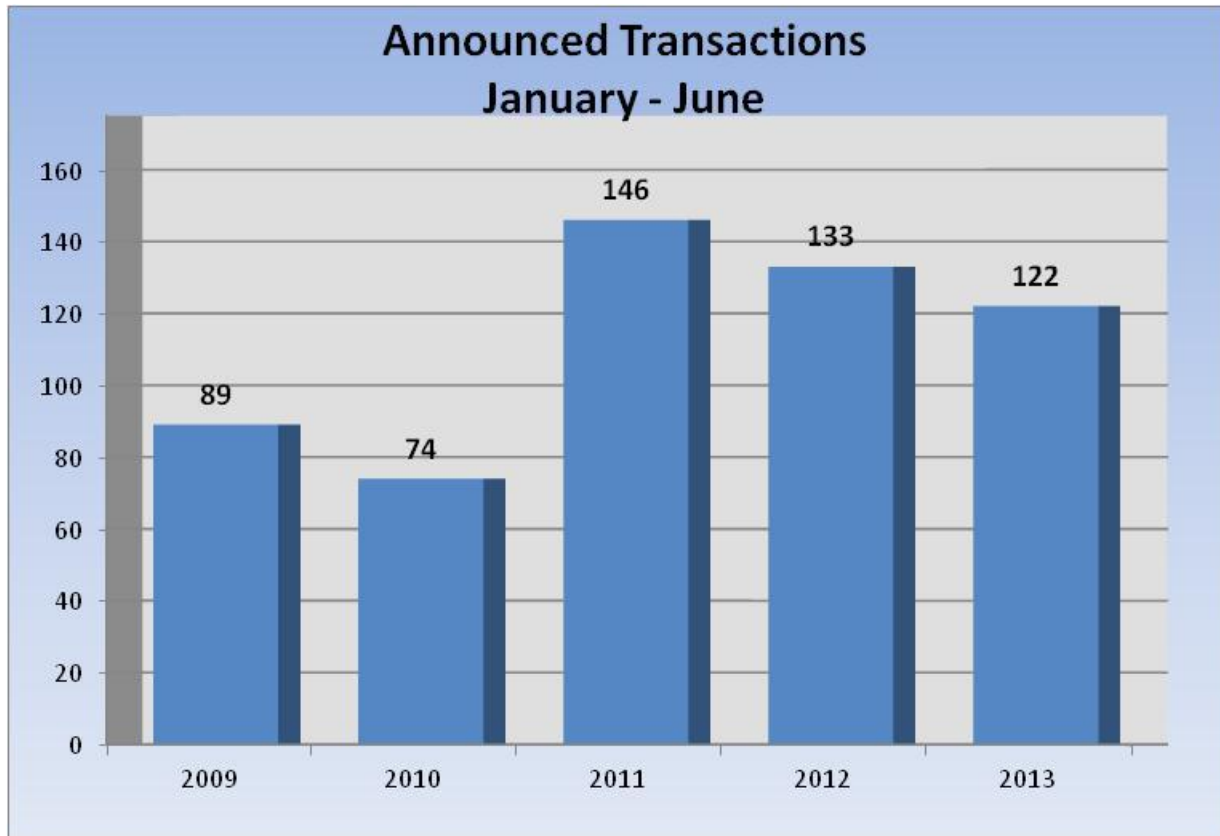
M&A activity announced in 2013 started out very strong in January & February, but slowed down quickly once all the 2012 completed deals were released, as shown below comparing monthly transaction announcements for the past four years:



Much of the January and some of the February deal count was likely late reporting of transactions actually closed in 2012. Announced transactions since March have fallen short of the last two years each month due to the unusually high volume of deals done in 2012 to avoid the tax increases in 2013. This both reduced the inventory of prospects for many of the active buyers as well as causing sellers to delay a transaction until they could recoup at least some of the tax increase.

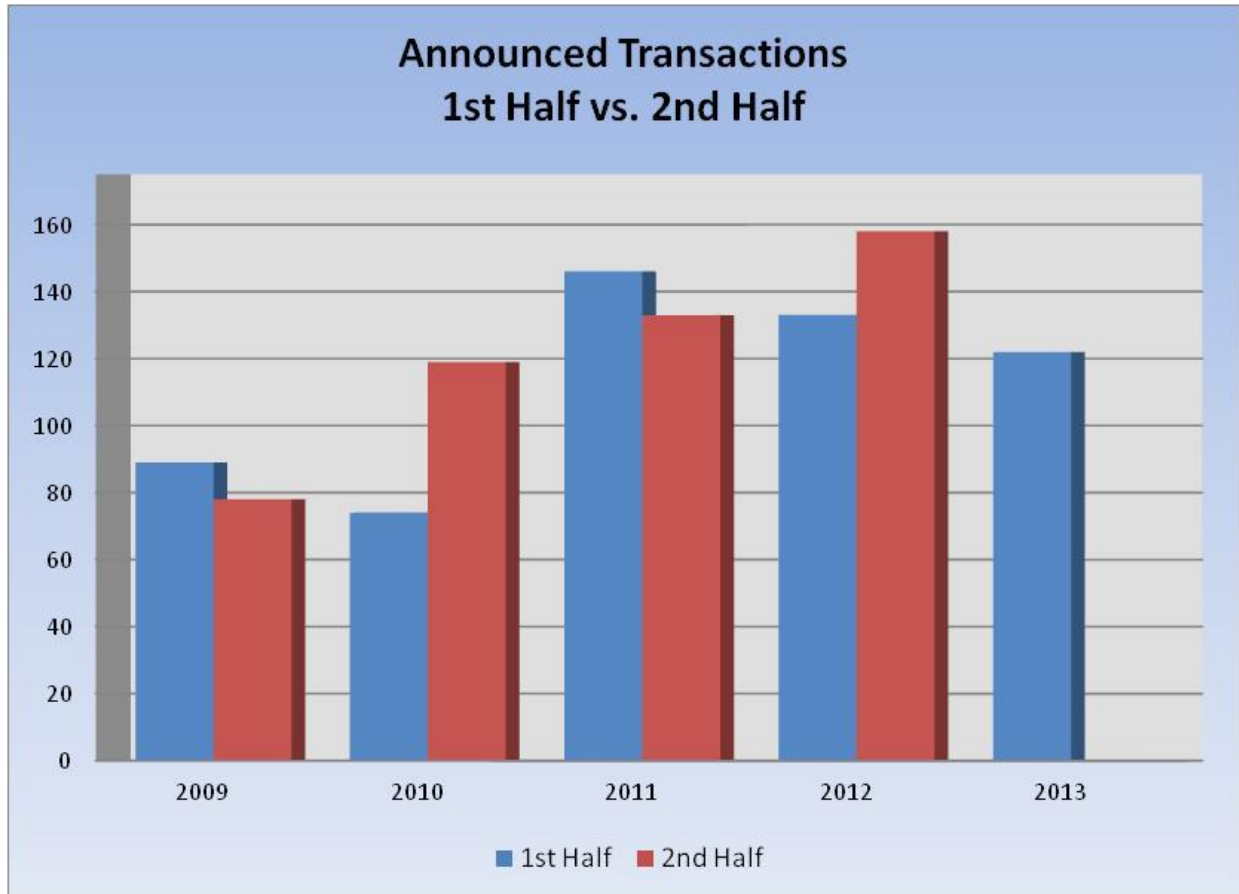
Starting on January 1, 2013, the capital gains tax increased from 15% to 20%. In addition, a new 3.8% Patient Protection and Affordable Care Act (“PPACA”) surtax on investment gains for certain high income individuals. Combined, the tax on many capital gains transactions increased from 15% to almost 24%, or almost 60% overnight.

Looking at the totals for the first six months of the year for the past five years,



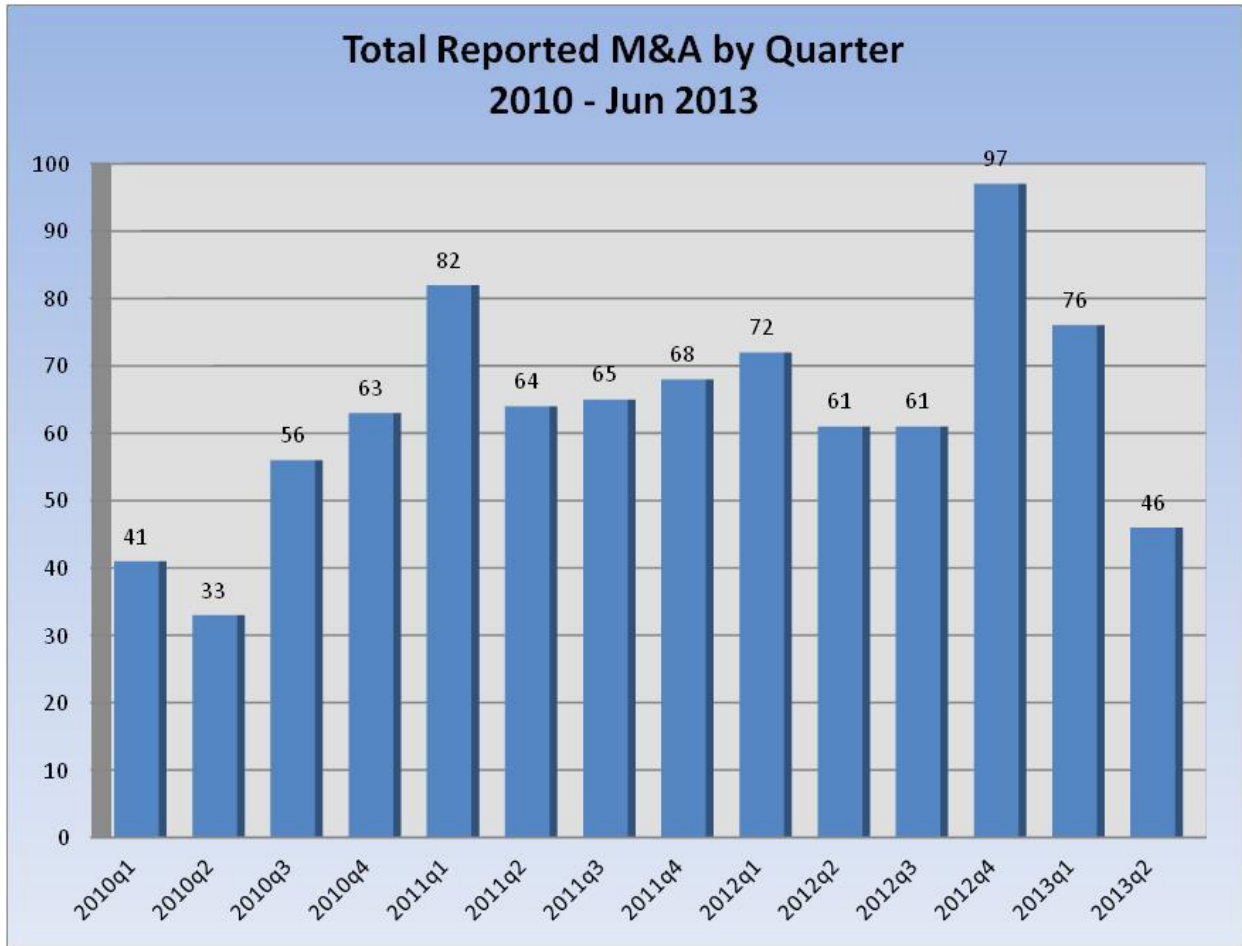
The low activity in 2009 and 2010 were significantly impacted by the recession. The jump in 2011 was attributed to the start of the economic recovery and possible tax law changes that were expected to be implemented on January 1, 2011 but were deferred until January 1, 2013. Some of the deals that were in process to close in 2010 got delayed until 2011 (or were just reported in early 2011, similar to what we've seen in 2013). 2012 started out rather uneventful, but had a record breaking finish, even without the deals that weren't announced until 2013.

Comparing the first half of the respective years to the second halves, two of the last four years saw bigger latter halves of the year than the first half, both attributable to expected changes in tax laws associated with capital gains treatment. With no changes in tax laws expected to take effect in 2014, there's nothing imminent to drive M&A activity for the balance of 2013.



Given the results of the past several months, and the known carryover of 2012 transactions reported in early 2013, we expect an even slower 2nd half of 2013 than the first half and down substantially from 2011 and 2012.

First quarter results in 2013 were down substantially from Q4-2012, as expected, but the second quarter 2013 activity was at the lowest since mid-2010.



Looking at the announced transactions based on buyer ownership structure illustrates some further perspectives on the changes in buyer appetites over the past several years:

M&A Transactions: 2008 - June 2013									
All Buyer Types	2008	2009	2010	2011	2012	Total	6 Mos June 2011	6 Mos June 2012	6 Mos June 2013
	Broker - Private	77	68	78	101		93	417	58
Broker - PE	49	28	48	75	86	286	40	40	40
Broker - Public	68	26	44	53	67	258	26	30	18
Bank	42	24	18	37	24	145	18	10	14
Other	48	21	5	13	21	108	4	13	5
Totals	284	167	193	279	291	1,214	146	133	122
% Chg		-41%	16%	45%	4%			-9%	-8%

The privately owned brokers continue to lead all other buyer types in the number of transactions completed, mainly due to the sheer number of potential buyers in this category. Private Equity (“PE”) backed agencies (ie. Assured Partners, Hub, USI and others) and the limited number of public brokers have generally been close behind, although the number of PE firms now actively acquiring insurance agencies is nearly double the number of publicly traded insurance brokers. In 2013, there were 7 different public brokers that announced acquisitions compared to 13 PE firms and 37 privately owned brokers.

Since 2008, privately owned buyers have accounted for about 35% of all announced transactions while the publicly traded brokers have been involved in slightly less than 21%, with these market shares being reasonably constant through this period. PE backed firms, however, represented approximately 18% of the deal announcements during the period 2008 through mid-2010, but have been a much bigger factor with almost 30% of the total deal announcements since then. The growth of PE firms’ interest in the insurance brokerage arena is likely to continue with global PE firms raising more capital in the most recent quarter than any period since the beginning of the recession. Between the existing active PE firms and potential new buyers, this group may provide much of the capital needed to maintain the demand and stable valuations for quality agency acquisitions for the foreseeable future.

The information in Tables B and C (pp. 13-18) display the referenced transactions by Buyer Type and top individual buyers for 2008-June 2013.

Looking at the top firms responsible for the acquisition activity, three firms continue to lead all other acquirers since 2008 by nearly a factor of three: Gallagher with 111 total transactions; Hub with 105; and Brown and Brown with 99. Of the top 15 most active buyers, 10 did fewer deals in the first half of 2013 than they did in 2012 while five increased. Outside of Gallagher and Hub, only Digital announced five or more transactions for the year.

M&A Transactions: 2008 - June 2013

All Buyer Types

Most Active Buyers

Ownership

		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>	<u>6 Mos June 2011</u>	<u>6 Mos June 2012</u>	<u>6 Mos June 2013</u>
Gallagher	Public	24	11	16	21	30	102	10	15	9
Hub International	PE	16	8	14	32	21	91	18	9	14
Brown & Brown	Public	35	8	21	17	15	96	11	7	3
Confie Seguros	PE	3	0	3	8	18	32	4	7	4
USI Holdings	PE	7	1	4	8	10	30	2	6	4
Digital Insurance	Private (owned by Public)	0	0	2	10	9	21	7	1	7
Assured Partners	PE	0	0	1	5	17	23	1	9	4
Marsh McLennan Agencies	Public	0	2	4	8	9	23	4	2	2
Wells Fargo Insurance Services	Bank	8	6	4	5	0	23	2	0	1
Western Financial Group	Bank	0	2	0	7	5	14	3	3	4
Ascension	PE	4	6	2	4	2	18	2	1	0
Bollinger	PE	4	2	3	5	3	17	4	2	0
BB&T Insurance Services	Bank	10	1	1	3	1	16	0	1	0
CBIZ	Public	1	2	2	3	5	13	0	1	1
AmWINS Group	PE	1	4	1	3	2	11	2	0	1
Bank		113	53	78	139	147	530	70	64	54
Bank		171	114	115	140	144	684	76	69	68
Totals		284	167	193	279	291	1,214	146	133	122
% Chg			-41%	16%	45%	4%			-9%	-8%

Total announced transactions through six months of 2013 are down by 8% compared to the same period last year, including the above mentioned late reporting of 2012 deals. Without the tax-driven incentives that were a major force in the 158 announced transactions in the 2nd half of 2012, the decline for 2013 is likely to be much greater by the end of the year, barring other external factors.

PE backed firms account for 7 of the top 15 buyers, led by Hub, Confie Seguros and USI. Hub alone was responsible for more than 10% of all announced deals thus far in 2013 and led all acquirers with 14 transactions. From the public brokers, Gallagher announced nine transactions in 2013 followed by Brown & Brown with three. Marsh McLennan Agencies, the middle market retail broker Marsh started in 2008, has announced only two deals thus far in 2013.

Wells Fargo Insurance Services and BB&T Insurance Services, two of the most active bank buyers, have been very quiet since 2011 with only one retail acquisition by Wells Fargo and one large wholesale acquisition by BB&T (Crump) during the past 18 months. Other bank owned agencies, led by People's

Bancorp (based in Ohio) and Western Financial Group (a wholly owned subsidiary of Desjardins Group, based and operating in Canada) each reported four acquisitions so far this year.

There were two major recapitalization transactions of PE backed firms during the first half of 2013 that are not included in the M&A data herein as they are not traditional acquisition transactions. They are:

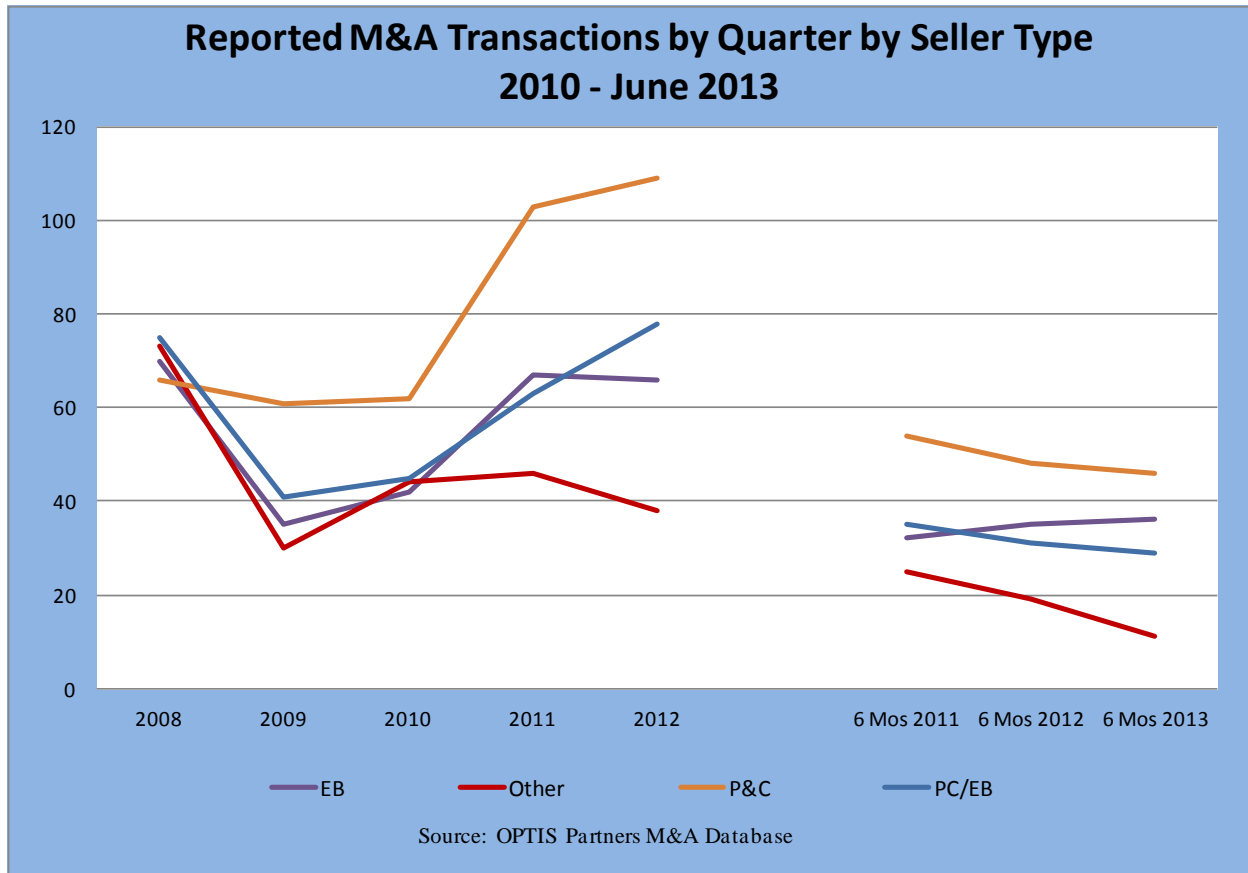
- Genstar Capital replaced GCP Capital Partner's investment in Acrisure in March
- Kohlberg & Co. acquired Berkley Capital's interest in Risk Strategies Co. in June

Although it did not fall into the first six month category, there was another significant recapitalization transaction announced in early August 2013 whereby Hellman & Friedman will acquire the majority equity position in Hub International previously owned by APAX Partners and Morgan Stanley.

There were two other large transactions during the 1st half of 2013, both of which are included in the transaction count:

- Madison Dearborn Partners (PE firm) acquired National Financial Partners, formerly a publicly traded insurance broker and wealth management firm, in April
- Brown & Brown's acquisition of Beecher Carlson in June, previously majority owned by Austin Ventures / FSPM

The type of agencies being acquired (P&C, Employee Benefits or “EB” and PC/EB) presents an interesting perspective, especially with the activity on the EB side. P&C and PC/EB have historically been the dominant types of agencies being sold, as shown in the table below:



In 2013, only EB focused agencies sold at a higher pace than in the past two years while each of the other seller types sales activity slowed. Despite some recent delays in full implementation of PPACA, the activity in this broker segment continues to be an interesting footnote to the whole M&A discussion.

Looking to the rest of 2013 and beyond, we do not expect to see any degree of comparable level of activity for the remainder of 2013 as we saw in 2012, but we also strongly believe that over the long-term, M&A activity will continue to grow. There are plenty of buyers with readily available funds in the marketplace today, between the public buyers, banks perhaps re-engaging in the insurance world a bit and a bigger pool of PE-backed firms, in addition to all the other independent brokers. Compound this with the aging baby-boomer group of agency principals that have yet to embrace the necessary steps to successfully perpetuate ownership internally that will ultimately lead to sale or merger of the firm.

Although it may be another year or two before the activity levels return to a normal range, as buyers replenish their acquisition prospects following the buying spree at the end of 2012 and sellers try to offset some of the added tax costs with growth during this firming market, we believe the M&A market has all the makings of long-term growth and prosperity. In the end, buyers need the growth acquisitions provide, the demand will continue to keep valuations attractive to sellers that haven't prepared for an internal perpetuation, and all will be well in the M&A world.

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

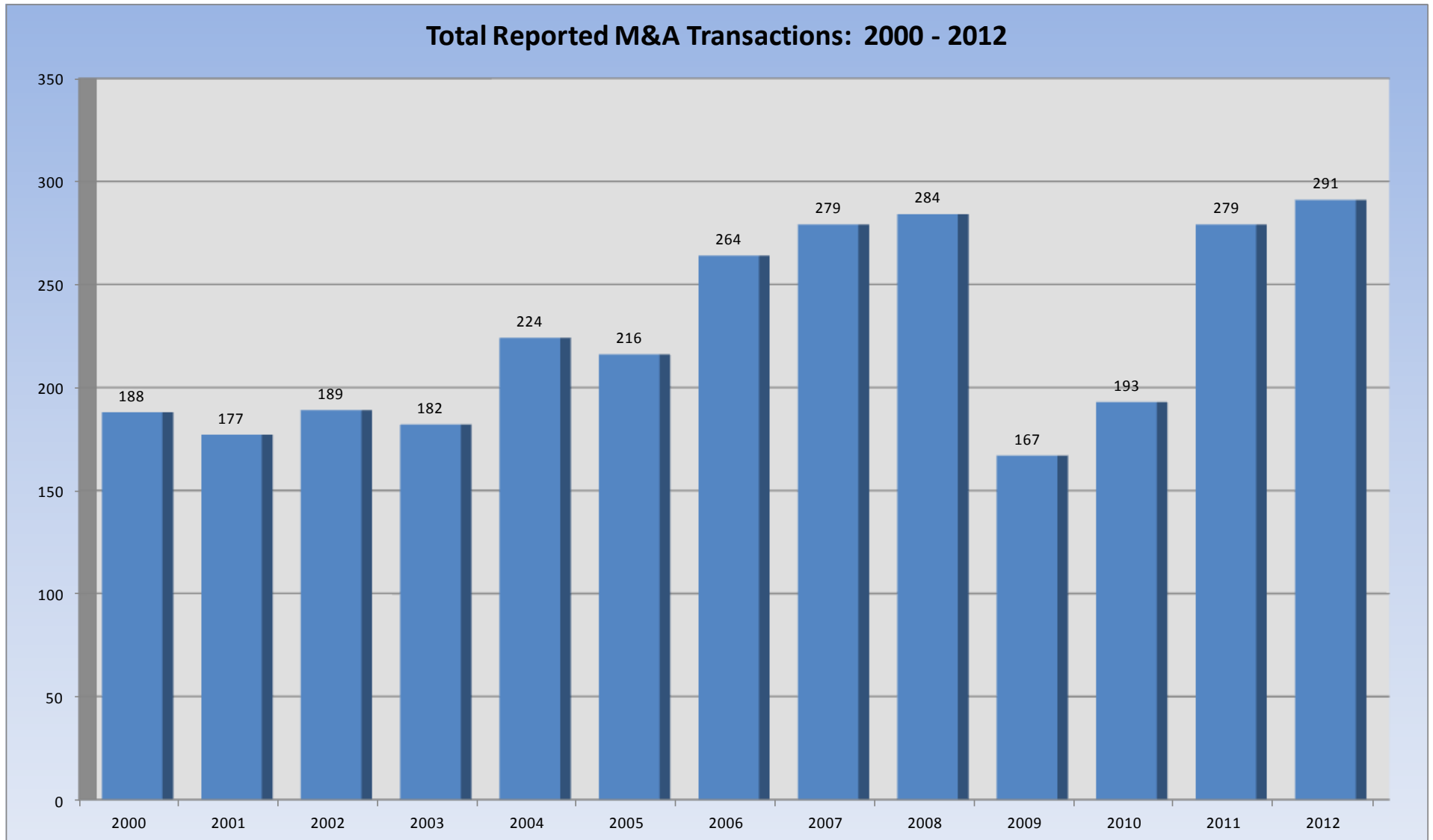


Table B – Summary of Reported Transactions by Buyer Ownership, 2008 thru June 2013

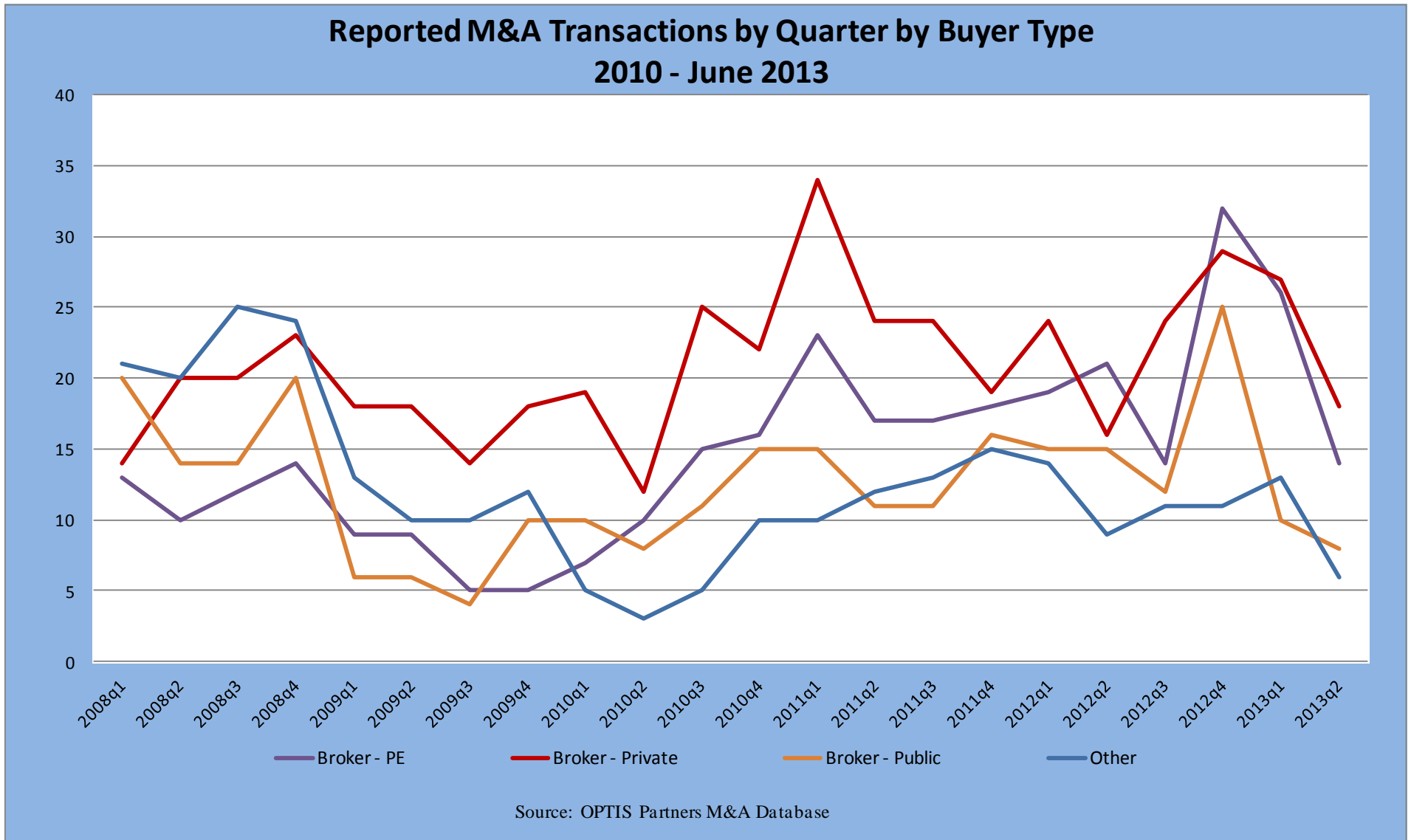


Table C1 – List of Major Buyers by Type, 2008 thru June 2013
Privately Owner Buyers:

M&A Transactions: 2008 - June 2013

Privately Owned Buyers

Buyers w > 5 Transactions:

Digital Insurance (acq by Fidelity National in Dec 2012)
 Ryan Specialty
 Acentria, Inc.
 Dawson Co. (acq by Assured Partners in 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>	<u>6 Mos June 2011</u>	<u>6 Mos June 2012</u>	<u>6 Mos June 2013</u>
Digital Insurance (acq by Fidelity National in Dec 2012)	0	0	2	10	9	21	7	1	7
Ryan Specialty	0	0	4	2	5	11	2	3	0
Acentria, Inc.	0	0	0	5	0	5	3	0	0
Dawson Co. (acq by Assured Partners in Jan 2012)	0	0	4	1	0	5	0	0	0
Most Active Buyers	0	0	10	18	14	42	12	4	4
All Others	77	68	68	83	79	375	46	36	41
Totals	77	68	78	101	93	417	58	40	45
% Chg		-12%	15%	29%	-8%			-31%	13%

Table C2 – List of Major Buyers by Type, 2008 thru June 2013

Private Equity backed Buyers:

M&A Transactions: 2008 - June 2013

Private Equity (PE Investor):

Buyers w > 5 Transactions:

PE Owner:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>	6 Mos June <u>2011</u>	6 Mos June <u>2012</u>	6 Mos June <u>2013</u>
Hub International	16	8	14	32	21	91	18	9	14
Confie Seguros	3	0	3	8	18	32	4	7	4
USI Holdings	7	1	4	8	10	30	2	6	4
Assured Partners	0	0	1	5	17	23	1	9	4
Ascension	4	6	2	4	2	18	2	1	0
Bollinger	4	2	3	5	3	17	4	2	0
AmWINS Group	1	4	1	3	2	11	2	0	1
Higgenbotham & Assoc	1	2	3	1	2	9	1	1	2
Integro, Ltd	1	1	3	2	1	8	2	0	1
The Hilb Group	0	0	2	1	3	6	0	1	2
Acrisure	0	0	2	0	0	2	0	0	4
Alliant Insurance Services	1	0	3	1	1	6	1	1	0
Edgewood Partners Ins Center	2	2	1	0	0	5	0	0	1
Risk Strategies Company	1	0	1	1	2	5	0	1	0
Most Active Buyers	41	26	43	71	82	263	36	36	36
All Others	8	2	5	4	4	23	4	6	6
Totals	49	28	48	75	86	286	40	40	40
% Chg		-43%	71%	56%	15%			0%	0%

Table C3 – List of Major Buyers by Type, 2008 thru June 2013

Publicly Traded Buyers:

M&A Transactions: 2008 - June 2013

Publicly Owned Buyers

Buyers w > 5 Transactions:

Gallagher
 Brown & Brown
 Marsh McLennan Agencies
 CBIZ
 National Financial Partners
 (acq by Madison Dearborn in Apr 2013)
 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>	<u>6 Mos June 2011</u>	<u>6 Mos June 2012</u>	<u>6 Mos June 2013</u>
Gallagher	24	11	16	21	30	102	10	15	9
Brown & Brown	35	8	21	17	15	96	11	7	3
Marsh McLennan Agencies	0	2	4	8	9	23	4	2	2
CBIZ	1	2	2	3	5	13	0	1	1
National Financial Partners (acq by Madison Dearborn in Apr 2013)	0	0	0	2	6	8	0	4	2
Aon	3	2	1	0	0	6	0	0	0
Most Active Buyers	63	25	44	51	65	248	28	30	30
All Others	5	1	0	2	2	10	1	0	0
Totals	68	26	44	53	67	258	26	30	18
% Chg		-62%	69%	20%	26%			15%	-40%

Table C4 – List of Major Buyers by Type, 2008 thru June 2013

Bank Buyers:

M&A Transactions: 2008 - June 2013

Banks	2008	2009	2010	2011	2012	Total	6 Mos June 2011	6 Mos June 2012	6 Mos June 2013
Buyers w > 5 Transactions:									
Wells Fargo Insurance Services	8	6	4	5	0	23	2	0	1
Western Financial Group	0	2	0	7	5	14	3	3	4
BB&T Insurance Services	10	1	1	3	1	16	0	1	0
Most Active Buyers	18	9	5	15	6	53	5	4	4
All Others	24	15	13	22	18	92	13	5	5
Totals	42	24	18	37	24	145	18	10	14
% Chg		-43%	-25%	106%	-35%			-44%	40%

Table C5 – List of Major Buyers by Type, 2008 thru June 2013

All Other Buyers:

M&A Transactions: 2008 - June 2013

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>	<u>6 Mos June 2011</u>	<u>6 Mos June 2012</u>	<u>6 Mos June 2013</u>
LTC Global Solutions	5	1	0	0	0	6	0	0	0
Most Active Buyers	5	1	0	0	0	6	0	0	0
All Others	43	20	5	13	21	102	4	13	5
Totals	48	21	5	13	21	108	4	13	5
% Chg		-56%	-76%	160%	62%			225%	-62%

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.

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