

Agent-Broker Mergers & Acquisitions Statistics 2013 - A Year in Transition

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Agent-Broker Mergers & Acquisitions

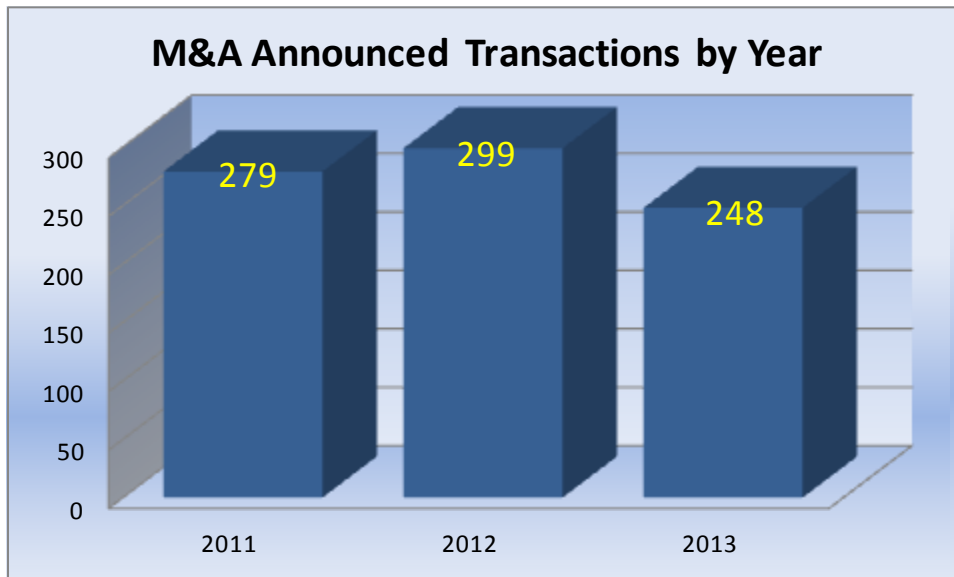
Source of Data:

Data is for US and Canadian transactions in the insurance “Distribution Sector “; Retail Property & Casualty (“P&C”), Employee Benefits and Life/Financial Services (collectively “EB”); Wholesale including MGA/MGU; Third Party Administrators (“TPA”) and other related entities..

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

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

From the historic high level of M&A activity in 2012, 2013 marked a return to normal levels as buyers assimilated all their 2012 deals and they began to refill the pipeline of potential target sellers. Sellers, conversely, dealt with lower net sales consideration due to higher capital gains tax rates effective January 1, 2013.

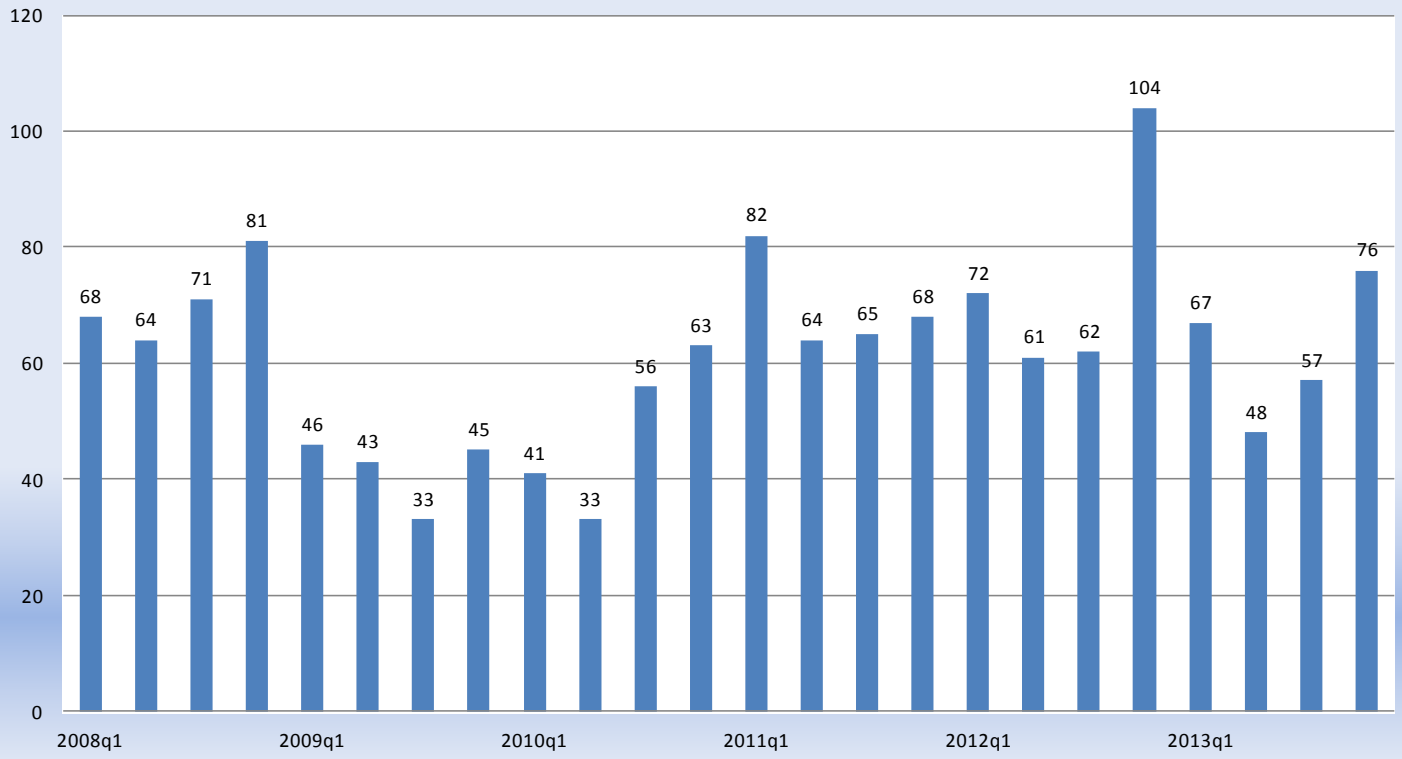


As expected, the deal count was down in 2013 due to the push to close transactions before year end and avoid the impact of higher taxes. In addition, there are factors that will likely drive significant M&A activity for, minimally, the foreseeable future.

There were a total of 248 announced agent-broker M&A transactions in 2013. Activity in 2013 was very close to the average number per year over the last six years of 245. Regardless of a very slow start at the beginning of 2013, the second half of the year finished strong as it was as active as any comparable 2nd half of the year period since 2008, except for the 2012 blockbuster year.

Quarter by quarter 2013 M&A activity was a roller coaster. The year started strong early from the late reporting carryover from 2012. It fell off a cliff in the middle of the year then finished with a flourish in one of the most active fourth quarters in the last 6 years. The second quarter had 48 announced transactions representing the lowest quarterly number other than the 2009-2010 recession period. The fourth quarter had 76 announced deals that has only been exceeded by the historic high Q4-2012 and Q4-2010/ Q1-2011, with each of these two periods impacted by tax changes, actual or anticipated. The 2013 year did not have any external factors influencing buyers or sellers as experienced in the past.

Announced Transactions by Quarter



The ownership structure of the buy side group provides some insight to overall M&A activity. 2013 reflected a seminal shift in the landscape as that was the year Private Equity (“PE”) backed acquirers topped the chart for the largest number of total announced transactions over all the other categories including the Public Broker group.

M&A Transactions: 2008 - 2013

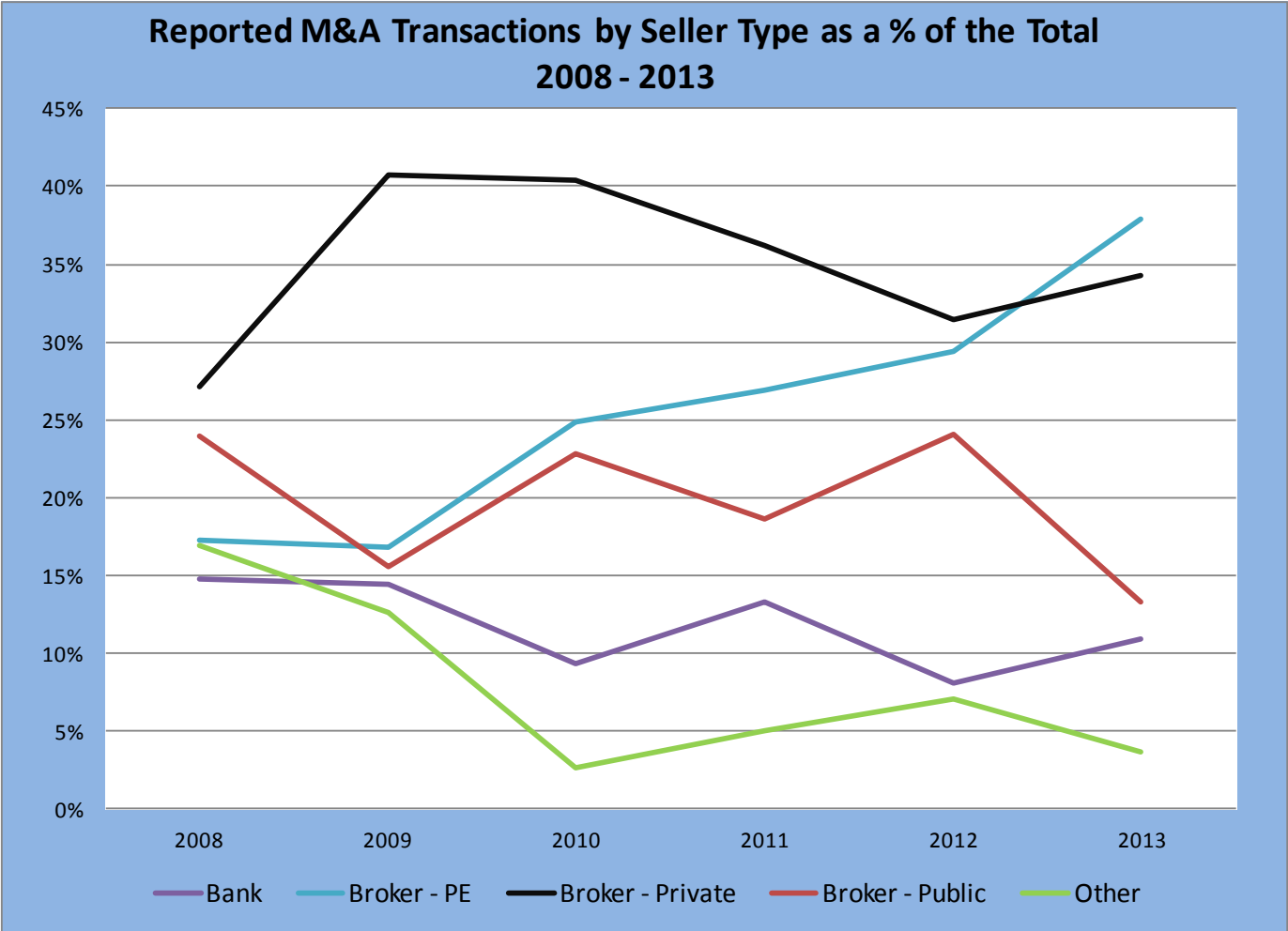
<u>Type of Buyer Ownership</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Private Equity	49	28	48	75	88	94
Private Owned	77	68	78	101	94	85
Public Brokers	68	26	44	52	72	33
Bank	42	24	18	37	24	27
All Other	48	21	5	14	21	9
Totals	284	167	193	279	299	248
% Chg by Year		-41%	16%	45%	7%	-17%

Included in the PE backed category were three of the top five acquirers (Hub International, Assured Partners and Confie Seguros); these three had nearly 25% of the total number of announced transactions in 2013 and 20% over the past three years (see also table on p. 10). Public broker activity fell off significantly in 2013 with less than half as many deals as were closed in 2012.

The Bank Owned category has been dominated for a number of years by Wells Fargo Insurance Services and BB&T Insurance Services. They were virtually silent on the M&A front in 2013 with only one transaction reported. Western Financial Group, a wholly owned subsidiary of Desjardins Group based in Canada, has led the Bank Owned group with a total of 17 transactions over the last three years including five in 2013, all in Canada.

The primary driver of the decrease in the “All Other” category in 2013 was the decline of agency acquisitions by insurance companies - dropping from 12 transactions in 2012 to only two in 2013.

Buyer activity as a percentage of the Total sheds some additional light on the changes in the mix of buyer types over the past several years:



As reflected and discussed above, the growth of the number of transactions by the PE backed acquirers has been significant. Equally significant is the fall off amongst the Public Broker and Bank Owned acquirers.

Although there has been some change in the PE group over the past 6 years, most notably the start-up of Assured Partners in 2010 and the sales of Bollinger and Beecher Carlson in 2013, the total number of PE backed agency buyers has not changed to any material degree. In 2008, 15 PE backed firms closed 49 transactions representing an average of 3.27 deals per buyer. Fast forward to 2013 and we find 16 different PE backed firms closing a total of 94 transactions for an average of 5.88 per buyer representing almost double the average number of transactions per buyer (see table below). In 2008, there were only two PE firms that announced five or more transactions (Hub with 16 and USI with 7) compared to 5 PE buyers with five or more deals in 2013 (Hub with 25, Assured Partners at 19, Confie Seguros with 14, USI at 9 and Higginbotham announcing 5 transactions). See the table on page 10 for additional detail.

Average # Transactions - 2008 vs. 2013

	# Active Buyers		# Announced Deals		Avg Trans/Buyer	
	2008	2013	2008	2013	2008	2013
Bank	23	20	42	27	1.83	1.35
Broker - PE	15	16	49	94	3.27	5.88
Broker - Private	69	63	77	85	1.12	1.35
Broker - Public	7	8	68	33	9.71	4.13
Other	37	8	48	9	1.30	1.13
Totals	151	115	284	248	1.88	2.16
% Chg by Year						

Conversely, the average number of announced transactions from the Public Broker group has fallen by more than 50%. Brown & Brown and Gallagher have been the dominant acquirers of this group. The number was likely down due to the large transaction each closed in 2013 (see next paragraph), combined with the large number of transactions closed in 2012 and the need to integrate what was acquired into their respective platforms.

There were four major transactions in 2013 that were recapitalizations of PE backed firms representing the existing PE entity's equity being acquired by a new PE entity. These are not included in our transactional count. The transactions were:

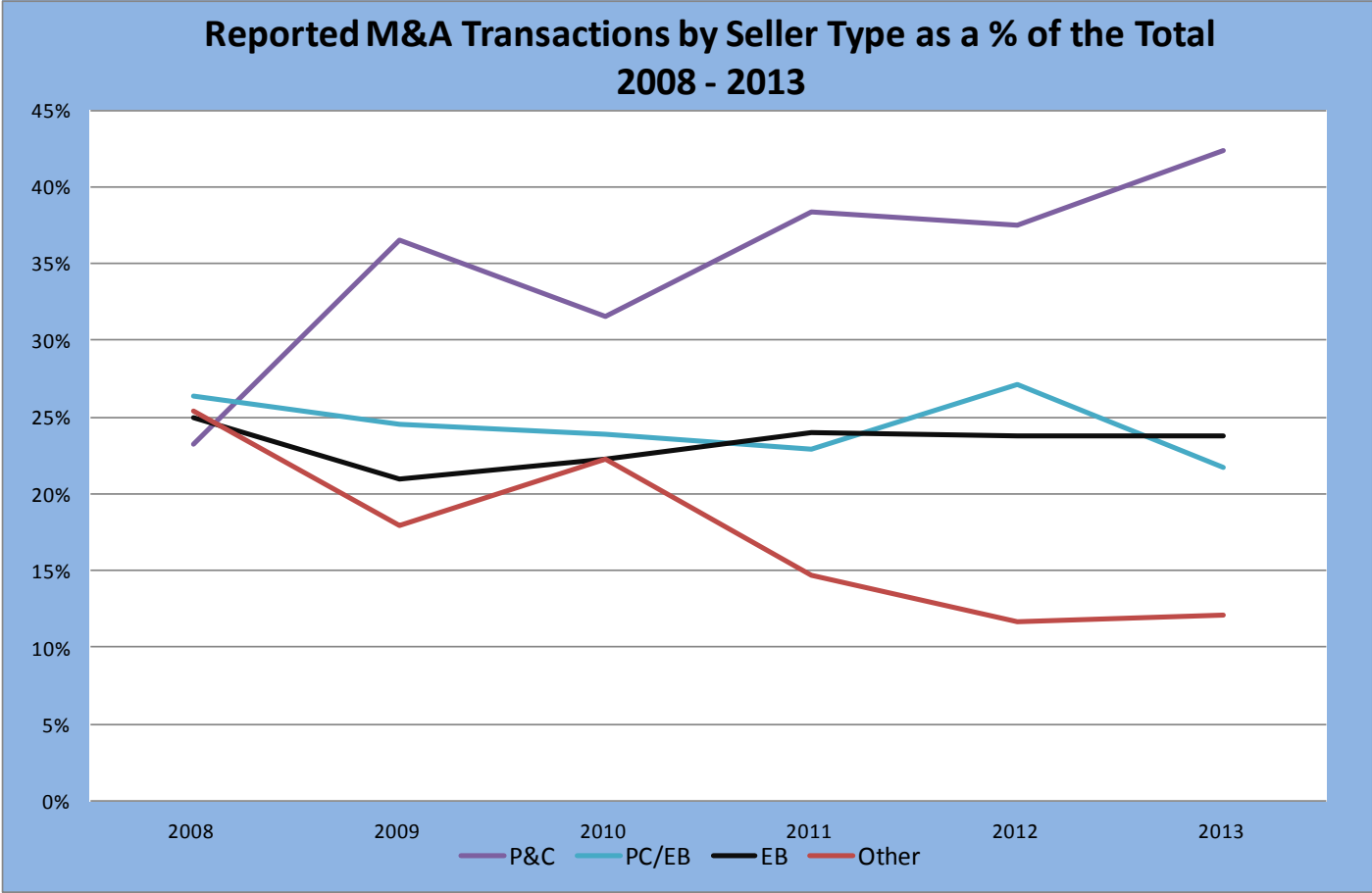
- GCP Capital Partner's equity in Acrisure was acquired by Genstar Capital in March
- Berkley Capital's investment in Risk Strategies Co. was replaced by Kohlberg & Co. in June
- APAX Partners/Morgan Stanley's ownership position in Hub International was acquired by Hellman & Friedman in August
- Stone Point Capital's controlling interest in Edgewood Partners Insurance Center, dba EPIC, was purchased by The Carlyle Group in November

In addition, there were three major conventional type transactions effected in 2013. They were:

- National Financial Partners (9th largest in 2013 per the Business Insurance ("BI") ranking and formerly a publicly traded company) was taken private by Madison Dearborn Partners, a PE firm, in April
- Beecher Carlson (#27 largest per the 2012 BI ranking), previously majority owned by Austin Ventures/FSPM, was acquired by Brown & Brown in June.
- Bollinger Inc. (#22 per BI ranking from 2012) was acquired by Gallagher in August from Evercore, a PE firm, and other minority shareholders

The business focus of the selling agency, segmented at primarily P&C, primarily EB, PC/EB combinations, and Other (Wholesale including MGA/MGU, TPA) is interesting especially with the large number in the EB and PC/EB combination in spite of the uncertainty regarding the impact of healthcare reform on the EB sector.

Firms with a primary P&C focus are dominant with over 40% of all announced transactions in 2013 compared to roughly 25% back in 2008. The 2008 year is interesting in that all categories were roughly equal in the [percentage of the total. Further to the reference above, it is likewise interesting to note the relative stability of the EB and PC/EB firms' activity levels over the past six years and recently in spite of the unknown impact of healthcare reform.



There were two firms over the past three years leading the M&A charge: Hub International with 78 deals and Gallagher with 73 total transactions. Eight others completed more than 10 transactions over the same time period, as illustrated in the table below.

M&A Transactions: 2011 - 2013

<u>15 Most Active</u>	<u>Ownership</u>	<u>PE Owner</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Hub International	PE Backed	Hellman & Friedman, LLC	32	21	25	78
Gallagher	Public		21	35	17	73
Assured Partners	PE Backed	GTCR	5	19	19	43
Confie Seguros	PE Backed	ABRY Partners	8	18	14	40
Brown & Brown	Public		17	15	6	38
Digital Insurance	Private (1)		10	10	10	30
USI Holdings	PE Backed	Onex Corp	8	10	9	27
Marsh McLennan Agencies	Public		8	9	4	21
Western Financial Group	Bank		7	5	5	17
National Financial Partners	PE Backed (2)	Madison Dearborn Partners	2	6	5	13
CBIZ	Public		3	5	1	9
Ryan Specialty	Private		2	5	2	9
AmWINS Group	PE Backed	New Mountain Capital	3	2	3	8
Bollinger	Acquired by Gallagher in 2013		5	3	0	8
Higginbotham & Assoc	PE Backed	Stone Point Capital	1	2	5	8
Sub-Totals			132	165	125	422
All Other			147	134	123	404
Totals			279	299	248	826
% Chg by Year				7%	-17%	

(1) Privately owned until Dec 2012 when acquired by a publicly traded firm. For purposes of this analysis, Digital is still considered a Privately owned firm

(2) National Financial Partners was a publicly traded firm until April, 2013 when they were acquired and taken private by the large private equity firm Madison Dearborn Partners

Over 50% of all announced transactions came from the top 15 buyers over the last three years with each completing eight or more transactions in that time period. Of the remaining 404 transactions, there were an additional 284 acquirers, with over 200 of them completing only one acquisition.

Tables C1-C5 (pp. 14-18) provides additional detail on the most active acquirers from 2011-2013 by Buyer Type.

Summary:

January 2014 was one of the most active months on record for closed deals following the very robust Q4 2013. Such momentum would seem to indicate 2014 will be a very active year. While it remains to be seen if 2014 will be as active as the blockbuster 2012 year, there is every indication this will nevertheless be a banner year.

There are two primary factors having a major impact on future M&A activity. On one hand, the PE backed buyers seem to have taken the upper hand. Acquisition capital is not an issue and the anecdotal evidence would suggest they have pushed the multiples a bit in order to induce sellers to cast their lot with this segment. On the other hand, the conventional public brokers need to grow and expand their earnings base or suffer the consequences with pressure on their stock price. Organic growth has been good recently albeit up and down over the years and thus the next best alternative is to acquire the growth.

Lastly, not surprisingly but the demographics of agency principals matches the demographics of America. The massive boomer generation is coming of age and in need of implementing their exit strategy. The recent Big I Agency Universe Survey disclosed that 35% of all agency principals holding more than 20% of the equity in their firms are age 56 and older. Those principals have two markets to utilize to capitalize their value; they can sell internally to key staff or sell externally to a third party. The system is, on balance woefully unprepared to meet this massive perpetuation challenge. Consequently, there should be a large number of targets needing to partner with an acquirer and thus providing continuing momentum to keep the M&A machine moving forward.

Table A – Summary of Reported Transactions by Year, 2000 thru 2013

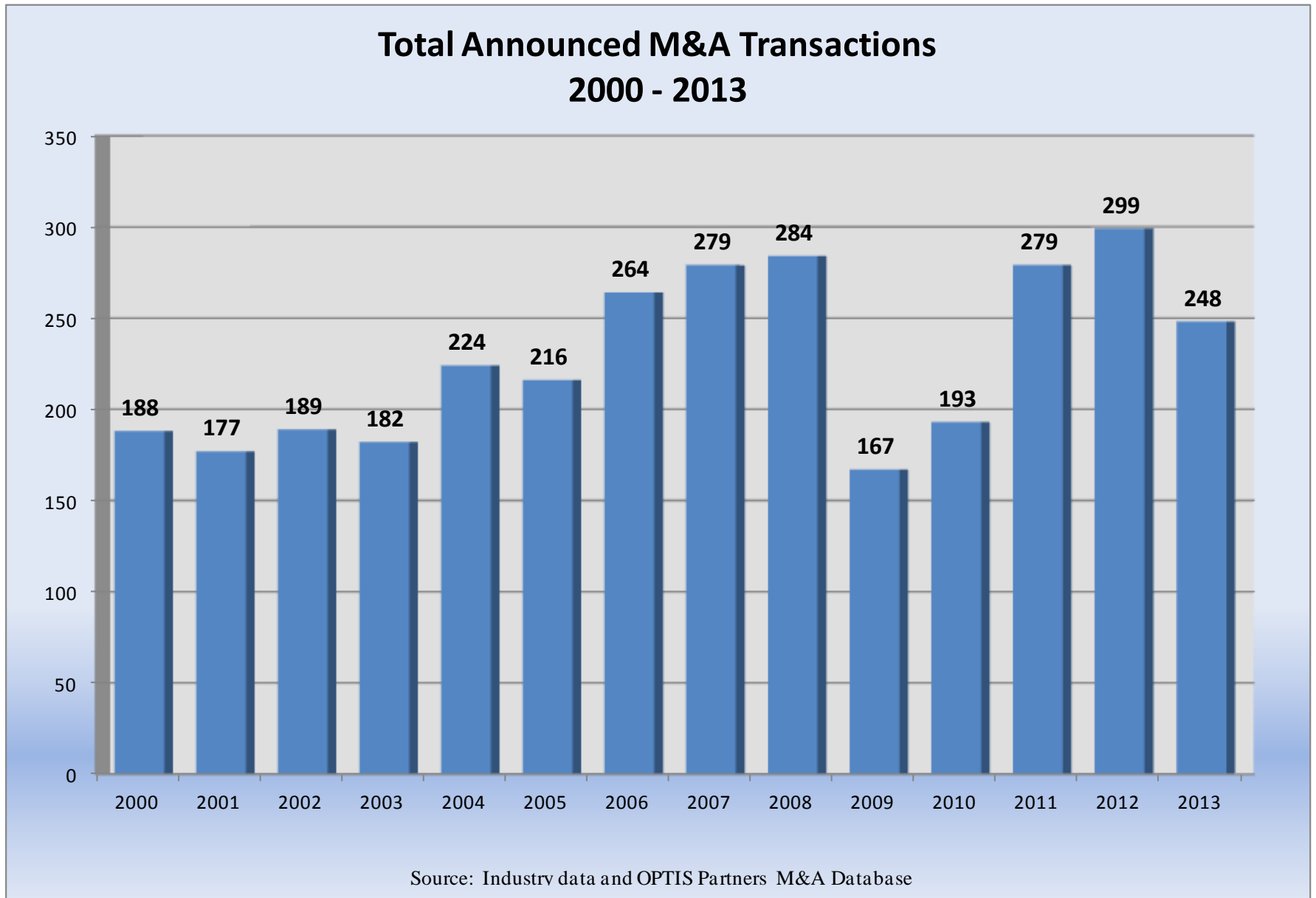


Table B – Summary of Reported Transactions by Buyer Ownership, 2008 thru 2013

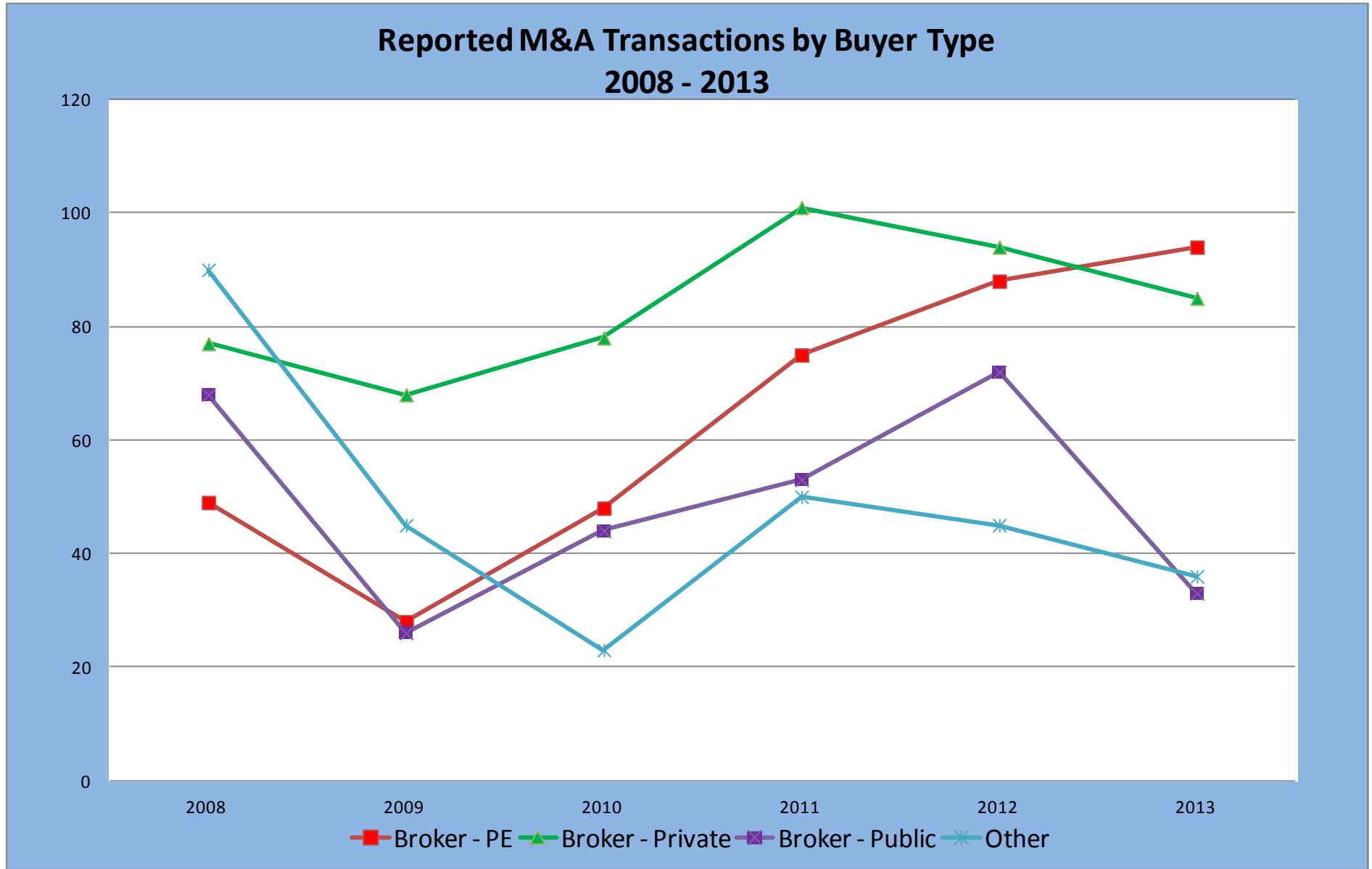


Table C1 – List of Major Buyers by Type, 2011 thru 2013
Private Equity Backed Buyers

M&A Transactions: 2011 - 2013

Private Equity Backed:

Buyers w 5 or more Transactions:

Hub International

32 21 25 78

Assured Partners

5 19 19 43

Confie Seguros

8 18 14 40

USI Holdings

8 10 9 27

Bollinger

5 3 0 8

AmWINS Group

3 2 3 8

Higginbotham & Assoc

1 2 5 8

Ascension

4 2 1 7

The Hilb Group

1 3 2 6

Integro, Ltd

2 1 2 5

Most Active Buyers

69 81 80 230

All Others

6 7 14 27

Totals

75 88 94 257

% Chg

56% 17% 7%

Table C2 – List of Major Buyers by Type, 2011 thru 2013
Privately Owned Buyers

M&A Transactions: 2011 - 2013

Privately Owned

Buyers w 5 or more Transactions:

Digital Insurance (*)

Ryan Specialty

Insurica Insurance Management Network

Leavitt Group

Acentria, Inc.

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Digital Insurance (*)	10	10	10	30
Ryan Specialty	2	5	2	9
Insurica Insurance Management Network	1	0	5	6
Leavitt Group	0	1	4	5
Acentria, Inc.	5	0	0	5
Most Active Buyers	18	16	21	55
All Others	83	78	64	225
Totals	101	94	85	280
% Chg	29%	-7%	-10%	

(*) Digital was acquired by Fidelity National Financial ("FNF") in December, 2012 but continues to be listed here for consistency purposes as FNF is not in the Benefits insurance business.

Table C3 – List of Major Buyers by Type, 2011 thru 2013
Publicly Traded Insurance Brokers

M&A Transactions: 2011 - 2013

Publicly Owned Buyers

Buyers w 5 or more Transactions:

Gallagher

Brown & Brown

Marsh McLennan Agencies

National Financial Partners (*)

CBIZ

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Gallagher	21	35	17	73
Brown & Brown	17	15	6	38
Marsh McLennan Agencies	8	9	4	21
National Financial Partners (*)	2	6	2	10
CBIZ	3	5	1	9
Most Active Buyers	51	70	30	151
All Others	1	2	3	6
Totals	52	72	33	157
% Chg	18%	38%	-54%	

(*) National Financial Partners was acquired in April, 2013

Table C4 – List of Major Buyers by Type, 2011 thru 2013
Banks

M&A Transactions: 2011 - 2013

Banks

Buyers w 5 or more Transactions:

Western Financial Group

Wells Fargo Insurance Services

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Western Financial Group	7	5	5	17
Wells Fargo Insurance Services	5	0	1	6
Most Active Buyers	12	5	6	23
All Others	25	19	21	65
Totals	37	24	27	88
% Chg	106%	-35%	13%	

Table C5 – List of Major Buyers by Type, 2011 thru 2013
Insurance Companies and All Other Buyers

M&A Transactions: 2011 - 2013

Insurance Companies & Other

Buyers w 5 or more Transactions:

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	0	0	0	0
Most Active Buyers	0	0	0	0
All Others	14	21	9	44
Totals	<u>14</u>	<u>21</u>	<u>9</u>	44
% Chg	180%	50%	-57%	

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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 2013 by SNL Financial.