

Agent-Broker
Merger & Acquisition Statistics
June 2014
The New Normal?

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Agent-Broker Mergers & Acquisitions

Source of Data:

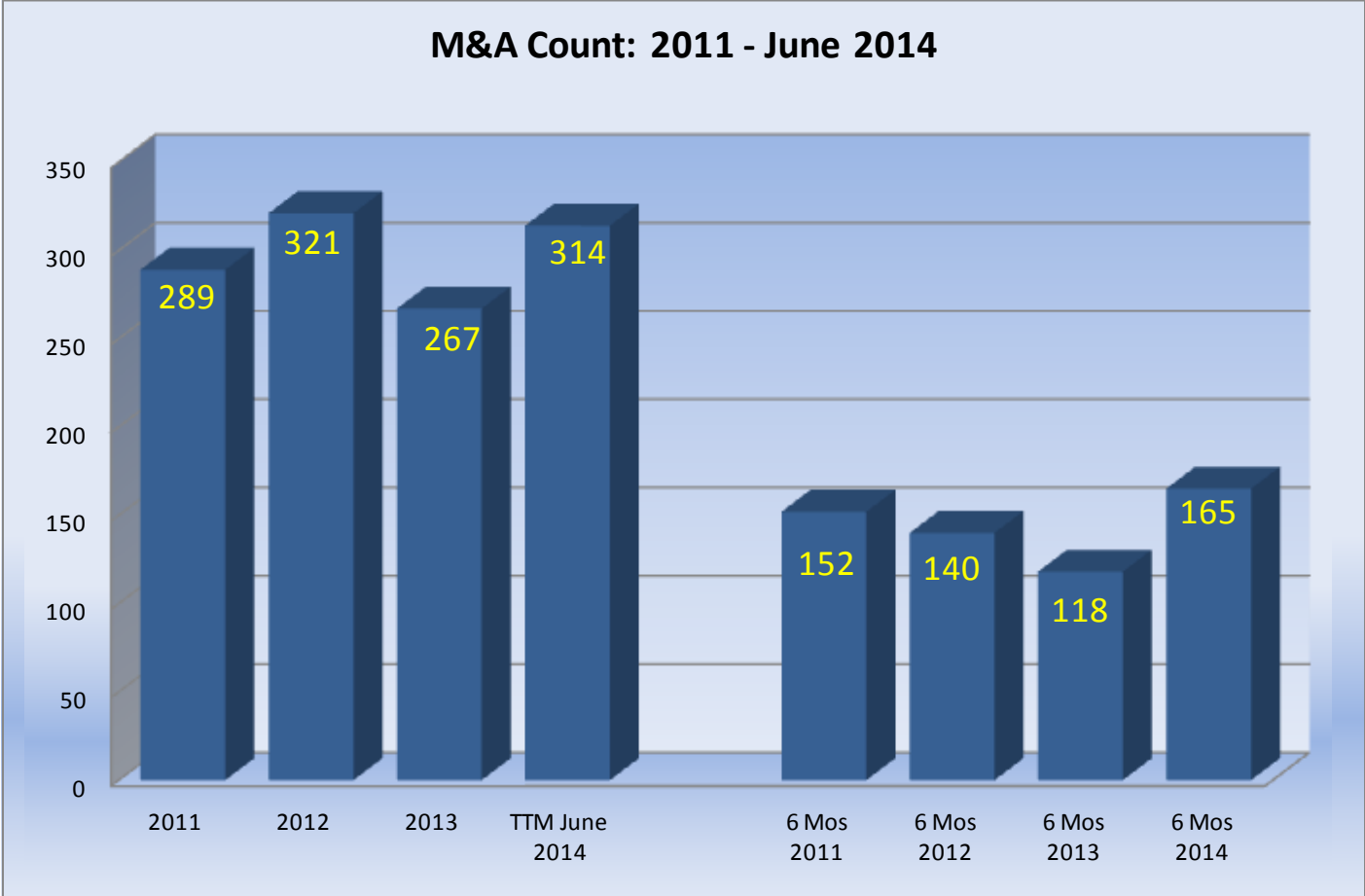
Merger & Acquisition (“M&A”) data is for US and Canadian transactions in the insurance “Distribution Sector”; Retail Property & Casualty (“P&C”), Employee Benefits and Life/Financial Services (collectively “EB”); Wholesale including MGA/MGU; Third Party Administrators (“TPA”) and other related entities.

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 C1 (p. 14) also includes the PE firm names in parentheses; e.g. AssuredPartners (GTCR).

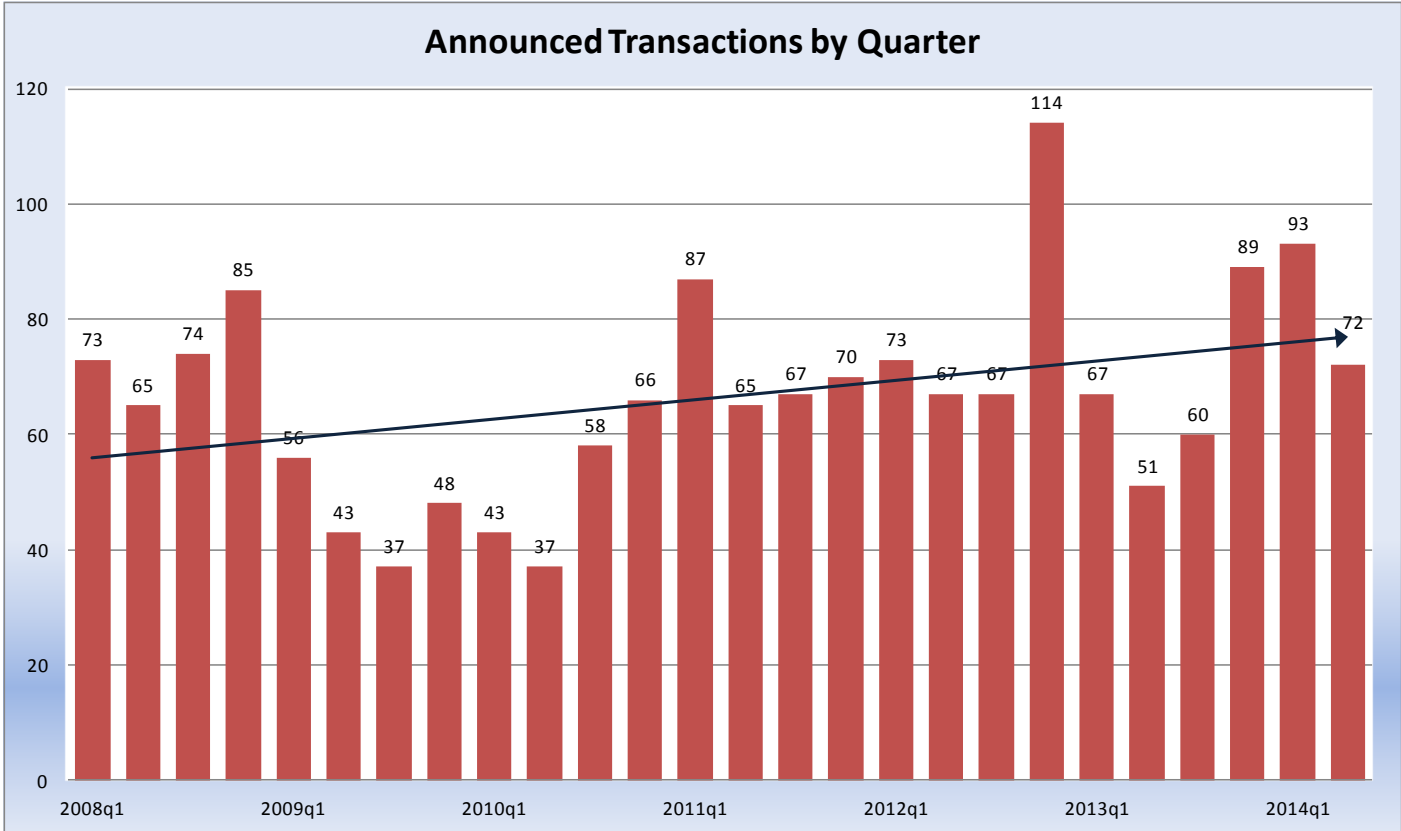
M&A data in this report now includes acquisitions completed by Broadstreet Partners (Columbus, OH) and Acrisure (Caledonia, MI). Both firms are in the “PE Backed” category. All prior years have been restated to reflect their acquisitions with 2013 totals increased by 19 transactions and all other prior years by a total of 73 additional transactions.

From the historic high level of M&A activity in 2012 followed by a very slow start in 2013, 2014 has emerged as an extremely active period for agent-broker acquisitions. The first six months of 2014 was the most active first-half period since tracking began in 2008, and second only to the 181 deals announced in the second-half of 2012. The second half of 2013 was strong and although 2013 in total appeared to reflect a normal M&A year, the strong second half, in contrast to a slow first half, was in reality a precursor to this very active first half of 2014. Recent activity is summarized in the table below.



There were a total of 165 announced M&A transactions through six-months in 2014, an increase of nearly 40% over the same period in 2013, and 314 transactions recorded in the trailing 12 month (“TTM”) period from July 1, 2013 through June 30, 2014.

Quarter by quarter M&A activity reflects a bit of a roller coaster ride over the past six-plus years, with a couple significant spikes and a few troughs. A surge at the end of 2012, bottoming out in mid-2013 and a rebound over the last four quarters.



The long-term trend line shown on the chart above is extremely interesting and illustrative of the general direction of acquisition activity since the beginning of 2008. Prior to Q4-2013, the two most active quarters were, as expected, Q1-2011 and Q4-2012 due respectively to deals deferred when projected tax changes didn't happen at the end of 2010 and higher capital gains tax rates that did commence on January 1, 2013. Activity since late 2013 has not been motivated by tax or other structural factors therefore likely reflects the beginning of a period of increased M&A in the agent & brokerage community.

It is instructive to note the change and now prominence of PE backed firms on the M&A front as reflected in the table below. Beginning in 2012, the PE backed group became the most active acquirer.

M&A Transactions: 2011 - June 2014

All Buyer Types

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM</u> <u>6/2014</u>	<u>2011 -</u> <u>6/2014</u> <u>Total (#)</u>	<u>6 Mos</u> <u>June</u> <u>2011</u>	<u>6 Mos</u> <u>June</u> <u>2012</u>	<u>6 Mos</u> <u>June</u> <u>2013</u>	<u>6 Mos</u> <u>June</u> <u>2014</u>
Private Equity	85	110	114	137	376	46	47	44	67
Private Owned	101	94	83	93	332	58	40	44	54
Public Brokers	52	72	33	48	184	25	30	12	27
Bank	37	24	27	22	97	18	10	14	9
All Other	14	21	10	14	53	5	13	4	8
Totals	289	321	267	314	1,042	152	140	118	165
% Chg by Year	42%	11%	-17%	18%			-8%	-16%	40%

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

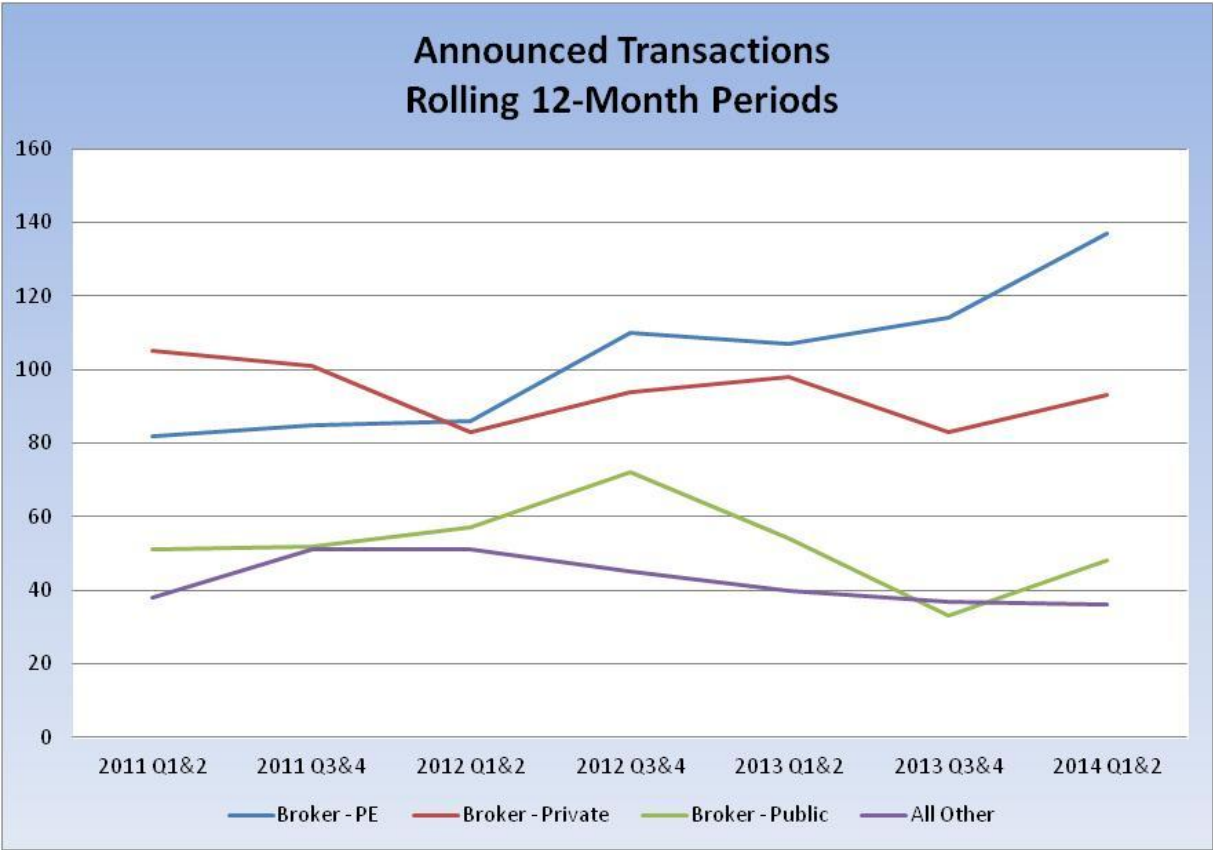
In 2010, PE backed firms were four of the top ten buyers, and ranked 3rd, 4th, 5th and 10th. For the TTM period ending June 30, 2014, PE backed firms held six of the top ten slots and more importantly, all of the top positions other than Arthur J. Gallagher's 3rd place finish. Similarly of significance, in the five years ending December 31, 2012, acquisitions closed by PE backed firms accounted for 28% of the total. For the period since December 31, 2012, PE backed acquisitions represented 42% of the total number of deals.

The public brokers increased their activity in the first six months of 2014 with a total of 27 transactions. This was more than the same period in 2013 or 2011, but not as significant as the banner year in 2012. Not included in this analysis are any of the international acquisitions completed by US brokers during the first half of 2014. In particular, Gallagher announced two of the largest acquisitions in company history in April 2014; Oval Group of Companies in the UK and Wesfarmers Insurance Brokerage in Australia in addition to four other international transactions during the first half of the year. Other large US buyers have announced as many or more international deals in the first six months of 2014 as they did in all of 2013.

Privately owned agencies had a strong first half of the year with a total of 54 announced transactions, equaling the number from the second half of 2012 and second only to the 58 deals in the first half of 2008. Although privately owned agencies represent the largest group of potential buyers, many of their transactions are not reported, and it is very difficult to identify a consensus or trend from the private broker group activity.

Acquisitions made by banks and all other buyers continued to fall to the lowest of any period since 2008 other than the first half of 2010 with 17 transactions in the first six months of 2014. Activity in the bank-owned group has been dominated by three buyers: Wells Fargo Insurance Services; BB&T Insurance Services; and Western Financial Group, a wholly owned subsidiary of Desjardins Group based in Canada. These three firms in total accounted for 33% (60 of the 181 total announced deals) of all agent-broker acquisitions within this group while the remaining 79 other bank-owned and other acquirers completed the other 121 deals. Only Western Financial Group and Wells Fargo have done more than five transactions, with 18 and 6 transactions announced, respectively since the beginning of 2011. Conversely, Wells Fargo sold 40 offices to USI in May 2014 although it was treated as one transaction for this report.

Buyer activity in the following chart is presented as constant 12-month periods as measured every six-months since 2011:



PE backed firms have grown from just over 80 deals in 2011 to almost 140 in the current TTM period. Each of the other buyer groups has experienced a slight to modest decline.

In 2008, 16 PE backed firms closed 62 transactions representing an average of 3.88 deals per buyer. Fast forward to 2014 and we find 17 PE backed firms closing a total of 137 transactions for an average of 8.06 per buyer, more than double the rate from 2008. Conversely, the average number of announced transactions from the Public Broker group has fallen by nearly 30% over this same time period.

Average # Transactions - 2008 vs. 2014 (TTM)

	# Active Buyers		# Announced Deals		Avg Trans/Buyer		
	2008	TTM 6/2014	2008	TTM 6/2014	2008	TTM 6/2014	% Change
Broker - PE	16	17	62	137	3.88	8.06	108.0%
Broker - Public	7	7	68	48	9.71	6.86	-29.4%
Broker - Private	70	59	82	93	1.17	1.58	34.6%
Bank	23	18	42	22	1.83	1.22	-33.1%
Other	36	12	43	14	1.19	1.17	-2.3%
Totals	152	113	297	314	1.95	2.78	42.2%

There were only three PE backed firms that announced five or more transactions (Hub, Broadstreet and USI) in 2008 compared to six PE buyers with five or more deals in the TTM period (Hub, AssuredPartners, Broadstreet, Confie Seguros, USI and Acrisure). See the table on page 14 for additional detail.

On the public broker side, Gallagher and Brown & Brown announced five or more transactions in 2008. In the TTM period, it's the same two firms plus Marsh McLennan Agencies with more than five transactions. The privately owned group only had two buyers with more than two acquisitions in 2008 and none with more than five. In the TTM period, there were eight buyers with more than two deals and two with more than five, but because there are so many with only one transaction, the overall average doesn't move to a significant degree.

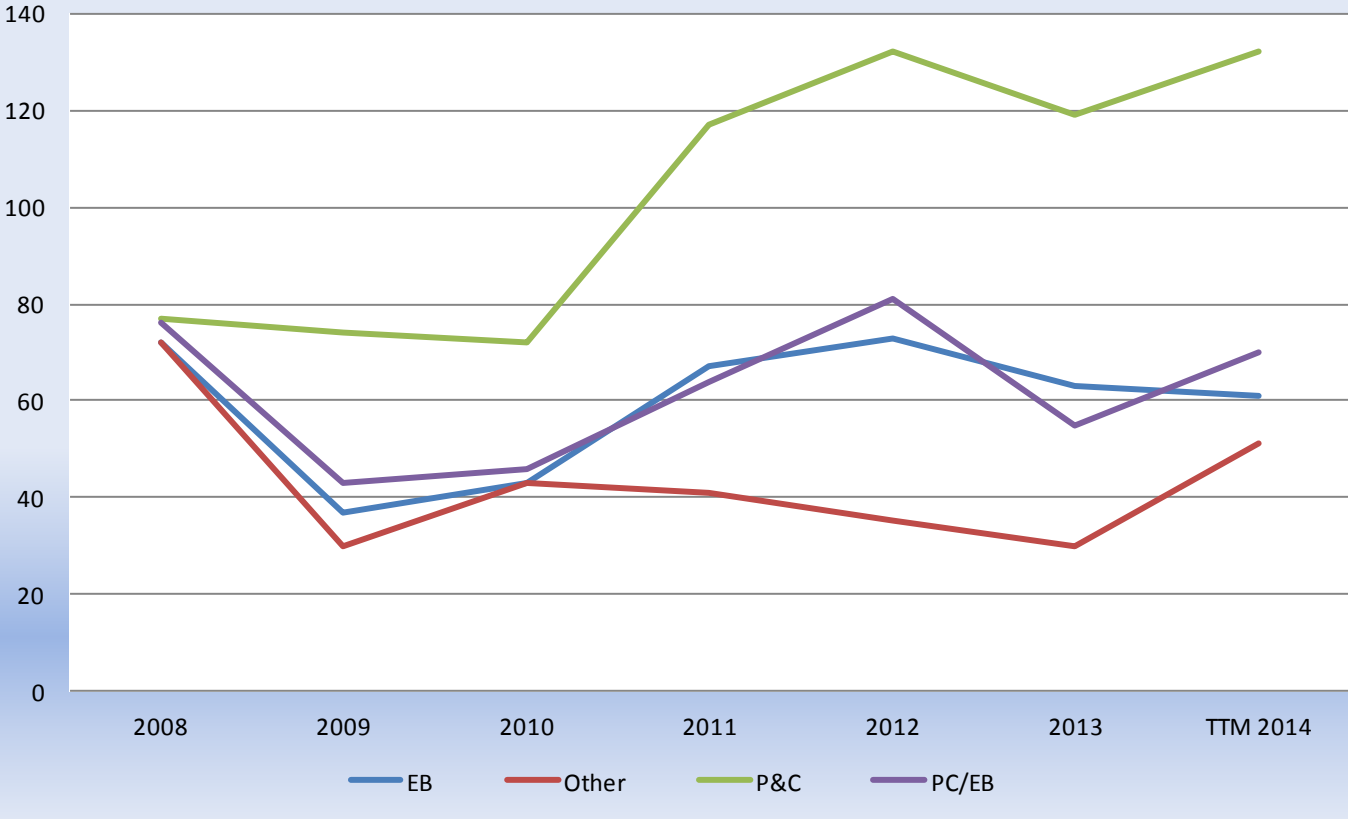
Bank agent-broker M&A activity continues to drop off, with only 9 transactions in 2014 and 22 for the TTM period, the lowest of any period since 2008 other than 2010.

As anticipated, there were not any major recapitalizations of PE backed firms in 2014 as most affected such an event in the previous few years. There were a few major traditional transactions announced and/or closed in the first-half of 2014 including:

- Barney & Barney in San Diego, CA (34th largest in 2013 per Business Insurance Magazine (“BI” ranking) was acquired by Marsh McLennan Agency in February.
- Canadian based Noraxis Capital Corporation (reported as a Top 5 insurance broker in Canada) inked an agreement to sell to Gallagher in May although the transaction closed in July, 2014.
- Marsh McLennan Agency acquired Senn Dunn of Greensboro, NC (not included in the BI ranking, but would have been in the top 100) in May

The distribution of M&A activity by primary business focus of the selling firm, segmented at P&C, EB, P&C/EB combined, and Other (Wholesale including MGA/MGU, TPA), reflects an interesting trend over the period under review. In 2008, there was almost an equal spread of announced transactions across the four categories. Since that time, only P&C based firms have increased while each of the other categories have dropped. The relative stability in the number of EB focused sellers is interesting given the impact of the Affordable Care Act (“ACA”). On one hand, certain firms were motivated to sell in order to affiliate with a larger organization to access and provide value added and related resources to clients coincident with ACA. On the other hand, certain acquirers viewed EB business and particularly small accounts (under 50 lives and/or under 100 lives) cautiously creating push back in deal flow or pricing.

Announced Transactions by Seller Type 2008 - June 2014



The 10 most active buyers since the beginning of 2011, shown in the table below, represent over 50% of all for the TTM period, a relatively significant increase from 41% in 2011. The top two firms, Hub International with 94 deals and Gallagher with 83 total transactions since December 31, 2011 continue to lead the pack. However, AssuredPartners edged out both Hub and Gallagher in the TTM period.

M&A Transactions: 2011 - June 2014

All Buyer Types					2011 - 6/2014 Total (#)	6 Mos June 2011	6 Mos June 2012	6 Mos June 2013	6 Mos June 2014
	2011	2012	2013	TTM 6/2014					
10 Most Active Buyers									
Hub International	32	21	25	27	94	18	9	14	16
Gallagher	21	35	17	24	83	10	15	3	10
AssuredPartners	5	19	19	28	56	1	9	4	13
BroadStreet Partners (1)	10	22	13	18	54	6	7	4	9
Brown & Brown	17	15	6	9	44	11	7	3	6
Confie Seguros	8	18	14	12	42	4	7	4	2
Digital Insurance	10	10	10	7	33	7	1	6	3
USI Holdings	8	10	9	10	32	2	6	4	5
Marsh McLennan Agencies	8	9	4	9	28	4	2	2	7
Acrisure	0	0	11	15	19	0	0	4	8
10 Most Active Buyers	119	159	128	159	485	63	63	48	79
% Chg		34%	-19%	24%			0%	-24%	65%
All Others	170	162	139	155	557	89	77	70	86
Totals	289	321	267	314	1,042	152	140	118	165
% Chg		11%	-17%	18%			-8%	-16%	40%

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

(1) Broadstreet Partners' majority investor is the Ontario (Canada) Teachers Pension Fund

The disparate nature especially amongst the privately owned group is reflective in the number of agencies that complete only one or two transactions during a given period. In 2011, there were 117 firms that closed less than three transactions for a total of 132 deals, representing 45% of the total deals for the year. For the TTM period, there were only 90 firms with less than three acquisitions, totaling 102 transactions, representing less than 33% of the total, further illustrating the concentration of transactions by the most active buyers

Tables C1-C5 (pp. 14-18) provides additional detail on the most active acquirers from 2011 through the first half of 2014 by Buyer Type.

Summary and Conclusion:

Following the record breaking 2012 year that drained the inventory pipeline, activity slowed, as expected, in 2013. Activity began to ramp up in the last half of 2013 continuing through the first half of 2014. This period represented the second most active six month period for M&A transactions since 2008. Further, PE backed firms continued their dominance as the most active buyer group.

The empirical evidence would suggest the last half of 2014 is the start of a prolonged active period for agent-broker M&A transactions. Although not leading the pack recently, the traditional public broker acquirers, Brown & Brown and Arthur J. Gallagher, and joined by Marsh McLennan Agency, will be active on the M&A front. There will also likely be continued expansion and growth of the current dominant PE backed firms.

The agency-brokerage business is awash with baby boomer principals reflective of America's demographics. It is estimated that more than 30% of all the equity in the system is owned by those baby boomers. The industry, unfortunately, has simply not adequately addressed the process of perpetuation-succession planning. Without a sound perpetuation plan in place, the only option for many of these baby boomer firms is to sell to a third-party in order for the principals to capitalize the value of their firm. The PE backed and public brokers will be front and center to make many of these transactions.

Given an active, vibrant and well capitalized buy-side community, combined with a significant number of firms needing a third-party sale, there could be a large number of transactions for many years into the future. Consequently, a number of the boomer firms may disappear over the next 10 to 15 years. The wave may be slow and steady although it will likely be long. It is too early at this time to prognosticate; it does, however, have the prospect to be significant with a permanent change to the landscape and a relatively material reduction in the number of agent-broker firms.

Table A – Summary of Reported Transactions by Year, 2000 thru June 2014

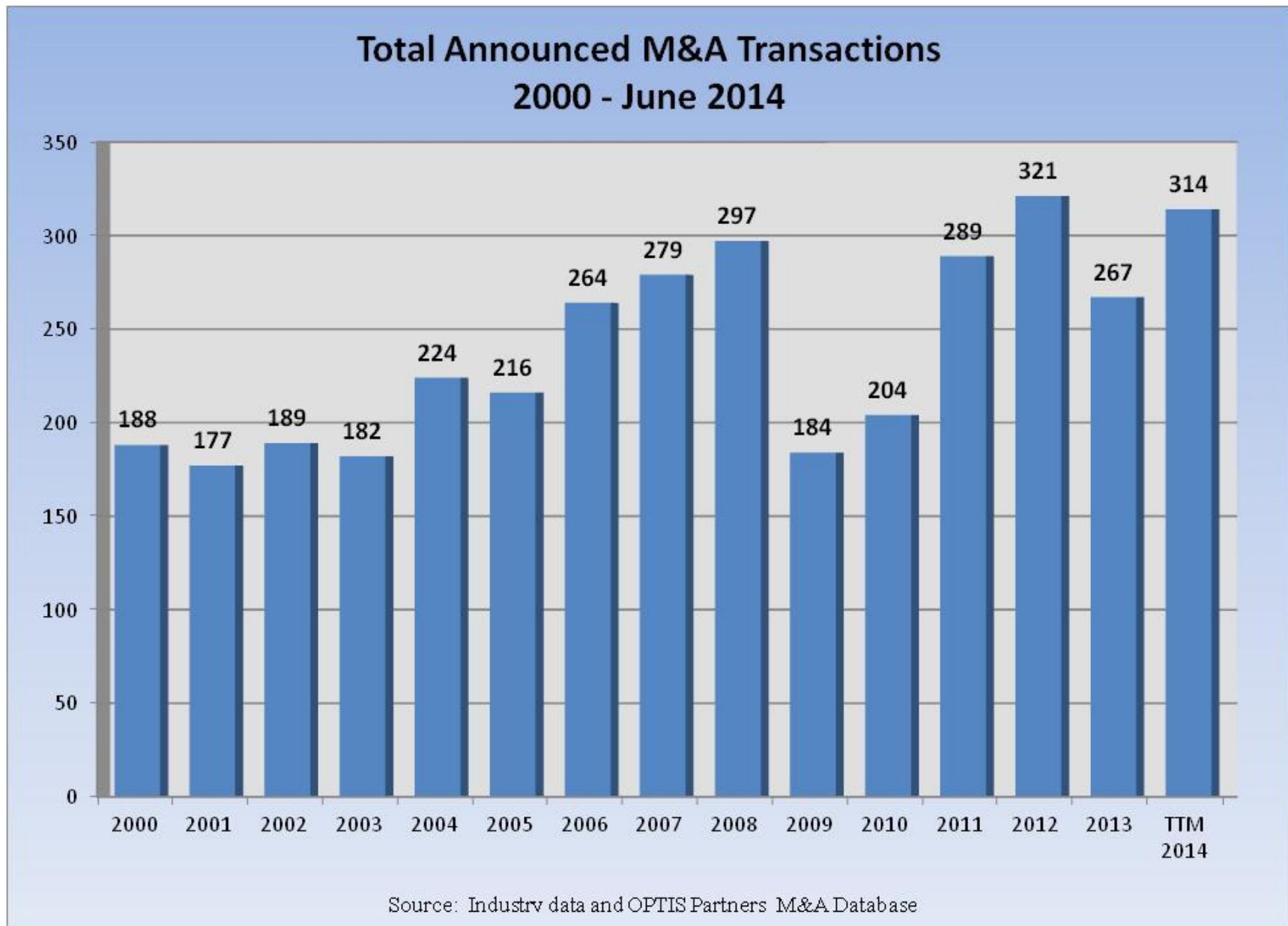


Table B – Summary of Reported Transactions by Buyer Ownership, 2008 thru June 2014

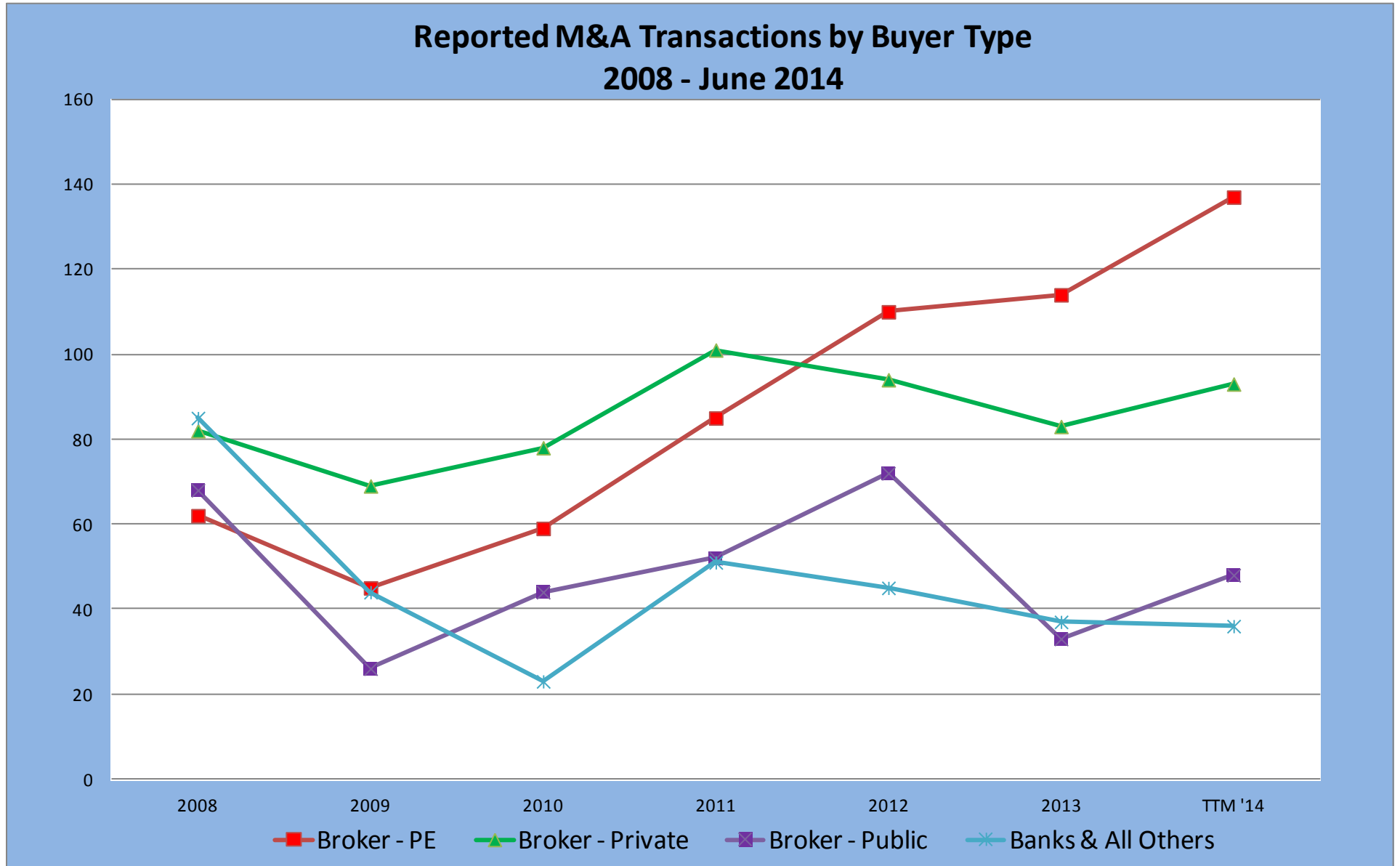


Table C1 – List of Major Buyers by Type, 2011 thru June 2014
Private Equity Backed Buyers

M&A Transactions: 2011 - June 2014

Private Equity Backed (PE Investor):

Buyers w > 5 Transactions:

PE Owner:

Hub International	Hellman & Friedman, LLC
AssuredPartners	GTCR
BroadStreet Partners	Pension fund (1)
Confie Seguros	ABRY Partners
USI Holdings	Onex Corp
Acrisure	Genstar Capital
AmWINS Group	Parthenon Capital
Higginbotham & Assoc	Stone Point Capital
Bollinger	Evercore
The Hilb Group	BHMS Investments
Ascension	Parthenon Capital / Century Capital
Integro, Ltd	Various
Alliant Insurance Services	Blackstone Capital
Risk Strategies Company	Kohlberg & Co

Most Active Buyers

All Others

Totals

% Chg

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM</u> <u>6/2014</u>	<u>2011 -</u> <u>6/2014</u> <u>Total (#)</u>	<u>6 Mos</u> <u>June</u> <u>2011</u>	<u>6 Mos</u> <u>June</u> <u>2012</u>	<u>6 Mos</u> <u>June</u> <u>2013</u>	<u>6 Mos</u> <u>June</u> <u>2014</u>
32	21	25	27	94	18	9	14	16
5	19	19	28	56	1	9	4	13
10	22	13	18	54	6	7	4	9
8	18	14	12	42	4	7	4	2
8	10	9	10	32	2	6	4	5
0	0	11	15	19	0	0	4	8
3	2	3	3	9	2	0	1	1
1	2	5	4	9	1	1	2	1
5	3	0	0	8	4	2	0	0
1	3	2	2	8	0	1	2	2
4	2	1	1	7	2	1	0	0
2	1	2	3	7	2	0	1	2
1	1	2	3	5	1	1	0	1
1	2	0	2	5	0	1	0	2
81	106	106	128	355	43	45	40	62
4	4	8	9	21	3	2	4	5
85	110	114	137	376	46	47	44	67
9%	29%	4%	20%			2%	-6%	52%

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

(1) Broadstreet Partners' majority investor is the Ontario (Canada) Teachers Pension Fund

Table C2 – List of Major Buyers by Type, 2011 thru June 2014
Privately Owned Buyers

M&A Transactions: 2011 - June 2014

Privately Owned Buyers

Buyers w > 5 Transactions:

Digital Insurance
 Ryan Specialty
 Cross Insurance
 Insurica Insurance Mgmt Network
 Leavitt Group
 McGowan Companies
 Acentria, Inc.

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM</u> <u>6/2014</u>	<u>2011 -</u> <u>6/2014</u> <u>Total (#)</u>	<u>6 Mos</u> <u>June</u> <u>2011</u>	<u>6 Mos</u> <u>June</u> <u>2012</u>	<u>6 Mos</u> <u>June</u> <u>2013</u>	<u>6 Mos</u> <u>June</u> <u>2014</u>
Digital Insurance	10	10	10	7	33	7	1	6	3
Ryan Specialty	2	5	2	3	10	2	3	0	1
Cross Insurance	1	1	1	5	8	0	0	1	5
Insurica Insurance Mgmt Network	1	0	5	6	7	1	0	0	1
Leavitt Group	0	1	4	4	7	0	0	2	2
McGowan Companies	0	2	2	3	6	0	1	1	2
Acentria, Inc.	5	0	0	0	5	3	0	0	0
Most Active Buyers	19	19	24	28	76	12	12	4	4
All Others	82	75	59	65	256	46	28	40	50
Totals	101	94	83	93	332	58	40	44	54
% Chg	71%	-7%	-12%	12%			-31%	10%	23%

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

Table C3 – List of Major Buyers by Type, 2011 thru June 2014
Publicly Traded Insurance Brokers

M&A Transactions: 2011 - June 2014

Publicly Owned Buyers

Buyers w > 5 Transactions:

Gallagher

Brown & Brown

Marsh McLennan Agencies

CBIZ

National Financial Partners

Most Active Buyers

All Others

Totals

% Chg

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM</u> <u>6/2014</u>	<u>2011 -</u> <u>6/2014</u> <u>Total (#)</u>	<u>6 Mos</u> <u>June</u> <u>2011</u>	<u>6 Mos</u> <u>June</u> <u>2012</u>	<u>6 Mos</u> <u>June</u> <u>2013</u>	<u>6 Mos</u> <u>June</u> <u>2014</u>
Gallagher	21	35	17	24	83	10	15	3	10
Brown & Brown	17	15	6	9	44	11	7	3	6
Marsh McLennan Agencies	8	9	4	9	28	4	2	2	7
CBIZ	3	5	1	2	11	0	1	1	2
National Financial Partners	2	6	2	0	10	0	4	2	0
Most Active Buyers	51	70	30	44	176	25	29	11	25
All Others	1	2	3	4	8	0	1	1	2
Totals	52	72	33	48	184	25	30	12	27
% Chg	18%	38%	-54%	45%			20%	-60%	125%

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

Table C4 – List of Major Buyers by Type, 2011 thru June 2014

Banks

M&A Transactions: 2011 - June 2014

Banks	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM 6/2014</u>	<u>2011 - 6/2014 Total (#)</u>	<u>6 Mos June 2011</u>	<u>6 Mos June 2012</u>	<u>6 Mos June 2013</u>	<u>6 Mos June 2014</u>
Buyers w > 5 Transactions:									
Western Financial Group	7	5	5	2	18	3	3	4	1
Wells Fargo Insurance Services	5	0	1	0	6	2	0	1	0
Most Active Buyers	12	5	6	2	24	5	3	5	1
All Others	25	19	21	20	73	13	7	9	8
Totals	<u>37</u>	<u>24</u>	<u>27</u>	<u>22</u>	97	18	10	14	9
% Chg	106%	-35%	13%	-19%			-44%	40%	-36%

Table C5 – List of Major Buyers by Type, 2011 thru June 2014
Insurance Companies and All Other Buyers

M&A Transactions: 2011 - June 2014

Insurance Companies & Other	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TTM</u> <u>6/2014</u>	<u>2011 -</u> <u>6/2014</u> <u>Total (#)</u>	<u>6 Mos</u> <u>June</u> <u>2011</u>	<u>6 Mos</u> <u>June</u> <u>2012</u>	<u>6 Mos</u> <u>June</u> <u>2013</u>	<u>6 Mos</u> <u>June</u> <u>2014</u>
Buyers w > 5 Transactions:									
none					0				
Most Active Buyers	0	0	0	0	0	0	0	0	0
All Others	14	21	10	14	53	5	13	4	8
Totals	14	21	10	14	53	5	13	4	8
% Chg	180%	50%	-52%	40%		160%	-69%	100%	

(#) Totals do not count the second half of 2013 included in the TTM period and reflect just the 3 years and 6 month totals

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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 and sixth most active agent-broker M&A advisory firm in 2012 and 2013, respectively, and fourth most active through June, 2014 by SNL Financial.