

December 2016
Agent / Broker
Merger & Acquisition Update

Prepared by:



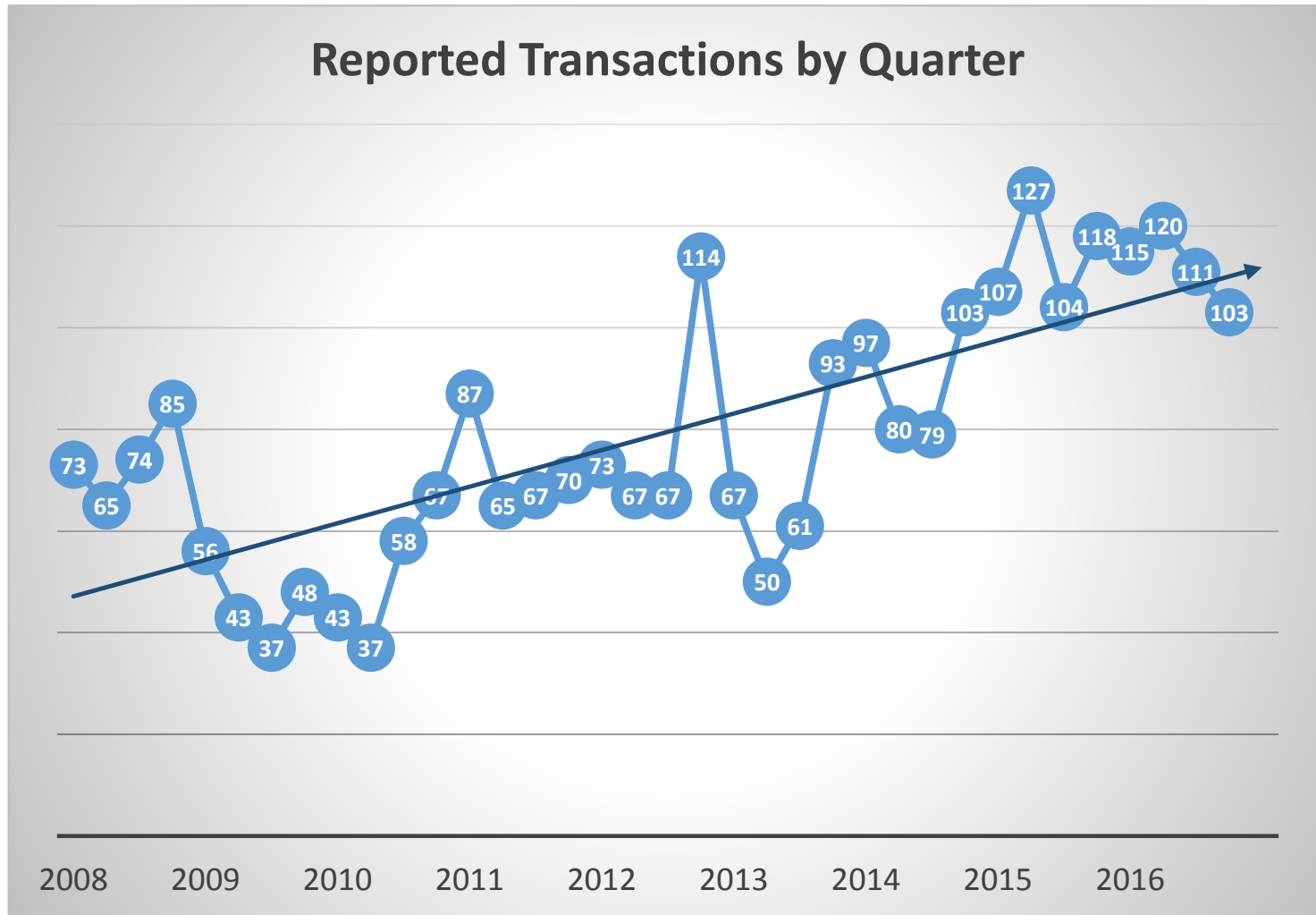
Chicago, Illinois
January, 2017

Agent / Broker Merger & Acquisition Summary

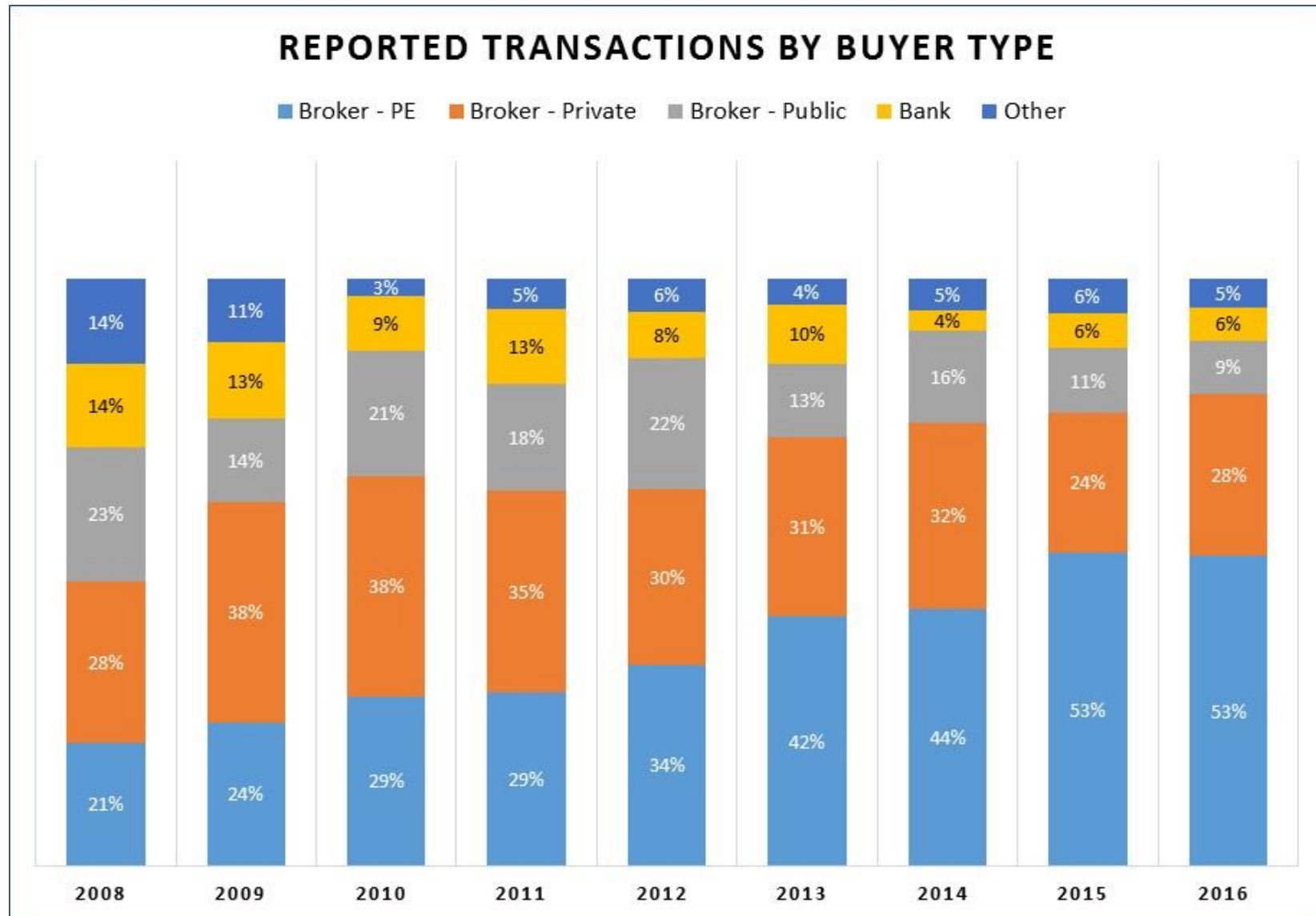
M&A Activity during 2016 fell just short of the 2015 count, with reported transactions in the US and Canada down slightly from 456 in 2015 to 449 in 2016, but still the second highest level of M&A activity on record.



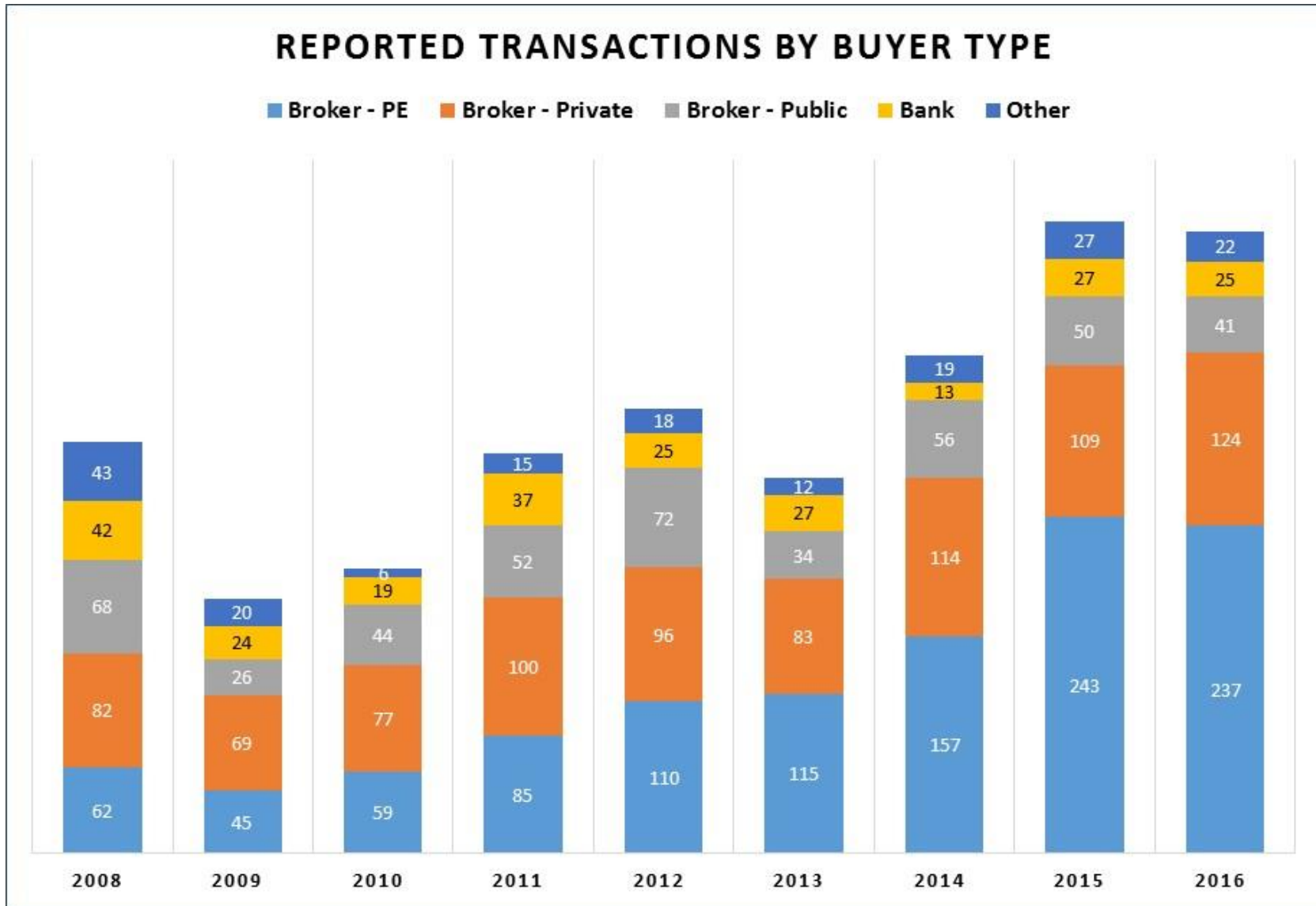
Breaking the data down into quarterly activity levels, we've now had nine quarters in a row with greater than 100 transactions.



Private-equity backed firms (“PE-backed”) continue to dominate the buyer landscape, holding steady at 53% of the total transactions in 2016, up from only 21% in 2008 while most of the other buyer categories have shown declines over the same period:



Another way to look at the activity by type of buyer is the actual number of transactions, with virtually all of the growth in the total count coming from increased activities by the PE-backed buyers and the privately owned buyers:



The table below illustrates the activity levels of the different buyer groups over time, comparing the average number of transactions per year over the period 2008 through 2016:

<u>Average # Transactions: 2008 - 2016</u>									
	# Active Buyers			# Announced Deals			Avg Trans/Buyer		
	2008	2012	2016	2008	2012	2016	2008	2012	2016
Broker - PE	16	17	19	62	110	237	3.88	6.47	12.47
Broker - Public	7	7	6	68	72	41	9.71	10.29	6.83
Broker - Private	70	73	87	82	96	124	1.17	1.32	1.43
Bank	23	16	21	42	25	25	1.83	1.56	1.19
Other	36	16	17	43	18	22	1.19	1.13	1.29
Totals	152	129	150	297	321	449	1.95	2.49	2.99

Although the number of buyers in each category has moved around, the two most active groups in terms of average deals per buyer have had a relatively stable number of participants over the past 8 years. However, the number of deals and the average number per buyer has changed dramatically for these two groups. The PE-backed buyer group has increased from less than 4 transactions each to an average of about 12.5 deals while the publicly traded brokers has dropped from an average of 9.7 deals each to less than 7. For the others, although the number of transactions has increased for the privately owned and decreased for the others, this is such a disparate group with few firms completing more than one or two deals each year.

Included in the results shown above were several transactions in 2016 with some of the largest agencies, including the following:

1. Feb, 2016, BB&T (bank) purchased Swett & Crawford, the North American operations of CGSC North America
2. Apr, 2016, Broadstreet Partners (backed by the Ontario Teachers' Pension fund and Century Capital) purchased Sterling & Sterling, #61 on the Business Insurance Top 100 in 2016
3. Jun, 2016, Prime Risk Partners (backed by Thomas H. Lee Partners) purchased Old National Insurance, #101 on the Business Insurance Top 100 in 2016
4. Jul, 2016, Alliant (backed by Stone Point Capital) purchased Mesirow Insurance Services, #41 on the Business Insurance Top 100 in 2016

Not included in the numbers above are three transactions during 2016 where the private-equity firm sold their interest in an existing agency or new private-equity money entered the marketplace:

1. Jun, 2016, Connor Strong & Buckelew sold a minority interest in their firm to Century Equity Partners
2. Oct, 2016, New Mountain Capital sold their position with AmWINS Group to Dragoneer Investment Group
3. Oct, 2016 Genstar Capital sold the majority of their interest in Acrisure to a management-led buyout of the firm

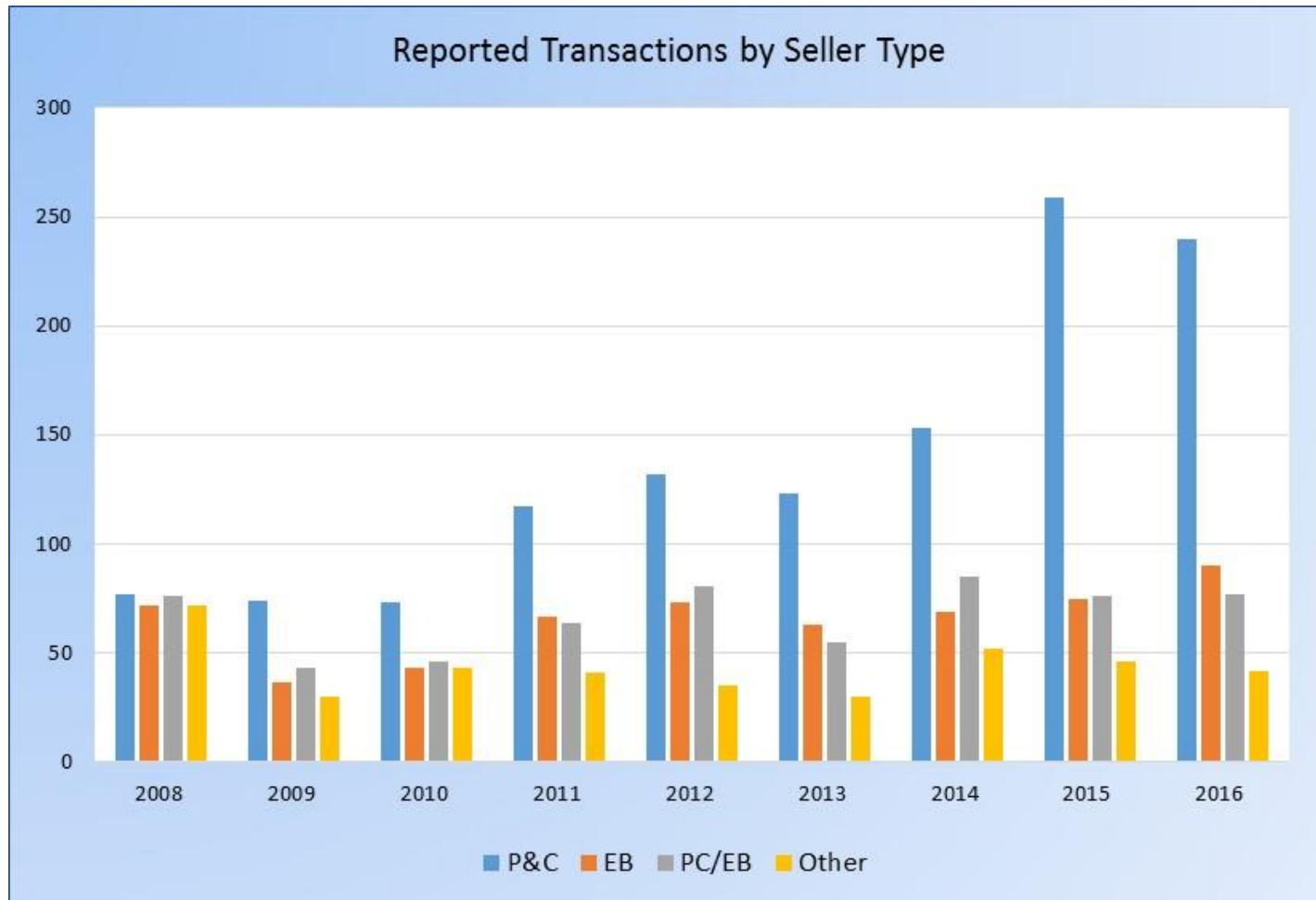
Looking at the individual buyer activity, we know not all transactions from all buyers are reported, with some of the larger buyer firms only reporting transactions of a certain size whereas other buyers include all acquisitions regardless of size. Based on the reported transactions, the most active buyers in 2016 are shown in the table below, with comparison totals for the last couple years:

Buyer Name	Ownership	2013	2014	2015	2016
1 Acrisure	PE-Backed (1)	11	22	56	63
2 Hub International	PE-Backed	25	31	37	45
3 AssuredPartners	PE-Backed	19	26	38	28
4 BroadStreet Partners	PE-Backed (2)	13	15	26	27
5 Gallagher	Public	17	31	27	24
6 Confie	PE-Backed	14	13	19	17
7 The Hilb Group	PE-Backed	2	4	8	11
8 Risk Strategies Company	PE-Backed	0	5	5	9
9 OneDigital	Private (3)	10	7	2	8
10 Marsh McLennan Agencies	Public	4	8	7	7
11 NFP	PE-Backed	5	7	12	6
12 USI Holdings	PE-Backed	9	11	9	6
13 Alliant Insurance Services	PE-Backed	2	3	8	6
14 Brown & Brown	Public	6	7	12	5
15 Intact Financial Corp	Insurance Co.	3	3	3	5
Total of Top 15		140	193	269	267
All Other Buyers		131	166	187	182
Total Announced Transactions		271	359	456	449

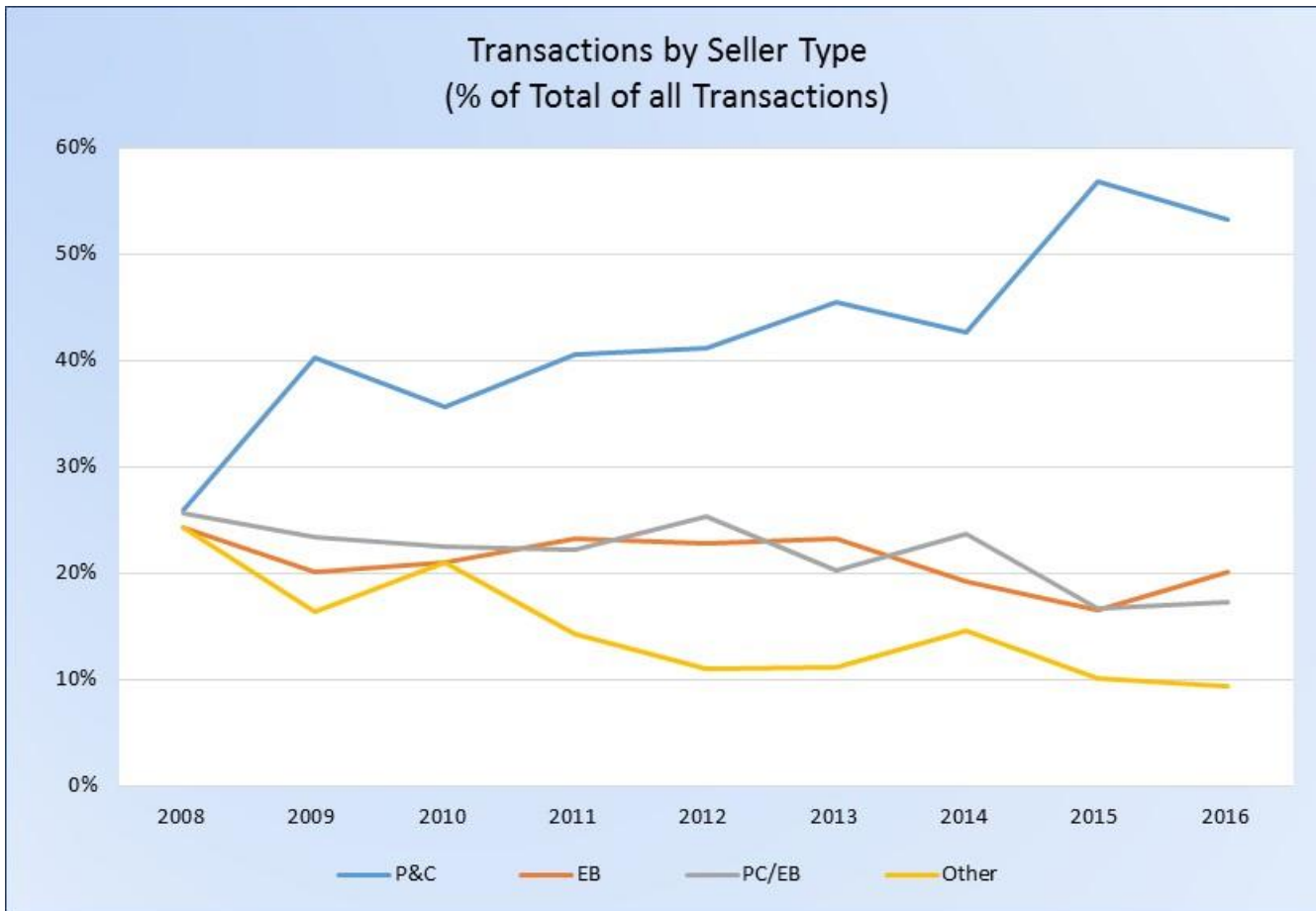
(1) Now majority owned by management while Genstar Capital holds a minority equity position.
(2) Majority owned by Canadian pension fund while Century Capital holds a minority equity position.
(3) Owned by publicly traded company, Fidelity National Financial, a leading title insurance company

Over the past two years, Acrisure has completed over 13% of all announced transactions, closing more than 1 deal each week and nearly 50% ahead of their next most active buyer. Although Acrisure recently completed a management buy-out of a significant portion of their private-equity backer, we believe they will continue to behave much like other PE-backed firms with their 3rd-party debt-capital partners

The distribution of transactions between the different types of sellers are illustrated in the following two tables, the first showing the actual number of transactions and the second showing the percentage allocation between the four categories:



The growth in P&C firm sales jumped dramatically in 2015, but dropped off slightly in 2016 while the other seller groups remained relatively stable, albeit a slight increase in the number of Benefits agency sales.



The combination of the slight pull-back in P&C transactions and the increase in Benefit agency sales in 2016 caused some minor changes in the distribution of transactions.

Summary:

The agency M&A world remains very active, with aggressive buyers and plenty of sellers. Interest rates remain low but starting to slowly move upward, and money is readily available for investing in the insurance broker community. Our closing comments remain similar to what we have said in the past:

- Valuation pricing is driven by the underlying value of the business and by market competitive forces, both of which have many contributing factors. In many ways, what we have been experiencing over the past couple years is a “perfect storm” for the benefit of sellers. Like all storms, they eventually pass and calm returns.
- Buyers, in particular the smaller and less capitalized firms, need to be careful not to get carried away in the pricing competition for a seller’s business only to find out later they can’t afford to pay for it.
- Firms wrestling with trying to perpetuate need to be steadfast in their realistic valuations for internal transactions without getting overly swayed by actual and anecdotal pricing stories of other agency transactions. Remember, in a perpetuation process, there are no buyer synergies or strategic value that the buyer can utilize to enhance the value of the transaction.
- For agency owners waiting for the “right time to sell” before jumping on the bandwagon, be careful not to let the last one pass you by. This remains a sellers’ market likely for the near term future, but it won’t last forever.
- Finally, if you’re neither buyer nor seller, ignore all the hype and stories about how much others have sold for and focus instead on finding the right people to help you grow your agency and improve your metrics every day. Keep your long-term plans in sight and take the necessary steps to position yourself to achieve your goals.

Appendix A

M&A Transactions: 2012 - 2016

Private Equity Backed (PE Investor):

Buyers with > 5 Transactions: PE Owner:

		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Hub International	Hellman & Friedman, LLC	21	25	31	37	45	159
Acrisure	Genstar Capital (1)	0	11	22	56	63	152
AssuredPartners	APAX Partners	19	19	26	38	28	130
BroadStreet Partners	Pension fund (2)	22	13	15	26	27	103
Confie	ABRY Partners	18	14	13	19	17	81
USI Holdings	Onex Corp	10	9	11	9	6	45
The Hilb Group	ABRY Partners	3	2	4	8	11	28
NFP	Madison Dearborn Partners	0	3	7	12	6	28
Risk Strategies Company	Kelso & Co. LLP	2	0	5	5	9	21
Alliant Insurance Services	Stone Point Capital	1	2	3	8	6	20
Integro, Ltd	Odyssee Partners	1	2	6	7	2	18
Higginbotham & Assoc	Stone Point Capital	2	5	2	2	5	16
AmWINS Group	New Mountain Capital	2	3	3	2	2	12
Edgewood Partners Ins Center	Stone Point Capital	0	2	5	2	1	10
Protector Holdings LLC	Dowling Capital Partners / EPIC	0	1	1	2	2	6
Ascension	Parthenon Capital / Century Capital	2	1	0	2	1	6
Eagle American Insurance	Dowling Capital Partners	0	1	0	4	0	5
Most Active Buyers		103	113	154	239	231	840
All Others		7	2	3	4	6	22
Totals		110	115	157	243	237	862
% Chg			5%	37%	55%	-2%	

(1) Now majority owned by management while Genstar Capital holds a minority equity position.

(2) Majority owned by Canadian pension fund while Century Capital holds a minority equity position.

Appendix B

<u>M&A Transactions: 2012 - 2016</u>						
Privately Owned Buyers						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Buyers with > 5 Transactions:						
OneDigital (1)	10	10	7	2	8	37
Leavitt Group	1	5	10	5	4	25
Cross Insurance	1	1	6	3	4	15
Ryan Specialty	5	2	2	1	2	12
World Insurance Associates	0	0	1	3	4	8
Insurica Insurance Management Network	0	5	3	0	0	8
Kaplansky Insurance	0	0	0	2	4	6
Bolton & Co	3	0	2	0	1	6
Capacity Coverage, Inc.	2	0	1	3	0	6
McGowan Companies	2	2	2	0	0	6
Acentria Insurance	0	0	0	1	4	5
Insurance office of America	0	0	2	1	2	5
NSM Insurance Group, Inc.	0	1	3	0	1	5
Most Active Buyers	24	26	39	21	34	144
All Others	72	57	75	88	90	382
Totals	96	83	114	109	124	526
% Chg		-14%	37%	-4%	14%	

(1) Owned by publicly traded company, Fidelity National Financial, a leading title insurance company

Appendix C

<u>M&A Transactions: 2012 - 2016</u>						
Publicly Owned Buyers						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Buyers with > 5 Transactions:						
Gallagher	35	17	31	27	24	134
Brown & Brown	15	6	7	12	5	45
Marsh McLennan Agencies	9	4	8	7	7	35
CBIZ	5	1	4	2	2	14
NFP	6	2	0	0	0	8
Willis Group Holdings	1	1	2	1	0	5
Most Active Buyers	71	31	52	49	38	241
All Others	1	3	4	1	3	12
Totals	72	34	56	50	41	253
% Chg		-53%	65%	-11%	-18%	

Appendix D

M&A Transactions: 2012 - 2016

Banks

Buyers with > 5 Transactions:

Western Financial Group
 Eastern Bank
 BB&T Insurance Services
 TowneBank
 Regions Bank
 BancorpSouth
 Peoples Bancorp, Inc.

Most Active Buyers

All Others

Totals

% Chg

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Western Financial Group	5	5	1	0	0	11
Eastern Bank	0	1	1	2	4	8
BB&T Insurance Services	2	0	2	2	1	7
TowneBank	0	1	1	5	0	7
Regions Bank	1	1	1	3	0	6
BancorpSouth	2	1	1	0	1	5
Peoples Bancorp, Inc.	0	4	0	1	0	5
Most Active Buyers	10	13	7	13	6	49
All Others	15	14	6	14	19	68
Totals	25	27	13	27	25	117
% Chg		8%	-52%	108%	-7%	

Appendix E

M&A Transactions: 2012 - 2016

Insurance Companies & Other

Buyers with > 5 Transactions:

Intact Financial Corp

Patriot National Inc.

AmTrust Financial Services

Most Active Buyers

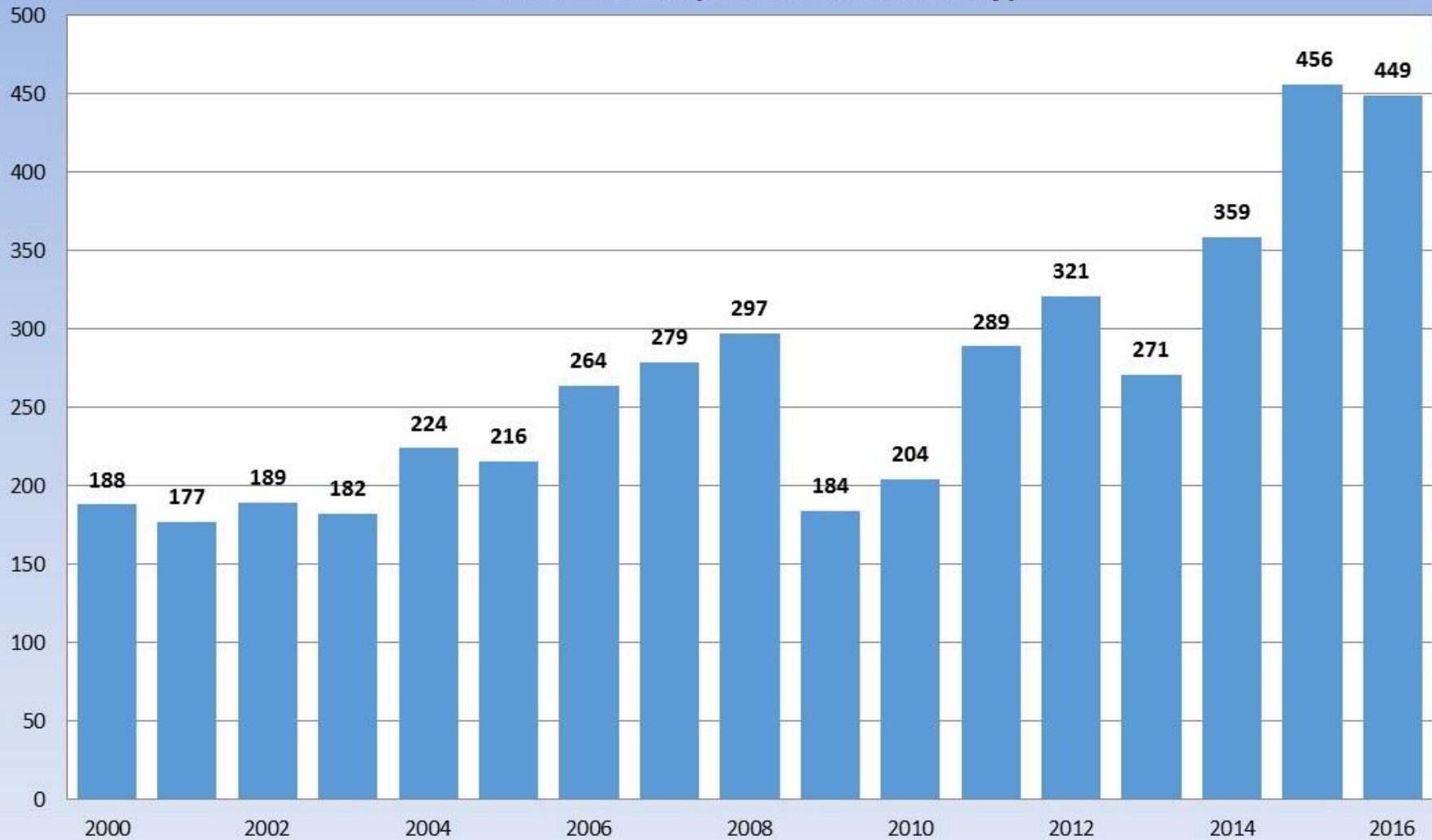
All Others

Totals

% Chg

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Intact Financial Corp	0	3	3	3	5	14
Patriot National Inc.	0	0	0	6	1	7
AmTrust Financial Services	1	0	0	2	2	5
Most Active Buyers	1	3	3	11	8	26
All Others	17	9	16	16	14	72
Totals	18	12	19	27	22	98
% Chg		-33%	58%	42%	-19%	

Total Announced & Reported Agency M&A Transactions 2000 - 2016 (US & Canada only)



Source: Industry data and OPTIS Partners M&A database

Explanation and sources of data:

Data is for U.S. and Canadian transactions in the insurance distribution sector for both retail and wholesale producers, including managing general agencies/managing general underwriters (MGA/MGU). These agencies and brokers provide property/casualty insurance, employee benefits, or any combination thereof.

Firms with private equity backing are identified in the chart on p. 8 and Appendix A on p. 12

Data for reported and announced transactions have been obtained from various sources, including press releases, trade press articles, company websites and direct communications with buyers.