

2015  
Agent / Broker  
Merger & Acquisition Statistics

Another Record Setting Year

Prepared by:

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Chicago, Illinois

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## **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 (P.C) insurance, employee benefits (EB), or any combination thereof.

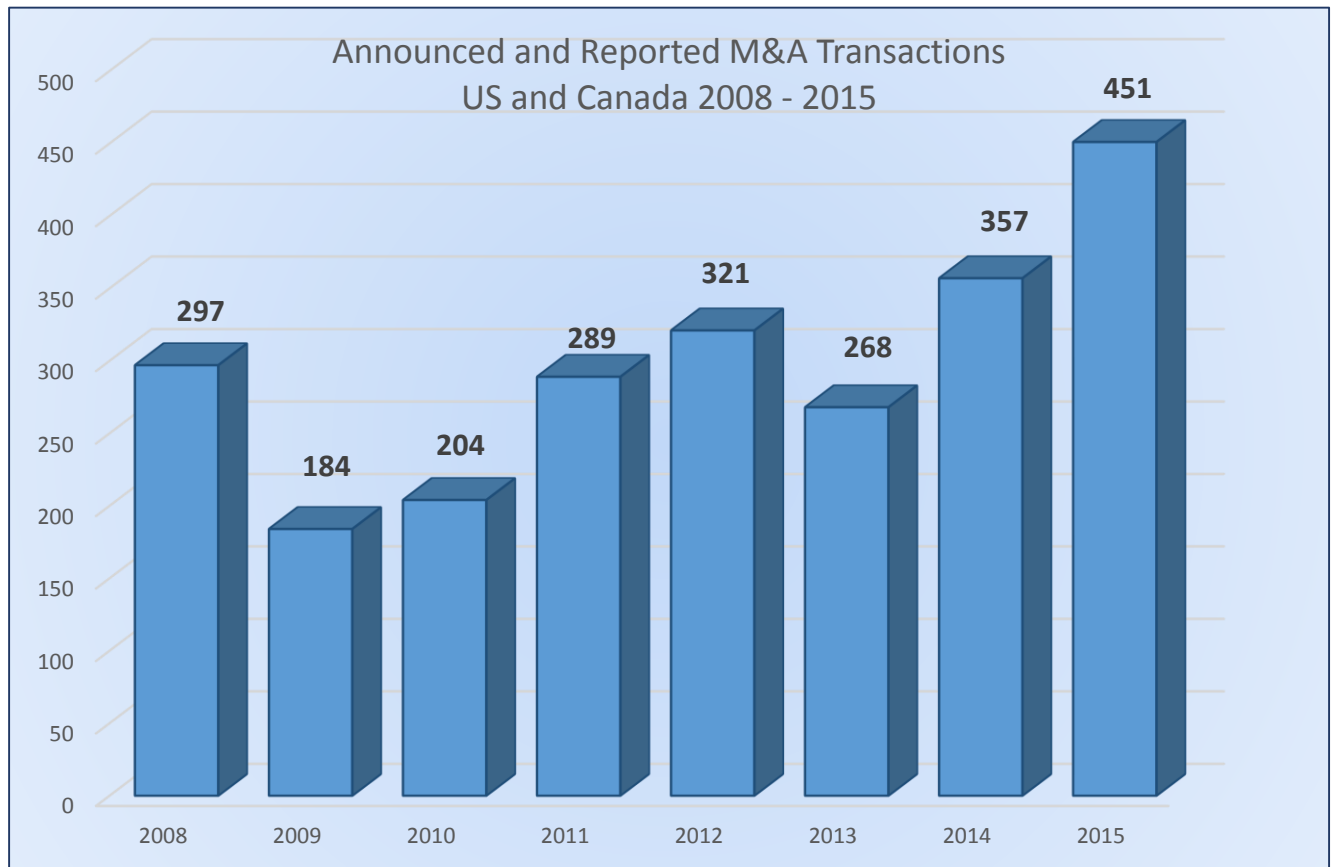
Firms with private equity (PE) backing are identified in the chart on p. 8 and Exhibit E1 on p. 18

An appendix of tables follows the report beginning on p. 13

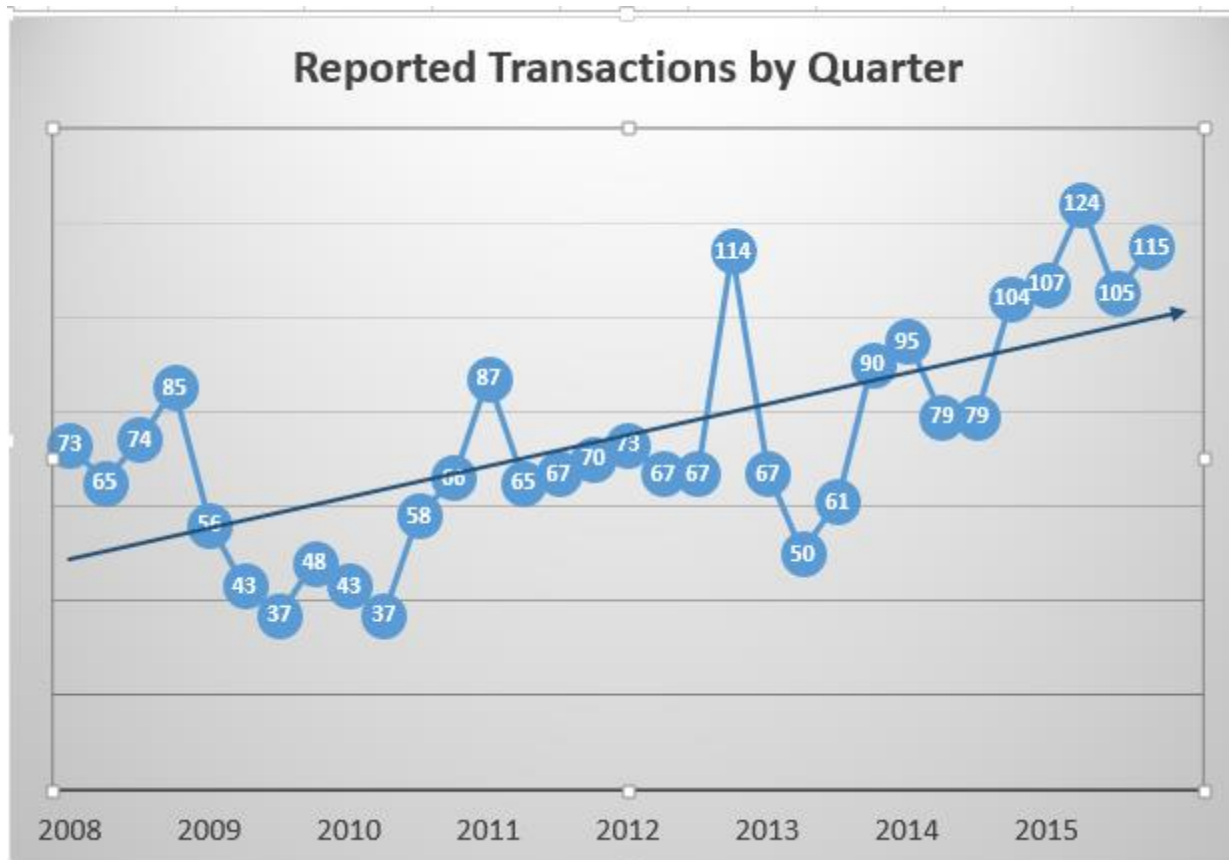
Data for reported and announced transactions have been obtained from various sources, including press releases, trade press articles, company websites and direct communications with buyers.

# Agent / Broker Mergers & Acquisitions

Merger and acquisition (M&A) activity again reached record levels in 2015 and provided further evidence of a steady, entrenched shift in buyer dynamics. PE-backed buyers were responsible for virtually all of the year-over-year growth, while P&C agencies dominated the seller category.



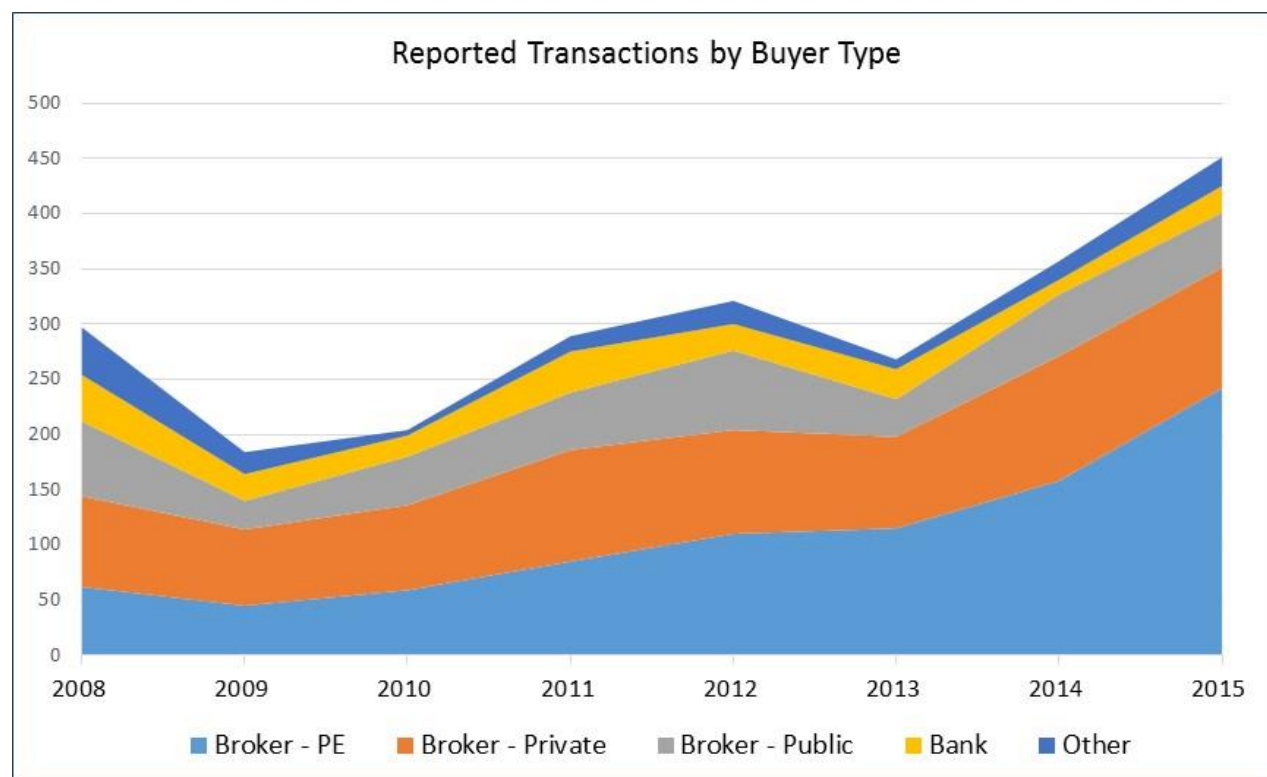
With 451 transactions in the United States and Canada, 2015's M&A activity was far and away the most robust over the last eight years. The actual number of sales was greater, as many buyers and sellers do not report transactions, and some acquirers do not report small transactions. The referenced data base tracks a consistent pool of the most active acquirers, including other announced deals, and is therefore a reasonably accurate indication of deal activity in the sector. Even so, the 26% one-year increase in activity in 2015 ranks second only to 2014's 33% spike, a portion of which is attributable to a singular tax-fueled drop-off in deals in 2013. The number of deals during the first three quarters that year fell appreciably after sellers had scrambled to close their deals in 2012's fourth quarter to avoid an impending capital gains tax increase the following year.



The downturn in M&A activity ended in 2013's third quarter, as several economic factors triggered a robust rebound that has continued ever since. These factors, which have whetted the appetite of private-equity backed buyers, likely will continue to shape the M&A market for at least the near-term, absent an unforeseen market-changing event.

## Expanding Market Share of PE-Backed Brokers

Once just the third-most active group of buyers behind privately-owned and public brokerages, accounting for 21% of transactions in 2008, PE-backed firms now lead the pack and are dramatically increasing their presence in the marketplace. This buyer group accounted for 242 transactions in 2015, a single-year increase of more than 50%. With that leap in activity, PE-backed firms accounted for the majority of deals last year—54%. This marks the first time since OPTIS has been tracking M&A activity that any buyer group has accounted for the majority of transactions.



The 20 active PE-backed firms in 2015 also set a record, with that number growing slowly since 2008, when there were 16 active PE-backed buyers. More significant than the number of active PE-backed firms is the sheer volume of deals that many players in this group have completed. That is creating the demand for acquisition opportunities, which also appears to be driving pricing and valuations to new highs in many cases. Meanwhile, the number of deals by the next two most-active buyer groups—privately owned and public brokers—edged down in 2015 due to the aggressive acquisition strategy of the PE backed firms.

Driving this trend is the abundance of private equity capital and the limited options available to investors to generate the returns they seek. Interest rates have been paltry for years; the U.S. stock market has become more volatile after years of growth, with the Dow Jones Industrial Average and S&P 500 losing ground last year; and foreign markets have been flat or down the past couple years. Meanwhile, the insurance brokerage business has proven to be an opportunistic vehicle that meets investors' return demands. To ensure that they are the successful suitors of brokerages expected to deliver attractive returns, PE-backed buyers seem willing to push agency values to levels not seen in many years.

Looking at the table below, comparing the average number of transactions completed by the various buyer types in 2008 and 2015, the PE-backed buyers stand out as significantly more acquisitive.

**Average # Transactions - 2008 vs. 2015**

	# Active Buyers		# Announced Deals		Avg Trans/Buyer		
	2008	2015	2008	2015	2008	2015	% Change
Broker - PE	16	20	62	242	3.88	12.10	212.3%
Broker - Public	7	6	68	50	9.71	8.33	-14.2%
Broker - Private	70	88	82	109	1.17	1.24	5.7%
Bank	23	16	42	24	1.83	1.50	-17.9%
Other	36	18	43	26	1.19	1.44	20.9%
Totals	152	148	297	451	1.95	3.05	56.0%

Interestingly, PE firms are also active in the sector acquiring platforms owned by other PE firms. The nature of the PE industry is the need to capitalize their value by selling a portfolio company to monetize their investment. Last year, a handful of these companies acquired brokerages already backed by other PE concerns in a recapitalization transaction.

**Significant PE Transactions**

<u>Broker</u>	<u>PE - 2014</u>	<u>PE - 2015</u>
Alliant	KKR (*)	Stone Point Capital and KKR
Hilb Group	BHMS Investments	ABRY Partners
Assured Partners	GTCR	Apax Partners, LP
Integro	Various PE firms	Odyssey Investment Partners
Risk Strategies	Kohlberg & Co.	Kelso & Co. LLP

(\*) Stone Point Capital made a significant equity investment into Alliant

## Most-Active Buyers

Given that PE-backed firms accounted for more than half of the known M&A activity in 2015, there is no surprise that this buyer group dominates the top-10 list of most active buyers last year. Of the 11 firms on the list—two firms tied for the number 10 spot—nine are PE-backed brokers. These firms accounted for 212 deals—or 47% of all known transactions last year.

The most-active buyers last year and the number of deals they completed in each of the past three years are shown in the table below:

### M&A Transactions: 2012 - 2015

#### All Buyer Types - Top 10 Most Acquisitive 2015

<u>Most Active Buyers</u>	<u>Ownership</u>	<u>PE Investor</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
1 Acrisure	PE	Genstar Capital	56	22	11	0
2 AssuredPartners	PE	Apax Partners	38	26	19	19
3 Hub International	PE	Hellman & Friedman	37	31	25	21
4 Gallagher	Public		27	31	17	35
5 BroadStreet Partners	PE (1)	Pension fund	26	15	13	22
6 Confie	PE	ABRY Partners	19	13	14	18
7 Brown & Brown	Public		12	7	6	15
8 NFP	PE	Madison Dearborn	11	7	5	6
9 USI	PE	Onyx Partners	9	11	9	10
10 The Hilb Group	PE	ABRY Partners	8	4	2	3
10 Alliant Insurance Services	PE	Stone Point Capital / KKR	8	3	2	1
Top 10 Buyers			251	170	123	150
All Others			200	187	145	171
Totals			451	357	268	321
% Chg						

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

Similarly, PE-backed brokerages dominate the list of most-active individual buyers over the past four years. Among the 15 most-active buyers, 10 are PE-backed firms.

### **M&A Transactions: 2012 - 2015**

#### **All Buyer Types - Top 15 Most Acquisitive 2012-2015**

<b>Most Active Buyers</b>	<b>Ownership</b>	<b>PE Investor</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Hub International	PE	Hellman & Friedman	21	25	31	37	<b>114</b>
Gallagher	Public		35	17	31	27	<b>110</b>
AssuredPartners	PE	Apax Partners	19	19	26	38	<b>102</b>
Acrisure	PE	Genstar Capital	0	11	22	56	<b>89</b>
BroadStreet Partners	PE (1)	Pension fund	22	13	15	26	<b>76</b>
Confie	PE	ABRY Partners	18	14	13	19	<b>64</b>
Brown & Brown	Public		15	6	7	12	<b>40</b>
USI Holdings	PE	Onex Corp	10	9	11	9	<b>39</b>
NFP	PE	Madison Dearborn	6	5	7	11	<b>29</b>
Digital Insurance	Private (2)		10	10	7	2	<b>29</b>
Marsh McLennan Agencies	Public		9	4	8	7	<b>28</b>
Leavitt Group	Private		1	5	10	5	<b>21</b>
The Hilb Group	PE	ABRY Partners	3	2	4	8	<b>17</b>
Integro, Ltd	PE	Odyssey Investment Partners	1	2	6	7	<b>16</b>
Alliant Insurance Services	PE	Stone Point Capital / KKR	1	2	3	8	<b>14</b>
<b>Top 15 Buyers</b>			<b>171</b>	<b>144</b>	<b>201</b>	<b>272</b>	<b>788</b>
<b>All Others</b>			<b>150</b>	<b>124</b>	<b>156</b>	<b>179</b>	<b>609</b>
<b>Totals</b>			<b>321</b>	<b>268</b>	<b>357</b>	<b>451</b>	<b>1,397</b>
<b>% Chg</b>			<b>11%</b>	<b>-17%</b>	<b>33%</b>	<b>26%</b>	
<b>Top 15 as % Total</b>			<b>53%</b>	<b>54%</b>	<b>56%</b>	<b>60%</b>	<b>56%</b>

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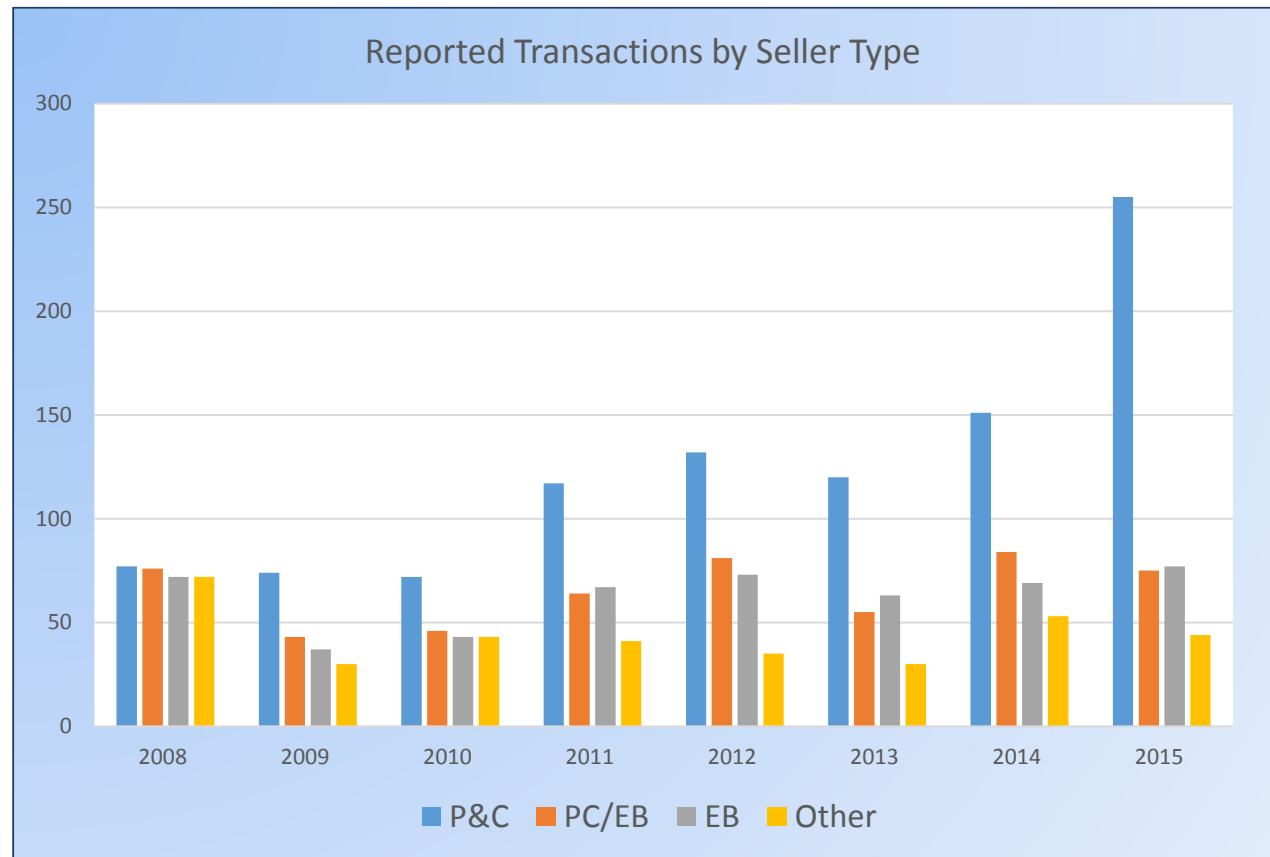
(2) Digital Insurance was a private owned company until December 31, 2012 when it was acquired by a publicly traded company from outside the insurance brokerage industry.

There has also been a noteworthy increase in the concentration of transactions from the top buyers, increasing from 53% of the total in 2012 to more than 60% in 2015.



## Seller Groups

The seller group environment clearly has evolved over the past eight years, although the reasons driving this change may be less certain. Buyers now are focusing on property and casualty (P&C) agencies. Those firms accounted for 57% of the transactions in 2015—the first time since OPTIS has tracked M&A activity that a single group of sellers was involved in the majority of deals during a calendar year.



Seven years ago, the picture looked very different. Four types of sellers each accounted for roughly one-fourth of the M&A activity, although P&C firms and those that had combined P&C and employee benefits (PC/EB) had a few more transactions than the other two groups. The financial crisis in 2008, with its subsequent negative impact on all financial transactions in 2009 and 2010, led to a sharp drop in acquisitions of most sellers, except primarily P&C-focused firms. This group emerged as the most dominant as the economy recovered, with this trend continuing to an even greater degree through 2015.

Although not absolute, a few factors have likely influenced this trend.

- Deal activity tends to create more deal activity. Prospective sellers see colleagues and competitors effecting transactions and consider if now is the right time to come to the marketplace.
- The inventory of prospective sellers is increasing as baby boomer agency owners and principals come to grips with their business mortality.

- Early uncertainty regarding the impact of the Affordable Care Act on the EB segment of the business created some pull back amongst buyers.
- The roots of agency deal activity are embedded on the P&C side, and thus there is greater comfort with that focus.

But while PC/EB and EB agencies now represent a far lower percentage of sellers—17% each—the raw number of acquisitions of these types of agencies has returned to and, in some cases, has exceeded 2008 levels in recent years. The only sellers whose acquisition numbers have not rebounded are those in the “Other” category, which includes wholesalers, MGA/MGUs and third-party administrators. Those agencies tend to buy and sell more among one another. In addition, their business is less familiar to PE-backed buyers, who tend to come out of the P&C side of the business.

Among the deals completed by sellers last year were a few larger transactions. Four U.S.-based brokerages and agencies that ranked among the top 100 in revenues in 2014 according to *Business Insurance* were acquired in 2015. Only one was acquired by a PE-backed firm, while two public brokers acquired the other three large sellers.

**Significant Seller Transactions - 2015**

<b><u>Seller</u></b>	<b><u>2014 Business Insurance Rank</u></b>	<b><u>Buyer</u></b>	<b><u>Transaction Date</u></b>
MHBT Inc.	50	Marsh McLennan Agency	June
William Gallagher	63	Arthur J. Gallagher	June
Cook Maran & Associates	86	Prime Risk Partners, Inc.	June
J. W. Terril	90	Marsh McLennan Agency	July

## **Final Observations**

Barring any significant financial, political or economic events that may change the underlying market, we do not expect the current M&A dynamics to change markedly in the near-term. Despite the worst January performance of the stock market since 2009, the U.S. economy continues to improve. While insurance prices are softening, they are not deteriorating significantly, and they likely will be offset to some degree by increases in exposures and coverages. Meanwhile, interest rates have slowly begun rising, as many Federal Reserve watchers had anticipated, and likely will continue to inch up over the next several years. However, rates still continue to hover near historic lows.

The environment has also been affected to a material degree by a sellers' market, as there is a very robust group of well-capitalized buyers chasing a finite number of sellers. In addition, industry demographics indicate that with the aging population of boomers, many of whom hold major equity stakes in brokerage firms, the inventory of sellers will increase.

Over the long term, however, we believe the current valuation levels may not be sustainable, as we anticipate one or more of several likely developments may pull transaction values down from their current historically high levels. These developments may include:

- PE owners fail to achieve their expected returns from their investments.
- Public company stock values drop.
- A shift, albeit gradually, from a sellers-market to a buyers-market.

With the sales last year of several PE-backed brokerages to other private equity firms, private equity sellers were able to achieve their targeted returns through the transactions. This also supports the theory that other investors believe adequate returns are still out there, even with the high multiples being paid.

From this point, buyers should be very diligent in their financial analyses to ensure that their required returns can be achieved at the investment level they are prepared to make. Sellers and those who are potential sellers within the next few years ought to seriously consider their position and alternatives sooner than later if they hope to take advantage of current market valuations.

Everyone else, sit back and run your business the best way you can, invest in the future, and build your organization for the long run, because today's M&A environment has no direct impact on your world.

# **APPENDIX**

**Table A – Total Transactions 2000 – 2015**

**Table B – Transaction Counts by Buyer Type**

**Table C – Transactions by Buyer Type (% of Total)**

**Table D - Transactions by Seller Type (% of Total)**

**Table E1 – Major Buyers by Type – PE-Backed**

**Table E2 – Major Buyers by Type – Private**

**Table E3 – Major Buyers by Type – Public**

**Table E4 – Major Buyers by Type – Banks**

**Table E5 – Major Buyers by Type – All Other**

Table A

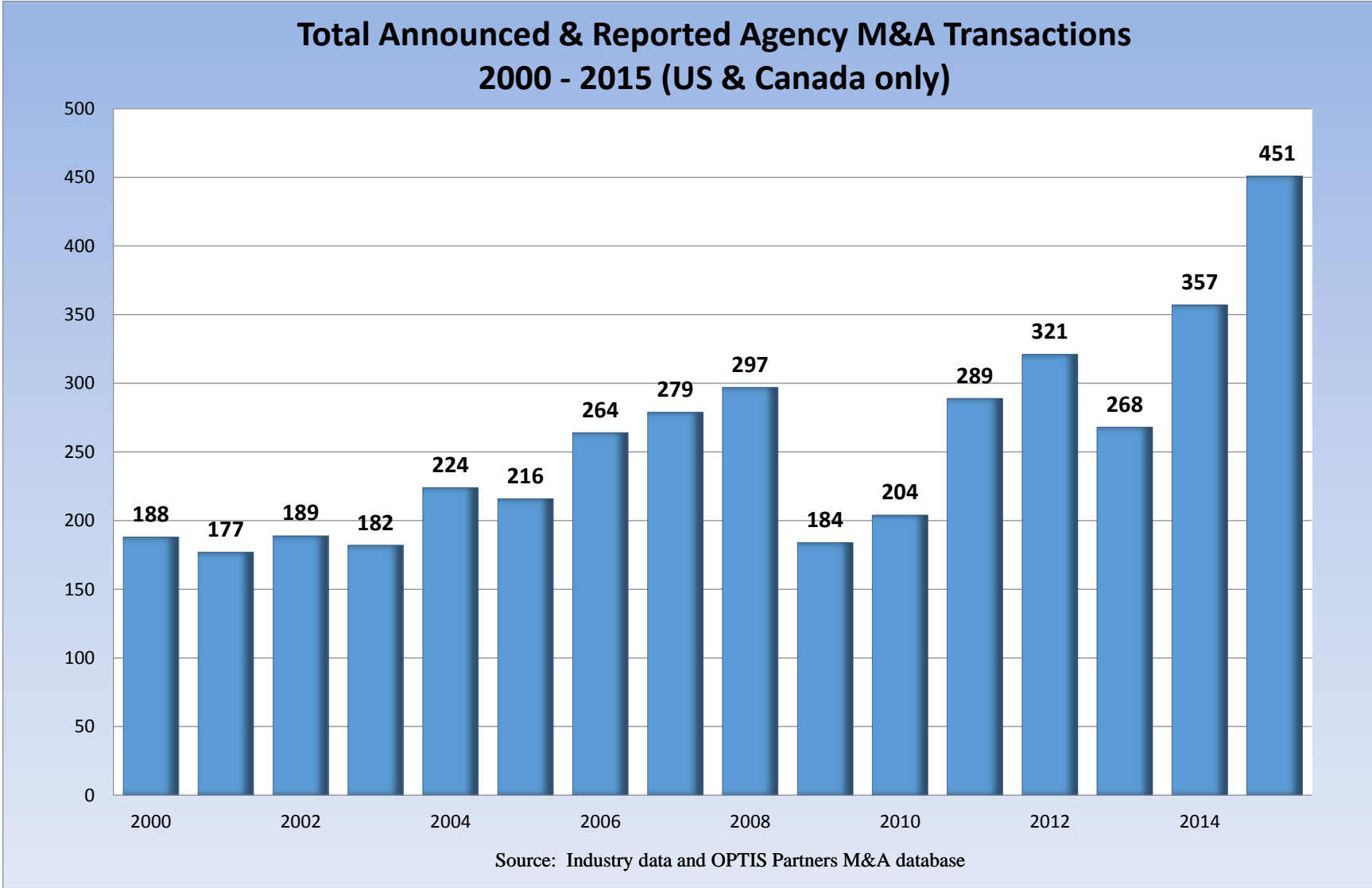


Table B

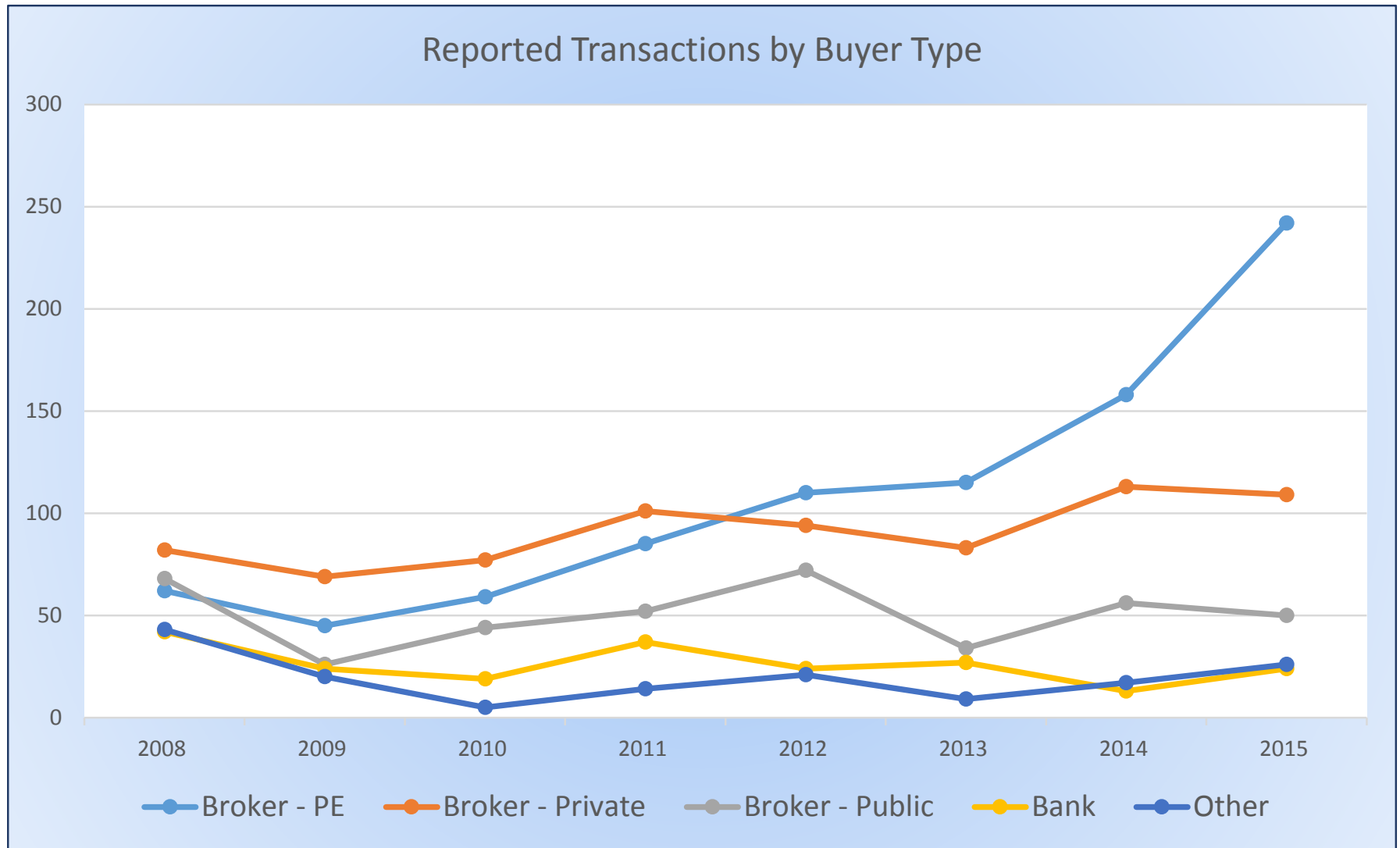


Table C

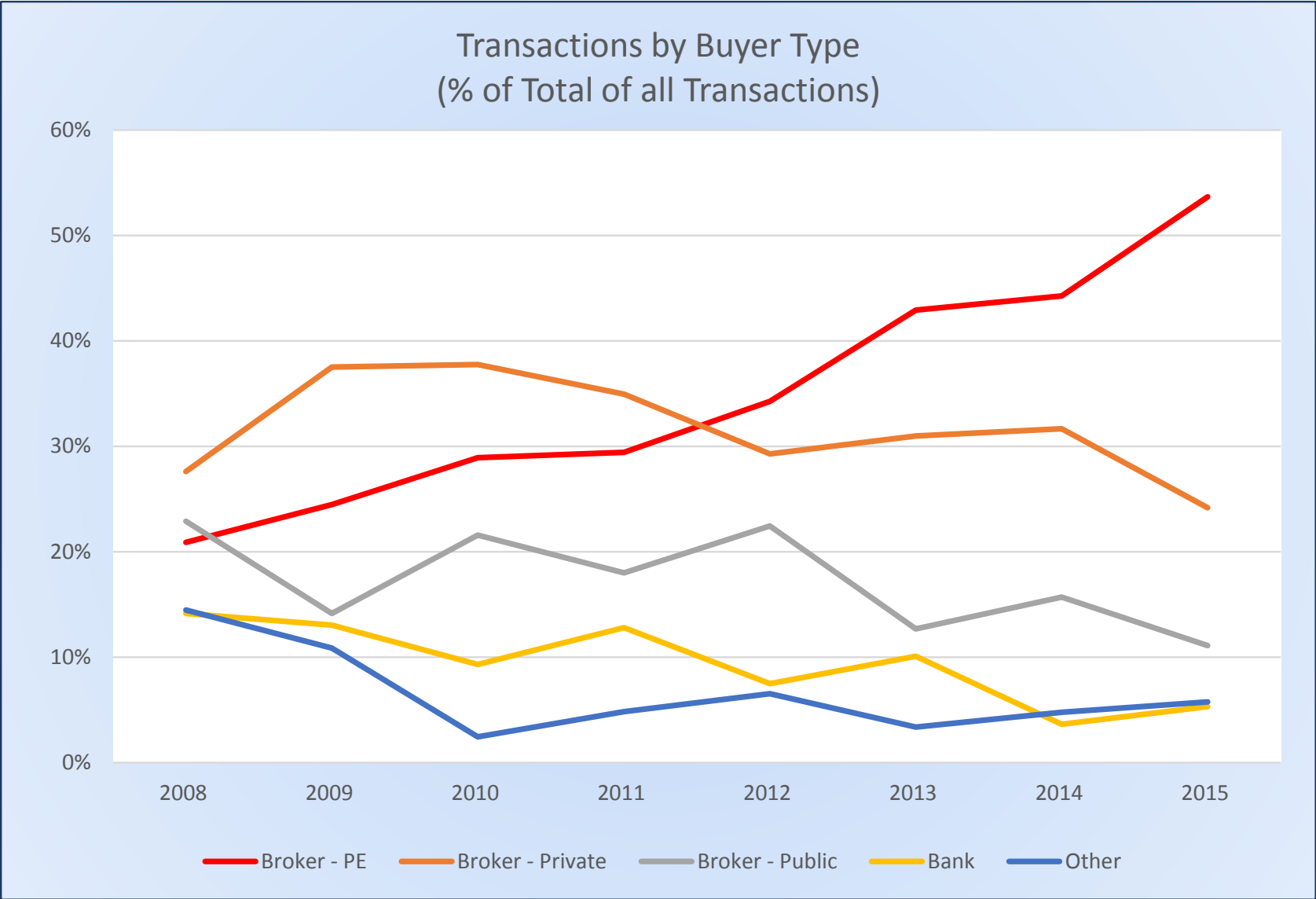


Table D

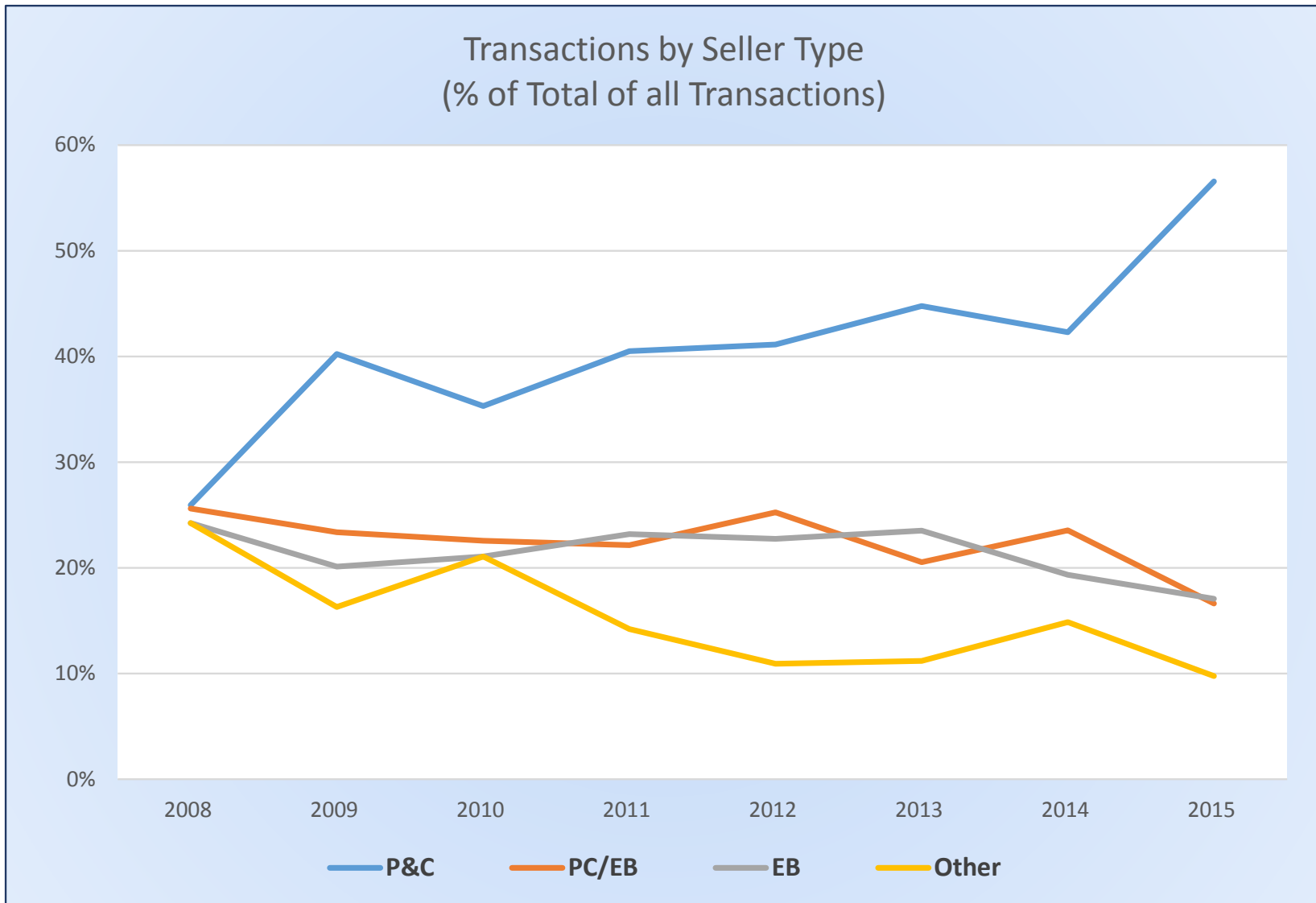




Table E1

**M&A Transactions: 2012 - 2015**

**Private Equity Backed (PE Investor):**

**Buyers w > 5 Transactions:**

**PE Owner:**

Hub International	Hellman & Friedman, LLC
AssuredPartners	GTCR
Acrisure	Genstar Capital
BroadStreet Partners	Pension fund (1)
Confie	ABRY Partners
USI Holdings	Onex Corp
NFP	Madison Dearborn Partners
The Hilb Group	ABRY Partners
Integro, Ltd	Odyssee Partners
Alliant Insurance Services	Stone Point Capital / KKR
Risk Strategies Company	Kelso & Co.
Higginbotham & Assoc	Stone Point Capital
AmWINS Group	Parthenon Capital
Edgewood Partners Ins Center	Stone Point Capital
Ascension	Parthenon Capital / Century Capital
Eagle American Insurance	Dowling Capital Partners

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
21	25	31	37	<b>114</b>
19	19	26	38	<b>102</b>
0	11	22	56	<b>89</b>
22	13	15	26	<b>76</b>
18	14	13	19	<b>64</b>
10	9	11	6	<b>36</b>
0	3	7	11	<b>21</b>
3	2	4	8	<b>17</b>
1	2	6	7	<b>16</b>
1	2	3	8	<b>14</b>
2	0	5	5	<b>12</b>
2	5	2	2	<b>11</b>
2	3	3	2	<b>10</b>
0	2	5	2	<b>9</b>
2	1	0	2	<b>5</b>
0	1	0	4	<b>5</b>
<b>103</b>	<b>112</b>	<b>153</b>	<b>233</b>	<b>601</b>
7	3	5	9	<b>24</b>
<b>110</b>	<b>115</b>	<b>158</b>	<b>242</b>	<b>625</b>
29%	5%	37%	53%	

Most Active Buyers

All Others

Totals

% Chg

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

Table E2

**M&A Transactions: 2012 - 2015**

**Privately Owned Buyers**

**Buyers w > 5 Transactions:**

Digital Insurance  
 Leavitt Group  
 Cross Insurance  
 Ryan Specialty  
 Insurica Insurance Management Network  
 Capacity Coverage, Inc.  
 McGowan Companies  
 Bolton & Co

Most Active Buyers

All Others

Totals

% Chg

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Digital Insurance	10	10	7	2	<b>29</b>
Leavitt Group	1	5	10	5	<b>21</b>
Cross Insurance	1	1	6	3	<b>11</b>
Ryan Specialty	5	2	2	1	<b>10</b>
Insurica Insurance Management Network	0	5	3	0	<b>8</b>
Capacity Coverage, Inc.	2	0	1	3	<b>6</b>
McGowan Companies	2	2	2	0	<b>6</b>
Bolton & Co	3	0	2	0	<b>5</b>
Most Active Buyers	24	25	33	14	<b>96</b>
All Others	70	58	80	95	<b>303</b>
Totals	94	83	113	109	<b>399</b>
% Chg	-7%	-12%	36%	-4%	

Table E3

**M&A Transactions: 2012 - 2015**

**Publicly Owned Buyers**

**Buyers w > 5 Transactions:**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Gallagher	35	17	31	27	<b>110</b>
Brown & Brown	15	6	7	12	<b>40</b>
Marsh McLennan Agencies	9	4	8	7	<b>28</b>
CBIZ	5	1	4	2	<b>12</b>
NFP	6	2	0	0	<b>8</b>
Willis Group Holdings	1	1	2	1	<b>5</b>
Most Active Buyers	71	31	52	49	<b>203</b>
All Others	1	3	4	1	<b>9</b>
Totals	72	34	56	50	<b>212</b>
% Chg	38%	-53%	65%	-11%	

Table E4

**M&A Transactions: 2012 - 2015**

**Banks**

**Buyers w > 5 Transactions:**

Western Financial Group

TowneBank

BB&T Insurance Services

Regions Bank

Peoples Bancorp, Inc.

Most Active Buyers

All Others

Totals

% Chg

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Western Financial Group	5	5	1	0	<b>11</b>
TowneBank	0	1	1	5	<b>7</b>
BB&T Insurance Services	2	0	2	2	<b>6</b>
Regions Bank	1	1	1	3	<b>6</b>
Peoples Bancorp, Inc.	0	4	0	1	<b>5</b>
Most Active Buyers	8	11	5	11	<b>35</b>
All Others	16	16	8	13	<b>53</b>
Totals	24	27	13	24	<b>88</b>
% Chg	-35%	13%	-52%	85%	

Table E5

**M&A Transactions: 2012 - 2015**

**Insurance Companies & Other**

**Buyers w > 5 Transactions:**

Patriot National, Inc.

Most Active Buyers

All Others

Totals

% Chg

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Patriot National, Inc.	0	0	0	6	<b>6</b>
Most Active Buyers	0	0	0	6	<b>6</b>
All Others	21	9	17	20	<b>67</b>
Totals	21	9	17	26	<b>73</b>
% Chg	50%	-57%	89%	53%	

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