Insurance Agent/Broker M&A – Quick Thoughts (January 2016)

It is clear that 2015 was a banner year for insurance agent/broker M&A activity. According to SNL Financial, the 448 agent/broker deals announced in 2015 exceeded 2014's 329 announced deals by 36%. Furthermore, 2015 was the most active year in the last 10 years by a wide margin. Examining the individual buyers who helped drive this activity, we see many familiar names. HUB International, AssuredPartners and Arthur J. Gallagher were the clear leaders with 36, 31 and 29 deals announced, respectively. Confie Seguros had an active 2015 with 18 announced deals and, rounding out the top five, NFP announced 16 deals last year. It's interesting to note that this group of five accounted for 29% of total deal activity reported by SNL Financial in 2015.

As we look ahead to 2016, we are keeping a close eye on two macroeconomic factors: (1) interest rates and the availability of credit and (2) the stock market. Since many of these agent/broker transactions are funded in whole or at least in part using debt, having access to relatively inexpensive capital is a key driver of M&A activity. With respect to the stock market, while it is true that many of the major acquirers are not public (to that point, Arthur J. Gallagher is the only publicly-traded company in our aforementioned top five), many of the privately held agents/brokers still look to the stock market (specifically, Total Enterprise Value / EBITDA multiples of comparable companies) as one of the primary methods to benchmark their own value.

Taking a closer look at a few of the deals that happened during the year, in June, J.C. Flowers announced its acquisition of AmeriLife Group, a Florida-based distributor of annuity, life and health insurance products focused on serving the senior market. In 2014, AmeriLife generated over $1.5 billion in premiums. According to SNL Financial, the deal was valued at $390 million making it the second largest agent/broker transaction in 2015. The AmeriLife deal is a perfect example of the "sponsor to sponsor" acquisition trend that we have been seeing in the industry whereby the incumbent private equity firm (in this case, Reservoir Capital and Black Diamond Capital) sells to a new private equity firm (J.C. Flowers).

Brown & Brown (BRO) announced in June its acquisition of Fitness Insurance. Based in Denver, CO, Fitness Insurance is a retail agency that provides insurance products to the health club industry. The deal press release reported that Fitness Insurance generates annual revenues of $3.2 million. According to Brown & Brown's June 30th 10Q filing, BRO paid $9.5 million cash at close (a 3.0x revenue multiple) with the ability for Fitness Insurance's owners to earn an additional $3.5 million if they maximize their earn-out. A quick scan through Fitness Insurance's website reveals a staff of 10 people (including the two owners). With $3.2 million of revenue and only 10 employees, it's safe to assume that the EBITDA margin for this agency was quite high (which makes sense given the strong revenue multiple of 3.0x).

First Merchants Insurance Group (FMIG), a licensed insurance agency affiliate of First Merchants Bank, was sold to USI in June. Headquartered in Muncie, Indiana, FMIG is a full-service retail insurance agency offering P&C and employee benefits insurance products. The transaction was structured as a stock sale and the total purchase price was $18 million. An earnings presentation for 2014 listed FMIG's commission income at $7.4 million implying a 2.4x commission multiple on the sale. As part of the deal, USI and First Merchants Bank entered into a strategic marketing agreement to continue to provide First Merchant Bank clients access to FMIG's insurance products.

If you would like to have a highly confidential conversation about the current buying/selling market for insurance agents/brokers, please contact me and I would be happy to call or meet with you in-person.

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