

**Insurance Agent/Broker M&A – Quick Thoughts (April 2017)**

Insurance agent / broker deal volume was down some to start the year, but volume levels were still indicative of a very active M&A market for distribution companies as 93 deals were announced in Q1 2017 (according to SNL Financial). Arthur J. Gallagher (12 announced deals), HUB International (9 announced deals) and NFP (6 announced deals) were the most active buyers in the quarter. In addition to its 6 acquisitions, NFP also closed a \$750 million minority investment from HPS Investment Partners, a New York-based private investment firm. Madison Dearborn Partners still holds a controlling equity position in NFP. Outside of the top 3 acquirers in the quarter, AssuredPartners, Integro and Ryan Specialty Group each announced 4 deals in Q1, while Hilb Group and USI each announced 3 deals.

The largest deal of the quarter was the announced sale of USI Insurance Services to global investment firms KKR and CDPQ. The deal valued USI at \$4.3 billion. Once the deal closes, KKR and CDPQ will own equal equity stakes in USI, while USI employees will own a minority position. According to public filings from Onex Corporation (the investment firm selling USI), in 2016, USI generated \$1.0 billion of revenue and \$353 million of pro forma EBITDA (annualized for acquired / divested businesses), implying a 12.2x enterprise value to EBITDA entry multiple on the deal for KKR and CDPQ. With the acquisition, KKR and CDPQ become the latest investment firms to join a growing list of “private equity” owners of insurance agents / brokers.

In January, 24 independent agents / brokers announced their merger and formation of Alera Group. The new organization will be run by Alan Levitz and boasts \$158 million in annual revenue and more than 750 employees in offices across 15 states. Alan was the CEO of GCG Financial which was one of the 24 companies involved in the merger. Alera Group was formed with investment capital from San Francisco-based private equity firm Genstar Capital. According to the website, Alera Group is planning to pursue a strategy involving both organic and acquisition growth with future sellers having the opportunity to take some of their purchase price consideration in the form of Alera Group equity. Late last year, Genstar announced the \$2.9 billion management-led buyout of Acrisure, a retail insurance broker it invested in in 2013. Genstar is also a former investor in Confie Seguros.

In a rare “large” deal, AssuredPartners announced its acquisition of Keenan & Associates in March. Keenan is the largest privately-held insurance agent / broker in California with over \$170 million of annual revenue. Going forward, Keenan will continue to be led by Sean Smith, its President and CEO. Sean will also join the Board of Directors of AssuredPartners. Since its founding in 2011, AssuredPartners has acquired more than 170 insurance agencies and now has annualized revenue of over \$860 million. As an interesting data point, last year, PhiloSmith analyzed annual revenue size for AssuredPartners’ deals announced in Q1 2016. On average, those agencies generated \$3.7 million in annual revenue.

Lastly, we wanted to point out this quarter’s activity from Ryan Specialty Group, the only pure play wholesale brokerage / MGA to crack our Q1 top 10 list based on deal volume. RSG’s deals this quarter included Interstate (a transportation MGA), Trident (a marine and energy MGA), LoVullo (a generalist wholesale brokerage / MGA), and the acquisition of Navigators’ insurance agency operations in Sweden and Denmark. It’s worth pointing out that other acquirers on our list this quarter also did deals in the wholesale brokerage / MGA space (for example, RPS, a subsidiary of Arthur J. Gallagher, purchased Denver, CO-based Adco in January), but RSG was the only singularly focused wholesale brokerage / MGA on our top 10. As retail agents continue to consolidate their specialty brokerage facilities, markets continue to set higher premium targets, and technology continues to play a bigger role in the way business is transacted, we expect consolidation in the wholesale / MGA world to maintain an aggressive pace.

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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.

David Salmon  
Director, PhiloSmith  
Phone: 203-202-3445 | Email: dsalmon@philosmith.com  
Website: www.philosmith.com