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

Through the first quarter of 2016, 99 agent/broker deals were announced according to SNL Financial. That is a decrease of 18% compared to the 121 deals announced in Q1 2015. It's worth pointing out that while January and February were down 35% and 19%, respectively, March was actually up 12%. Although this year, thus far, has seen a slowdown in the volume of deals vs. last year, the market remains extremely active and pricing is still very strong. Looking at some of the more active acquirers this quarter, AssuredPartners led the way with 12 announced deals. Interestingly, AssuredPartners disclosed an annual revenue number for 10 of the 12 agencies it bought and, on average, those agencies generated $3.7 million in annual revenue. HUB International announced 8 deals in the quarter, followed by Arthur J. Gallagher with 5 announced deals. Brown & Brown, USI, Hilb Group, and Ryan Specialty Group (industry veteran Pat Ryan's MGA/wholesale broker) all announced 3 deals in Q1 2016. With respect to these statistics, it is worth noting that PhiloSmith sources these statistics from each acquirer's website. While most active acquirers issue press releases in conjunction with their acquisitions, some acquirers (for example, Acrisure) do not and therefore they are not included in our analysis.

Examining a few of the deals that were announced this quarter, we'll start with the largest deal of the quarter: BB&T's $500 million cash acquisition of wholesale insurance broker Swett & Crawford. According to a February 2016 BB&T presentation regarding the acquisition, BB&T paid 9.2x Swett & Crawford's 2016 estimated EBITDA. From BB&T's perspective, this acquisition enhances BB&T's already formidable insurance operations and increases its non-banking revenue. With more than $200 million of annual revenue, Swett & Crawford will be a major integration project for BB&T; however, according to the bank, BB&T believes its integration of the Crump deal in 2012 (a $570 million acquisition) proves its ability to successfully integrate large insurance transactions. Swett & Crawford will operate as part of CRC.

In March, Marsh & McLennan Agency (MMA), the middle market agency subsidiary of Marsh, announced its acquisition of Celedinas Insurance Group. Celedinas is a Florida retail agency with approximately $22 million in annual revenue. The agency focuses on high-net worth individuals and families, a niche that is coveted among agent/broker acquirers due to the strong retention rates and typically low loss ratios. It's interesting to note that while MMA has historically not been quite as active (in terms of deal volume) as some of its peers, MMA seems to consistently close fairly large, highly reputable agency deals – for example, in addition to this year's Celedinas deal, MMA closed St. Louis, MO-based J.W. Terrill in 2015 ($32 million in annual revenue) and San Diego, CA-based Barney & Barney in 2014 ($100 million in annual revenue).

Also in March, The Carlyle Group, a large private equity firm, announced a majority investment in wholesale insurance broker JenCap Holdings, LLC. Based on the press release issued by Carlyle, it appears that JenCap will be joining forces with another wholesale broker, Wholesale Trading Co-Op Insurance Services, and this combined group will be looking to grow via acquisition of wholesalers, MGAs, and program underwriters. It will be interesting to see if JenCap and Carlyle pursue a true high volume, "roll-up" strategy as that thesis has been tried and tested on the retail side (for example, AssuredPartners acquired 100 agencies in just over 4 years under original private equity investor GTCR before being sold to Apax in 2015).

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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