

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

Our macro thoughts on the insurance agent/broker M&A market in Q2 2016 share a very similar tone to our thoughts in the first quarter of this year. Deal volume was down compared to last year as SNL Financial reported 94 announced deals in Q2 2016 vs. 124 deals in Q2 2015 (a 24% decrease), but the M&A market continues to favor sellers in terms of both purchase price multiples and ancillary deal terms such as upfront cash, working capital requirements, indemnification caps on reps and warranties, purchase price escrow, etc. While agency owners are typically fixated on EBITDA and revenue multiples (which are undoubtedly important), these other items are crucial elements of a transaction. Touching quickly on the most active acquirers in Q2 2016, Arthur J. Gallagher announced 10 deals, HUB International announced 6 deals, and Risk Strategies Company announced 5 deals. AJG and HUB are consistently at or near the top of our most active acquirers list so it's no surprise seeing those names, but Risk Strategies is a new-comer to our list. Risk Strategies switched private equity partners late last year, going from Kohlberg to the significantly larger Kelso, and we could see continued strong deal volume from Risk Strategies in the future.

Digging into a few of the deals announced in Q2, Atlanta, GA-based Prime Risk Partners announced in May its acquisition of Indianapolis, IN-based Old National Bank's wholly-owned insurance agency subsidiary, Old National Insurance ("ONI"). According to Old National Bank's 6/30/2016 10-Q, Prime Risk paid \$91.8 million in cash for ONI. Additionally, some ONI employees received a cash award and ownership in Prime Risk. In 2015, while under Old National Bank ownership, ONI generated total revenue of \$42.7 million and a direct profit of \$6.4 million. It's safe to assume that under Prime Risk, ONI's profit margin should increase. ONI marks the second significant acquisition for Prime Risk following its June 2015 acquisition of New York-based Cook Maran & Associates.

In May, the wholesale division of Brown & Brown announced its asset acquisition of Morstan General Agency. Headquartered in Long Island, New York, Morstan is a wholesale brokerage and MGA/MGU offering a wide range of commercial, personal, employee benefits and life insurance products. Most of its business is binding authority. In 2015, Morstan generated roughly \$34 million of revenue. Brown & Brown disclosed a total purchase price of \$78.1 million for Morstan in its latest 10-Q filing. That purchase price broke down as: \$66.1 million cash, \$10.2 million other payable, and \$1.9 million estimated earn-out. This equates to a 2.3x revenue multiple. Strategically, this acquisition instantly cements Brown & Brown as one of the leading wholesale brokerages in the Northeast, an area where it was formerly under-represented.

In another bank deal, MVB Financial Corp., a community bank based in Fairmont, WV, entered into an agreement in June to sell substantially all of the assets of its insurance brokerage subsidiary, MVB Insurance, to USI. The sale specifically excluded MVB Insurance's title insurance business. According to an SEC filing from MVB Financial Corp., USI paid \$8.4 million for MVB Insurance (\$7.1 million of that was paid at closing with the remainder to be paid in a 3-year earn-out). Looking at MVB Financial Corp.'s 2015 10-K, the insurance segment generated \$4.7 million of total revenue in 2015. For the purposes of calculating a revenue multiple on the deal, it is inaccurate to use that revenue number as it likely includes revenue from the title insurance business which MVB Financial Corp. is retaining, but the revenue number still provides a helpful data point. For USI, the acquisition further strengthens its position as the leading insurance brokerage in West Virginia.

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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