

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

The 2nd quarter of 2017 saw a flurry of acquisition activity in the insurance agent / broker space with 125 deals being announced which represented a 32% increase over the 95 deals announced in Q2 2016 (according to SNL Financial). HUB International claimed the top spot as the most active acquirer in Q2 with 9 announced deals. HUB's 9 deals include 2 deals for Specialty Program Group, HUB's wholly-owned MGA / wholesale brokerage subsidiary formed in late 2015. Behind HUB, NFP announced 8 deals, Arthur J. Gallagher announced 7 deals, Confie announced 5 deals and AssuredPartners announced 4 deals. Historically, NFP has not been one of the most active acquirers that we follow, but Q2 2017 marks the 2nd quarter in a row in which the private equity-backed broker has finished in our top 3.

Q2 saw a good mix of retail P&C, employee benefits and MGA / wholesale brokerage deals get announced. We'll start by digging into a relatively large deal in the MGA / wholesale brokerage space – AmWINS' acquisition of Partners Specialty Group. Based in Horsham, PA, Partners Specialty employs over 160 people and placed approximately \$500 million of premium in 2016. The acquisition, which closed in June, is a major coup for AmWINS as there are simply not many independently-owned wholesale brokers at the size of Partners Specialty. With the addition of the Partners Specialty team, AmWINS now places over \$14 billion of annual premium throughout its more than 100 office locations. Partners Specialty will become part of the AmWINS Brokerage Division and will continue to be led by Dan McDonnell and his team.

In May, Fidelity National Financial announced the sale of One Digital Health and Benefits to New York-based private equity firm New Mountain Capital. One Digital is an Atlanta, GA-based employee benefits broker that helps over 35,000 companies with their employee benefit needs. The deal, which valued One Digital at an enterprise valuation of \$560 million, returned a 4.6x cash-on-cash multiple on Fidelity National's original equity investment in One Digital just 4.5 years ago. New Mountain has a wealth of experience investing in the insurance industry (in fact, last year, it exited its investment in AmWINS after a successful 4-year run) and believes that this expertise, coupled with its focus on growth and business-building, will help One Digital achieve its next level of success.

Turning to a couple of retail P&C deals, in June, USI announced its acquisition of Wells Fargo Insurance Services (WFIS), the commercial insurance business of publicly-traded bank Wells Fargo. WFIS provides insurance and risk management solutions to small business, middle market, large corporate and high net worth clients. In conjunction with the transaction, Wells Fargo will retain its personal insurance business which will begin reporting into the bank's Consumer Lending unit following the completion of the WFIS sale which is expected to close in Q4. While integration is always a concern with any large acquisition (think back to the 2008 Willis / HRH deal whose integration difficulties were well-documented), it's worth noting that USI acquired more than 40 insurance brokerage offices from WFIS back in 2014 so they presumably have a blue print for how to integrate WFIS' commercial business.

Arthur J. Gallagher announced its acquisition of Rockford, IL-based Williams-Manny Insurance in May. Founded in 1896, Williams-Manny is a retail P&C and employee benefits broker that serves corporate and individual clients. AJG paid \$30.2 million in cash (with \$2.0 million of that deposited into escrow) and \$9.8 million in AJG stock. The deal also has a maximum potential earn-out of \$11.5 million. While there were undoubtedly a number of factors that drew AJG to Williams-Manny, it appears, based on AJG's deal press release, that geography played a big part in the decision as Williams-Manny is headquartered about 65 miles north of AJG's home office and likely controls a nice chunk of the Northern Illinois insurance market share.

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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