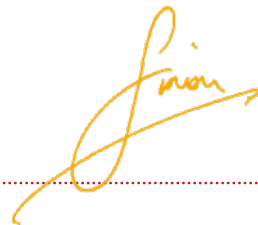


INSURANCE BROKER M&A OUTLOOK 2019

I am delighted to present our outlook on the M&A market for the UK insurance broking industry for 2019.



Within this review of the market, we:

- Reflect on some of the industry's M&A themes from 2018;
- Outline the results of our insurance broker survey carried out during 2018, where we asked over 150 brokers their thoughts on market activity; and
- Run our predictions for the insurance broking M&A market for 2019.

Despite the political thunderstorms brewing, we believe that 2019 will be another active year for M&A transactions in the insurance broking sector.

Please feel free to contact myself or any member of the M&A team should you have any questions.

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A STRONG YEAR FOR UK INSURANCE BROKER M&A ACTIVITY

Deal numbers up

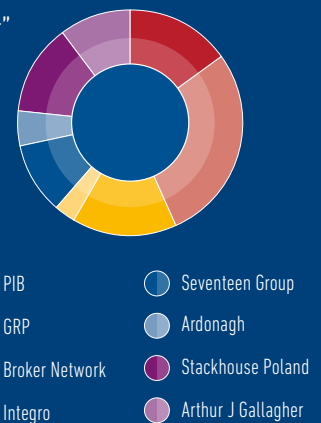


....and 2019 has already started at pace following the announcement of a number of transactions since the turn of the year.

Consolidators continued to acquire

Market consolidators continued their strategic acquisition drive; whilst at the same time as “bedding down” investments previously made.

Nearly 40% of all acquisitions were performed by a “consolidator” in 2018.



PE investors continued to invest

PE houses have continued to invest, including the following:

PE HOUSE	BROKER	FOCUS
BGC	Ed Broking	Lloyd's – general
Connection Capital	Tempcover	Home & Motor
ECI	Clear Group	Corporate / SME
Integro	Tyser & Co	Lloyd's – niche
LDC	Right Choice	Motor
Livingbridge	Coversure	General
Mobeus	T&G	Travel surety
Pollen Street Capital	Miles Smith	Lloyd's – niche
Synova	Allclear	Travel

Overseas investors continued to enter the market

Overseas money has continued to enter the country, with political uncertainties not proving to be a deterrent. These include:

INVESTOR	BROKER	FOCUS
Capital Z	Prestige	Home & Motor
HPS	Various	Various
JC Flowers	Endeavour / SSL	DA / Marine
NMS	Various	Various
PSC	BP Marsh / Turner	Market investor / Regional
Verlingue	ICB	General

RESULTS OF OUR 2018 SURVEY

During 2018 we conducted a survey of over 150 brokers.

51%

... of brokers think that the most important factor when making an acquisition in the UK broking market is receiving the benefits from economies of scale and synergies, along with increasing specialisms.

80%

... of brokers do not believe that the current levels of consolidation in the broking market are sustainable (73% of which are unhappy with these levels).

48%

... of brokers believe that M&A multiple levels are high because there are many alternative types of suitors in the market – interestingly 60% believe that these multiples will remain stable.

60%

... of those surveyed envisage making an acquisition in the next 12 months.

65%

... think that Private Equity (PE) capital could be a positive thing for a broking business.

47%

... of brokers believe that cross selling and new product development are their main drivers for organic growth in the next 12 – 24 months.

61%

... of brokers feel that Brexit will either have a positive or a neutral impact on the current high levels of M&A activity in the insurance broking market, and 85% of brokers have not changed their corporate strategy as a result of the Brexit negotiations.

32%

... of brokers would consider exiting their business on being offered a multiple of 10x EBITDA.

Although many brokers feel that consolidation levels and multiples are high, it is predicted that these multiples will remain stable and the majority of brokers will consider acquiring in the next 12 months. It is also accepted thinking that external money (e.g. PE investment) can be a positive introduction for a broking business.

GENERAL M&A ACTIVITY WILL BE AFFECTED BY POLITICAL UNCERTAINTY, BUT WE ARE SEEING BROKING M&A CONTINUING TO BE VERY ACTIVE

Macro effects

The political uncertainties (Brexit, threat of change in UK Government, US / China trade relations etc) will undoubtedly form a backdrop to all M&A activity in 2019, regardless of sector.

The number of independent brokers is naturally reducing due to the consolidation that has taken place to date.

However... we are still seeing many brokers looking at exploring their strategic options, with a view to embarking on an M&A strategy (buy or sell) in 2019.

The fall-out of transactions such as Marsh/JLT will see new brokers being created – albeit this knock-on effect may not be felt until 2020/21.

Predicted PE exits

64% of all PE backed brokers received their investment in 2016 or prior.

A typical PE fund will look at exiting after three years, thus there could be a large number of portfolio disposals over the next 12 months (including further consolidator disposals) – some of which are already rumoured.



M&A OUTLOOK FOR 2019

Private equity

Private equity houses with experience of the sector are investing further – they will not want to sit on their “dry powder” for too long – if they have the money, they will look to deploy.

Due to the success of PE in the sector (e.g. Synova sale of Stackhouse Poland Jan '19 providing a 5.6x return), even more new private equity faces will look to enter the market.

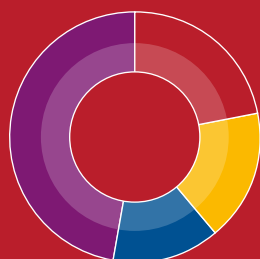
We know of a number of houses with freshly raised funds who are actively looking at opportunities in the sector.

Large broker activity

With Marsh, JLT and Ardonagh all being involved in significant transactions in 2018 (as well as Willis through Miller), the likes of Aon and Hyperion will look to follow suit.

AJG, A-Plan and Aston Lark have already started to make M&A waves since the turn of the year.

There is also the possibility that a **disruptor** move will take place, with an Amazon / Google-style large entrant to the market.



- Within 12 months
- Between 12 & 24 months
- Between 24 & 36 months
- Over 36 months

Contact us

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