

INSURANCE BROKER M&A OUTLOOK 2020

I am delighted to present our annual outlook on the M&A market for the UK insurance broking industry for 2020.

Within this review of the market, we:

- Reflect on some of the industry's M&A themes from the last 12 months;
- Outline the results of our insurance broker survey carried out during 2019, where we asked over 240 brokers their thoughts on market activity; and
- Run our predictions for the insurance broking M&A market for 2020.

Political upheaval affected all corporate strategy throughout 2019, resulting in less M&A activity. With the hope of a more stable 2020, M&A transactions in the insurance broking sector are better placed to be more dynamic in the coming year.

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

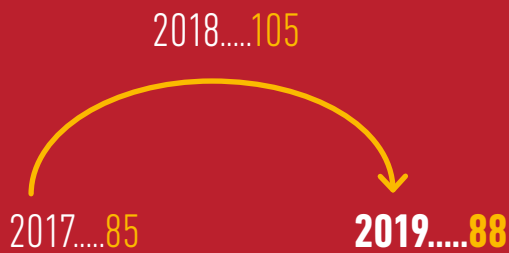
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INSURANCE BROKER M&A ACTIVITY IN 2019 BACK TO NORMAL FOLLOWING A BUMPER 2018

Deal numbers...



Deal numbers in 2019 have **normalised** after an extraordinary year of activity in 2018...

...while insurance broker deals have fallen roughly in **proportion** with overall UK deals over the two periods.

UK insurance broking deals as a % of overall deals.



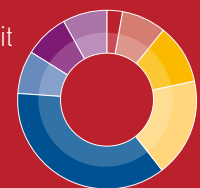
Consolidators

working harder

The consolidators did not cease in their strategy of growth...

...**48%** of deals in 2019 involved a market consolidator – up from 40% in 2018. Many of these were off-market transactions...with particular growth from the “PEG” consolidators (PIB, Ethos (part of Bravo) and GRP).

Key consolidator split



- Ardonagh
- Arthur J Gallagher
- Aston Lark
- Ethos Group
- Global Risk Partners
- Nexus
- PIB
- Seventeen Group

M&A REVIEW OF 2019

Overseas investment in the UK insurance broking market fell slightly from **11%** in 2018 to **8%** in 2019 as a proportion of deals.

PE investors

have continued to invest in insurance broking...

...albeit at a slower rate than 2018. Diversity into different sub-sectors was noticeable.

PE HOUSE	BROKER	FOCUS
BP Marsh	Lilley Plummer Risks / Nexus Underwriting Management	Marine / Financial Lines
Beech Tree	Avid Insurance Services	MGA – Travel and Social Housing
Dunedin	Acquis Insurance Management	Finance and Leasing
Goldman Sachs Merchant Bank	Aston Lark Limited	General
Hg Capital	A-Plan Holdings	Motor and Property
Pollen Street Capital	David Codling and Associates / Square Mile Broking	Jewellery / General
Preservation Capital Partners	BMS Group	General

Overseas buyers

still active, albeit to a lesser extent

A weakened sterling hasn't quite fully mitigated the political uncertainty present in the market.

INVESTOR	BROKER	FOCUS
Altamont Capital	Accelerant	MGA – SME's
Arthur J Gallagher	Capsicum / Stackhouse Poland	Reinsurance / High Net Worth
AssuredPartners	Hettle Andrews	Education & Charity
Hamilton Insurance	Pembroke MGA	Specialist
Lovell Minnick Partners / Premia	Charles Taylor	General
PSC	Paragon	Financial, Professional & Casualty

RESULTS OF OUR 2019 SURVEY

WHICH WE CONDUCTED WITH OVER 240 UK BROKERS

51%

...of all M&A activity in the UK insurance broking space is made up of realising value and attractive ROIs.

83%

...of brokers feel that the current levels of consolidation are sustainable. A decrease in M&A activity in 2019 could be one of the factors influencing this viewpoint.

74%

...majority believe that multiples will either remain stable or increase further. This may suggest that multiples are likely to see an increase in the coming year given that owner expectation is one of the key drivers of the multiples achieved in the broking space.

92%

...of brokers will use acquisitions to assist with their three year plan.

76%

...of brokers think that PE capital is a positive source of funding.

64%

...of brokers believe that InsurTech has had a mixed or negative effect on the market. Respondents commented that the insurance broking market is rigid and technological advances have been slow.

91%

...of brokers have not changed their corporate strategy in light of Brexit. This suggests that the market is going to wait for clarity on the implications of Brexit before deciding whether or not to change strategy.

33%

...of brokers stated that regulatory changes off the back of Brexit are the main challenges to organic growth, followed closely by competition in the market at 32%.

30%

...of brokers would consider exiting their business on being offered a multiple of 10x or above. This is similar with 32% last year.

Attractive sector, alternative suitors and high-value expectations of owners are all considered equally important factors when assessing the high level of M&A multiples achieved.

AFTER THE POLITICAL UPHEAVAL OF 2019, GENERAL M&A ACTIVITY IS EXPECTED TO REMAIN STEADY IN 2020, AS MARKET PARTICIPANTS CONSOLIDATE THEIR POSITIONS AHEAD OF THE NEW DECADE

InsurTech

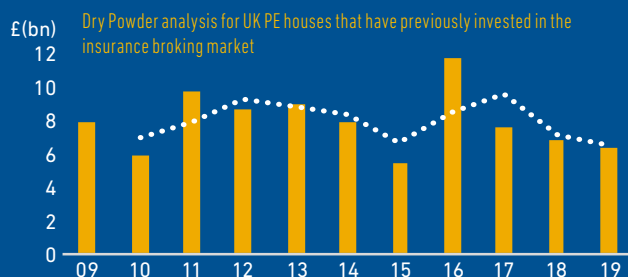
As global Insurtech continues to attract attention, disruptors such as Elon Musk's Tesla are moving into the market.

In the first three quarters of 2019, **£3.3 billion** was deployed to InsurTech companies (across 239 deals), **up 5% from 2018**.

However, while industry players are making ever more use of InsurTech, investments into the sector have been slow to crystallise, with the vast majority of deals entered into being early stage by private equity and venture capital funds....we have yet to witness large scale Insurtech exit events.

Private Equity

Although Private Equity's "dry powder" levels are lower than in the last few years, there is still a high level that PE is seeking to deploy in the sector.



2020 will continue to be an active market for PE houses, as we are seeing new entrants continue to invest whilst current players strengthen their portfolios.

M&A OUTLOOK FOR 2020

Possible PE exits

The insurance broker market has seen impressive returns for PE over recent years and there have been a number of **high profile / high value PE exits** such as Bowmark's sale of Aston Lark and Synova's exit of Stackhouse Poland.

Some PE exits that may materialise in 2020, including a purported **£800m** for GRP, are listed below.

PE HOUSE	BROKER	INVESTMENT YEAR
Penta	GRP	2013
Carlyle	PIB	2015
Dunedin	Kingsbridge	2016
Vitruvian	CFC (MGA)	2017
Inflexion	My Policy Limited	2017

Large broker activity

Aston Lark will undoubtedly be wanting to make significant headlines in the market place in 2020, buoyed by **new entrant backer** Goldman Sachs.

Although there was no repeat of the Marsh / JLT "mega-deal" in 2019, AON and Towers Watson did enjoy the briefest of courtships – one of these bigger players may look to make a statement of intent through a large transaction in 2020.

Interestingly, however, the employee poaching lawsuits involving 'Hyperion vs JLT/Marsh' and 'Ardonagh vs Gallagher', will no doubt impact the behaviour of the bigger players in the market – whether this drives a more **"open and transparent"** strategy to growth remains to be seen...



Contact us

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• For completeness and accuracy, sources for this publication include Mazars' analysis along with a variety of reputable and credible databases

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