

To float or not to float

Can smaller brokers ever benefit from listing on the stock market?



Twenty years ago the market looked very different. The UK insurance broking sector was an important element of the UK stock market. The big boys were Willis and Sedgwick, but there was also a plethora of smaller operations: Lambert, PWS, Bradstock, Heath, SBJ, Windsor and no doubt others that have been lost in the mists of time. These have merged, been taken private or gone bust.

Twenty years ago private equity had hardly been invented, but today six of the top 20 brokers have significant private equity shareholders. IMAS continues to receive enquiries from private equity houses looking to get into the broking sector, as they see it as cash-positive and relatively immune from recessionary downturns.

Businesses have appeared as AIM-listed companies – Jelf, THB, CBG, Cobra and Abbey – but arguably the only one that has really prospered is Brightside.

Allenfield Property Services, a broker that has a long way to go before it makes the Top 50, is looking to list on AIM – no doubt when this article is published this will have happened – but, given the current talks, the number of brokers on AIM is likely to fall.

A stock market of minnows does not work, as no individual company will be followed by analysts because there is insufficient volume of available stock to justify investment. The loss of Willis and Sedgwick from the London Stock Exchange (and Willis re-emerging on the NYSE) is a strong explanatory factor as to why

the UK quoted insurance broking sector has effectively failed.

Having attracted private equity and raised a bond, it is clear that Towergate is determined to achieve an exit via a float. This will be good for the market, as it will provide a benchmark against which smaller companies can be judged. So it is just possible that a viable quoted insurance broking sector could re-emerge.

That said, we remain sceptical of the benefits of flotation for a business unless the market capitalisation is initially at least £100m. The push by accountants, lawyers and stockbrokers to list many of the minnows was nothing short of a mis-selling scandal that is now unwinding.

Value is moving towards the corporate and away from the individual. We see the rise of compliance, business solutions being increasingly reliant on technology, markets internationalising and the world slowly moving towards placing importance on business intelligence rather than who individuals know.

These developments have reduced the ability of individuals to jump ship, thus allowing companies to generate dividends for shareholders. This should allow businesses to extract value from their flotation and benefit from the lower cost of capital that a listing should provide.

So Towergate's successful float should be an unequivocal benefit to the market. Some might see this as a first.

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Top 50 revenue by year

The gap in revenue between each broker widens rapidly from the 40th broker upwards

