

# Lessons of UK Broker M&A

Independence Day Conference 2019

Olly Laughton-Scott, Partner, IMAS Corporate Finance

**unisonsteadfast**  
Insurance brokers worldwide



*Vienna, 28 June 2019*

## **IMAS Corporate Finance**

UK market overview

Recent M&A activity and drivers of change

Valuations in UK broking M&A

The Top 50 UK brokers

Impact of consolidation on the Top 50 UK brokers

Lessons and implications / the next five years?



## IMAS at a glance

- Independent corporate advisory firm that has been owned by its partners since 1992
- We specialise in providing conflict-free advice on corporate transactions across the financial services sector
- Our clients include entrepreneurs, corporates and private equity firms, for whom we prepare bespoke advice and develop corporate finance solutions that achieve their goals
- Our highly experienced team have backgrounds at leading global financial services groups, extensive transaction experience and a track record of success
- We partner with our clients, managing discreet transaction processes focused on achieving the best outcomes and maximising value



FOUNDED IN

1992

YEARS OF  
COMBINED  
EXPERIENCE

>100

TRANSACTIONS  
COMPLETED

~200



## **Olly Laughton-Scott**

*Founding Partner*

- Founded IMAS in 1992
- Built IMAS database
- Insurance specialist: > 100 deals
- Over 30 years' experience

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## **John Nisbet**

*Partner, Insurance*

- Joined IMAS in 2018
- ex N M Rothschild & Sons
- Chartered Accountant
- 15 years' experience in insurance M&A

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## A specialist insurance adviser

- Extensive experience advising on corporate transactions of every type across the UK insurance sector
- Completed ~200 transactions in the last two decades, mainly advising private sellers but also acting for large corporates and private equity clients
- Particular focus on insurance distribution – more than 100 completed deals covering personal lines, commercial, Lloyd's, MGAs
- Deep sector knowledge and data driven approach underpinned by proprietary database, IMAS-Insight

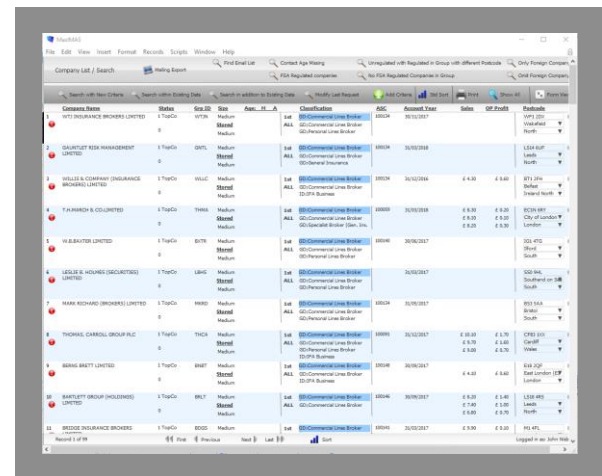
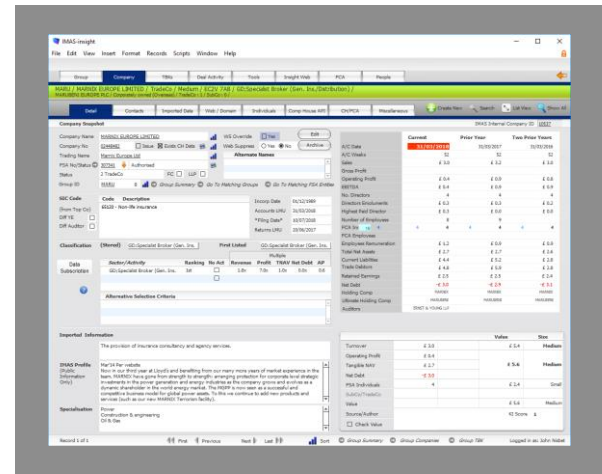
## Selected advisory assignments

 INSURANCE BROKERS LTD sale to 	 sale to 	 sale to 
 sale to 	 The Claims Insurance Specialist sale to 	 sale to 
 MBO backed by 	 Stackhouse Poland sale to 	 Acquisition by 



## What makes us different

- Unique internally developed database analyses the entire UK Financial Services landscape
- Real time data from FCA and Companies House - over 30,000 companies classified by activity, size and ownership
- Factual data overlaid with >50,000 cross-referenced qualitative inputs; built up over 25 years – no other adviser has this capability
- Provides our clients with comprehensive sector view – every buyer (or possible target) is captured
  - Data ultimately just a tool – backed up by our sector knowledge and industry relationships



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Ownership of UK general insurance distribution (>£5m value)							
Value band (est.)	UK Quoted	Privately held	O'seas Owned	Private Equity	Mutual	Other	Total
£100m+	4	8	12	9	0	6	39
£25m-£100m	0	40	8	21	1	1	71
£5m-£25m	0	247	27	9	1	4	288
<b>Total</b>	<b>4</b>	<b>295</b>	<b>47</b>	<b>39</b>	<b>2</b>	<b>11</b>	<b>398</b>

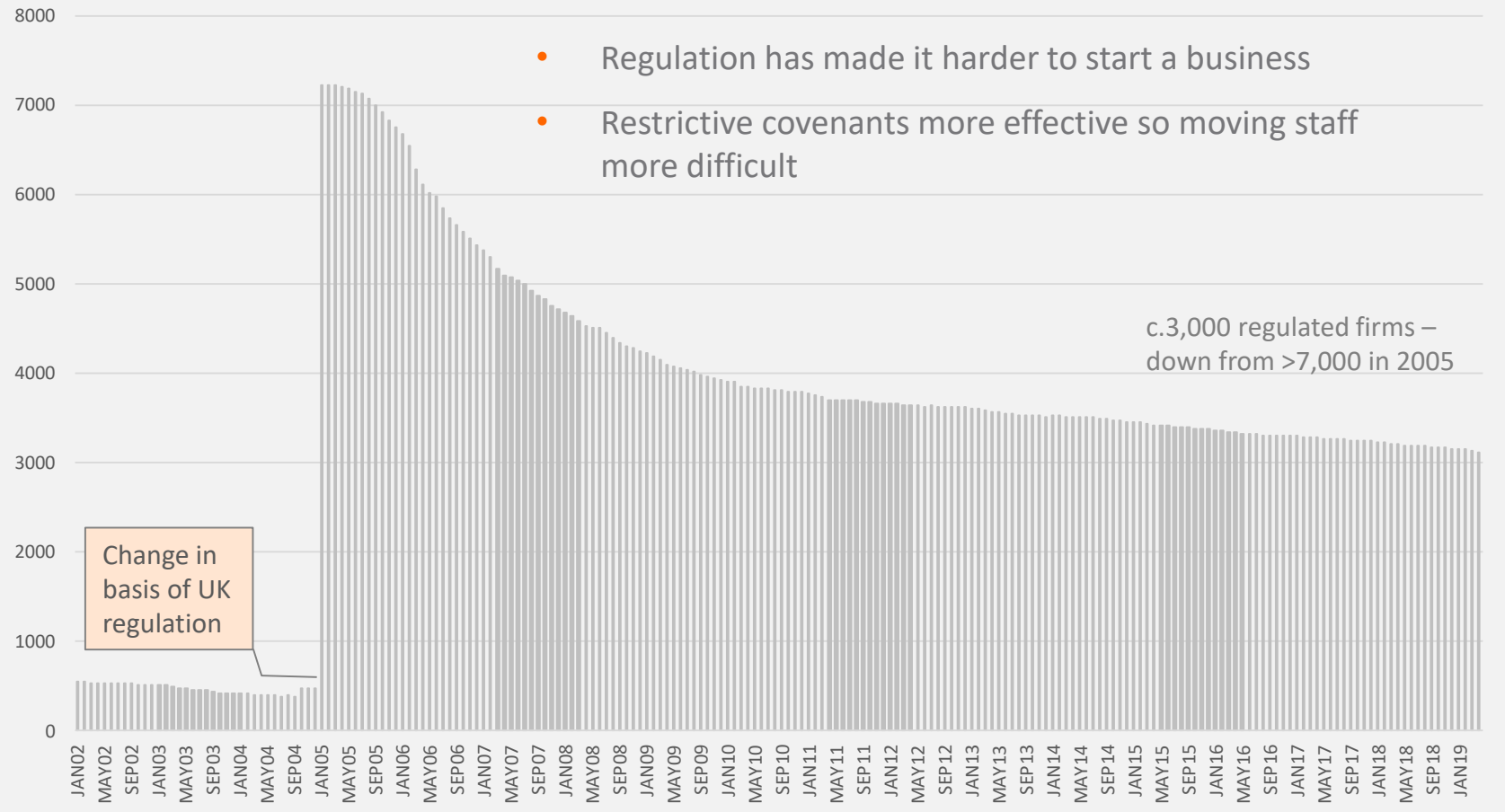
- Table above is the ‘tip of the iceberg’ – more than 2,000 firms worth less than £5m
- Privately held businesses the predominant ownership model
- Of the privately owned businesses above, 73% have principal shareholder aged 50 or over
- Fragmented market has proven fertile hunting ground for PE / PE-backed consolidators

Source: IMAS-Insight

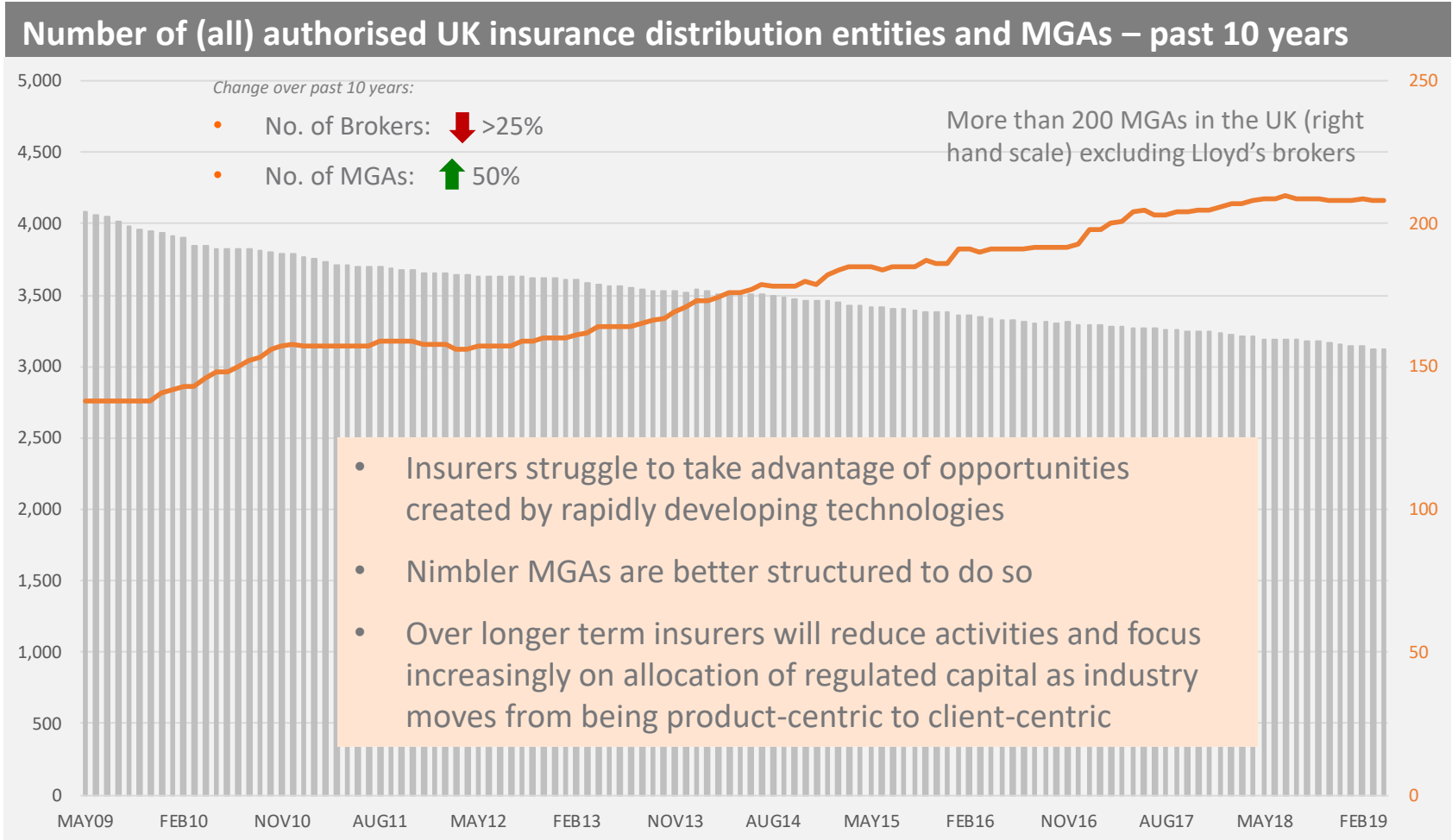




## Number of authorised UK insurance distribution entities



Source: IMAS-Insight



— Authorised MGAs

Source: IMAS-Insight

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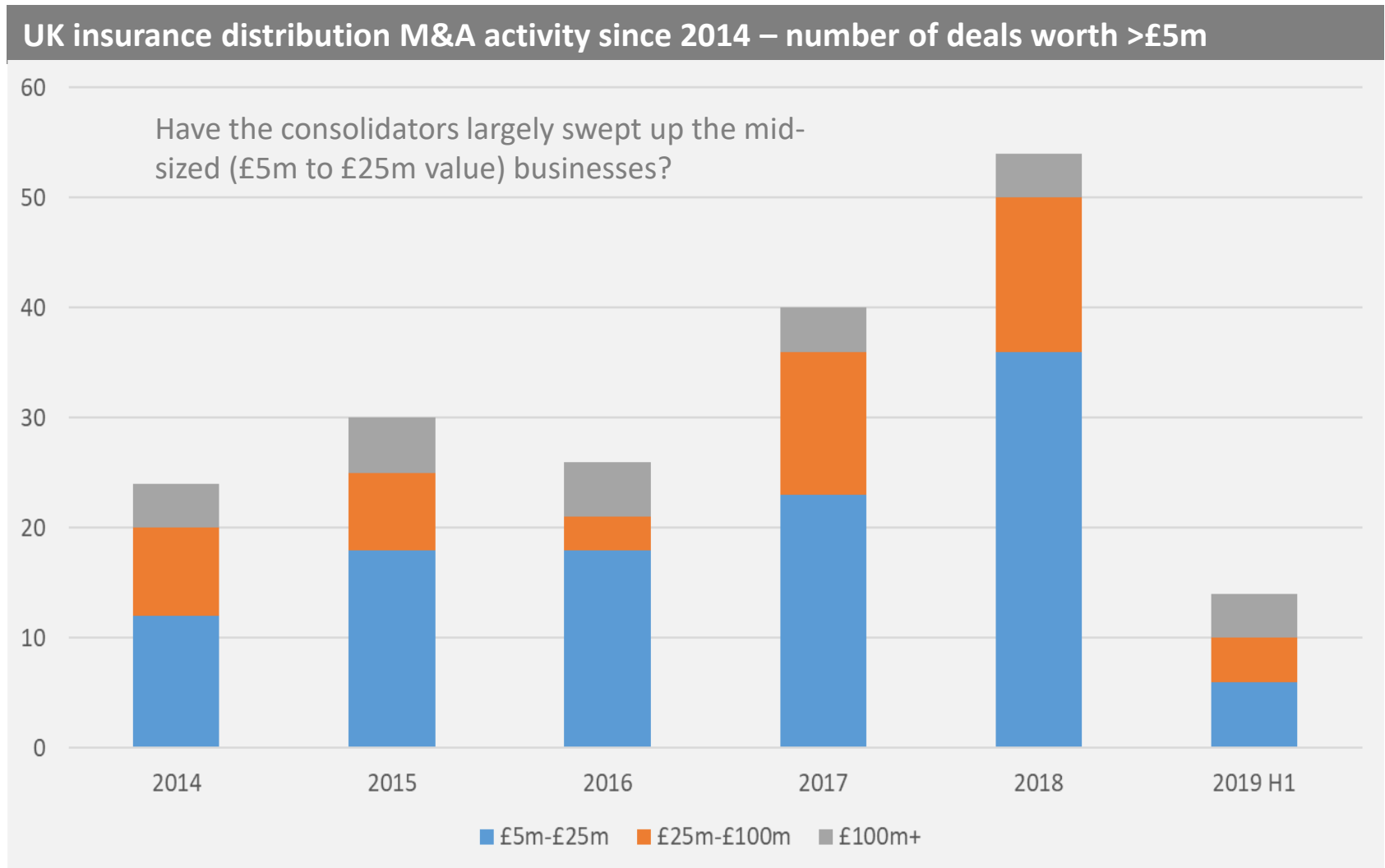
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Valuations in UK broking M&A

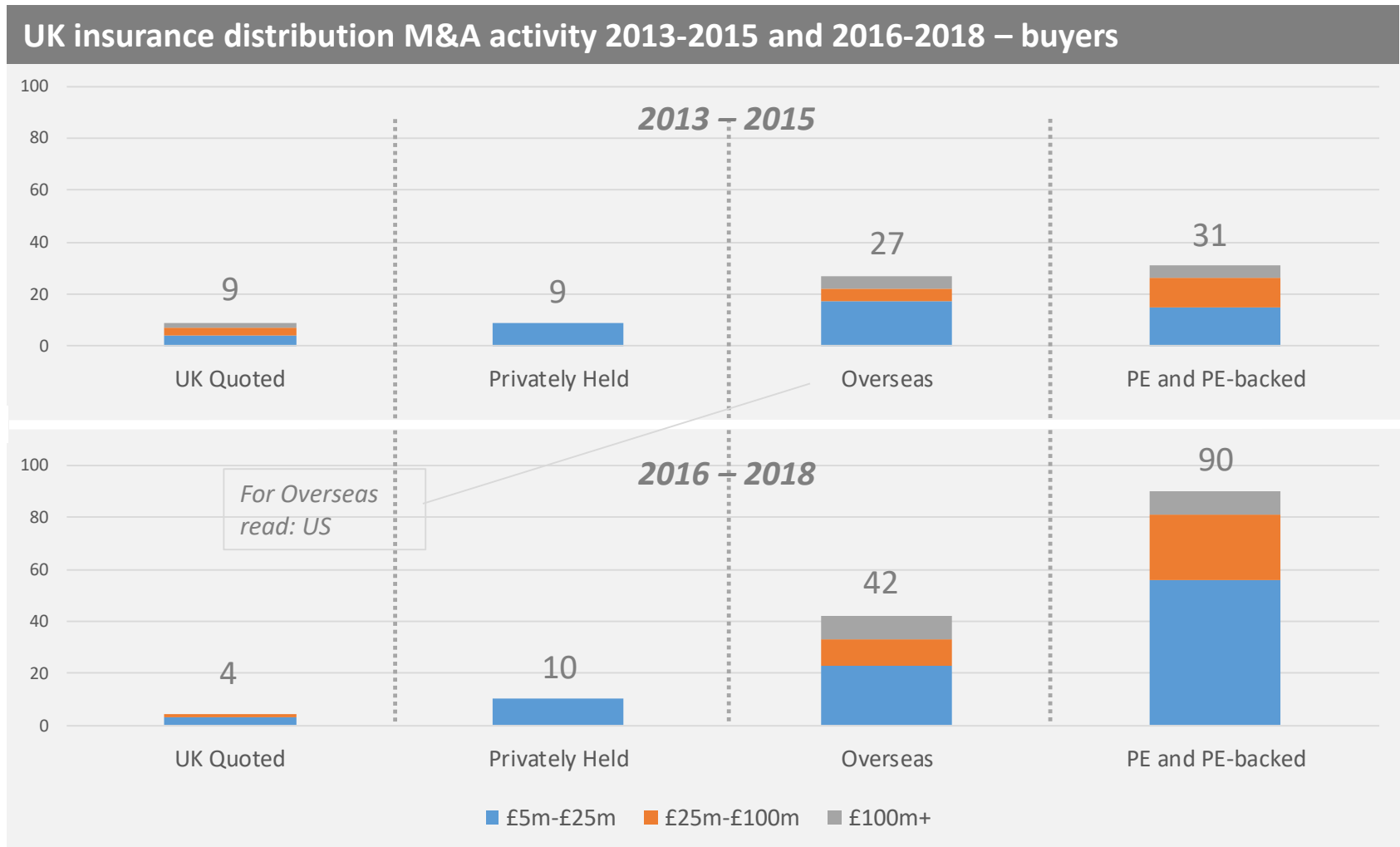
The Top 50 UK brokers

Impact of consolidation on the Top 50 UK brokers

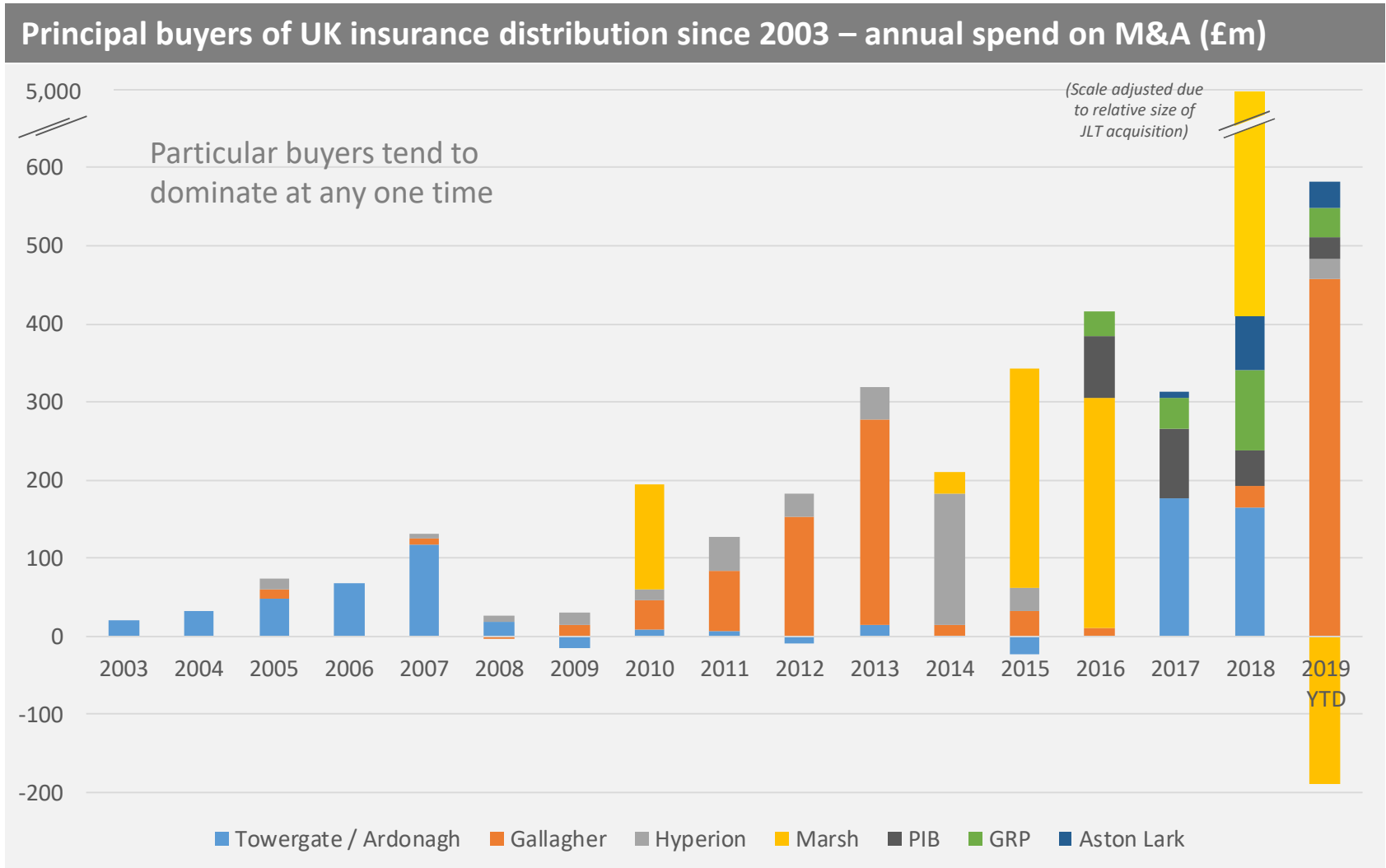
Lessons and implications / the next five years?



Source: IMAS-Insight



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- ‘Buy low sell high’
- Premium payable for the larger businesses that PE backed vehicles set up to create
- Take on and reduce or eliminate entrepreneur risk attendant in most small/mid-sized brokers
  - Acquisitions their ‘day job’ – quick decision making and lock in entrepreneurs
  - Create value by institutionalising multiple smaller businesses
- Confidence around ability to exit
  - Large international acquirers (Marsh, Aon) willing and able to pay a premium
    - Roll up of smaller firms involves a level of work they are not set up to undertake
  - Secondary buyouts (cf. Aston Lark) – as prevalent in the US
  - IPO? – unclear when / if public markets will become relevant again
- Supportive debt markets (funds) and synergies / operational improvements boost returns

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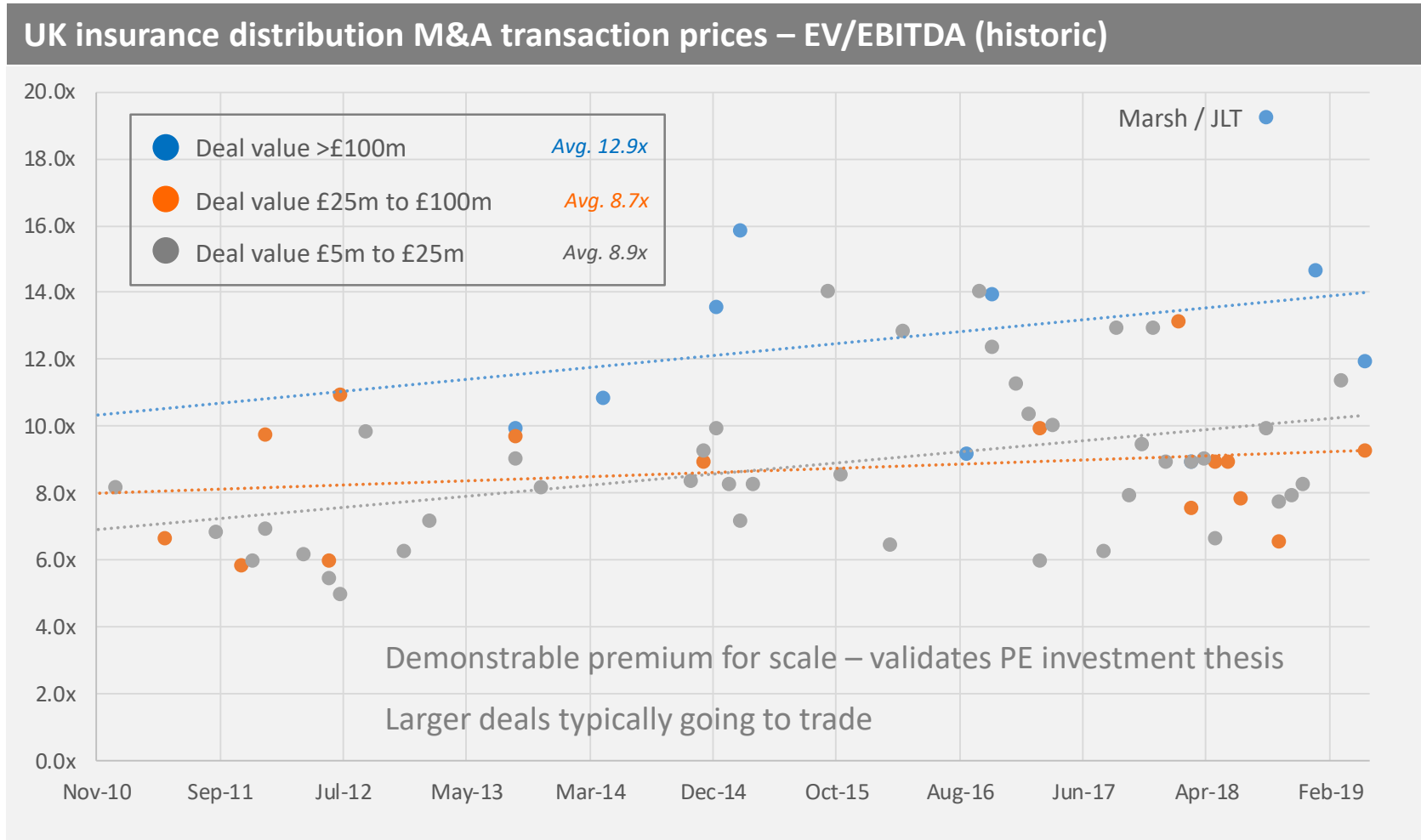
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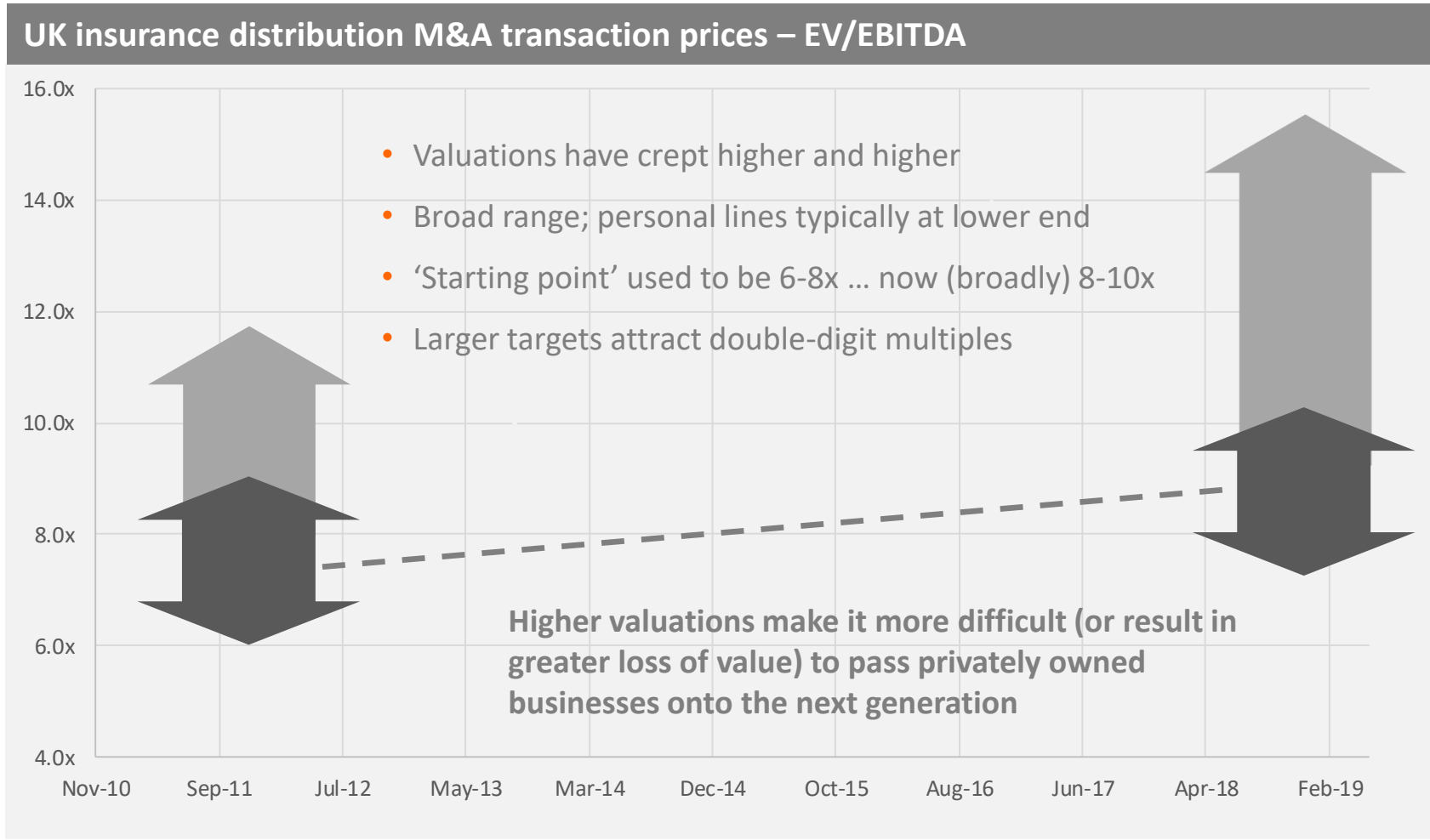
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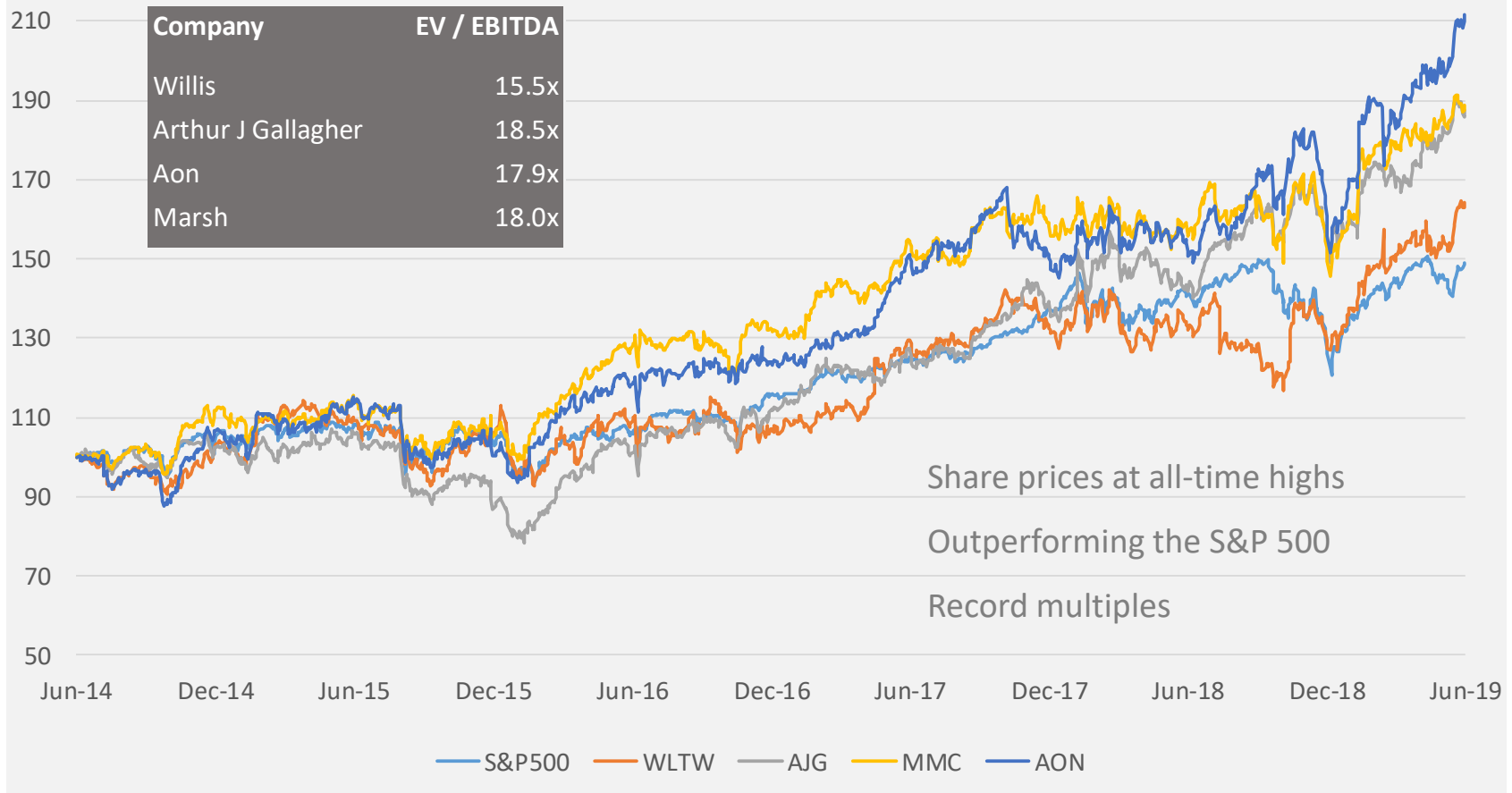
Notes: selected transactions where reliable pricing information available (public or proprietary to IMAS); source: IMAS-Insight



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## Five year share price performance – international insurance broking



*Rebased to 100; source: FactSet*

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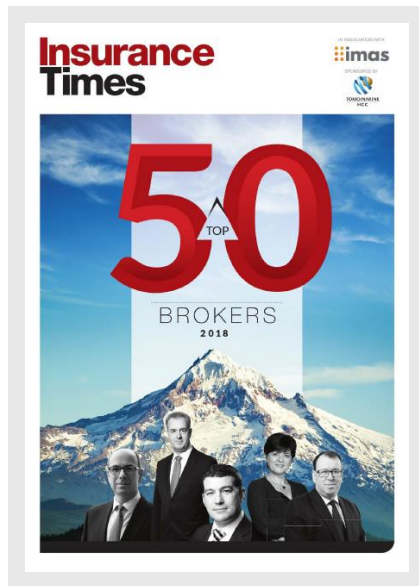
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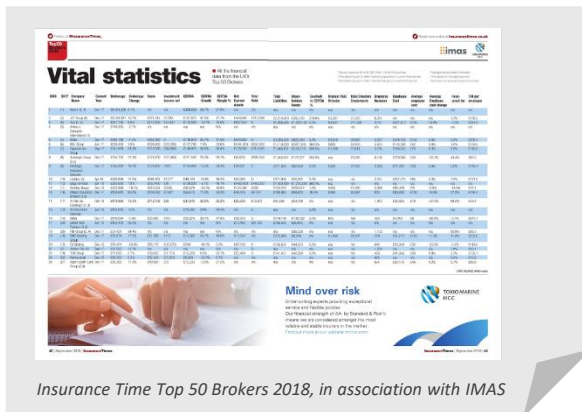
**The Top 50 UK brokers**

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- IMAS works with the Insurance Times to produce its annual 'Top 50 Brokers' supplement - now in its sixteenth year
- The most widely read publication in UK insurance distribution; found on CEO desks and boardroom tables across the sector
- Made possible by a data driven approach / proprietary database that comprehensively analyses the entire UK insurance distribution sector

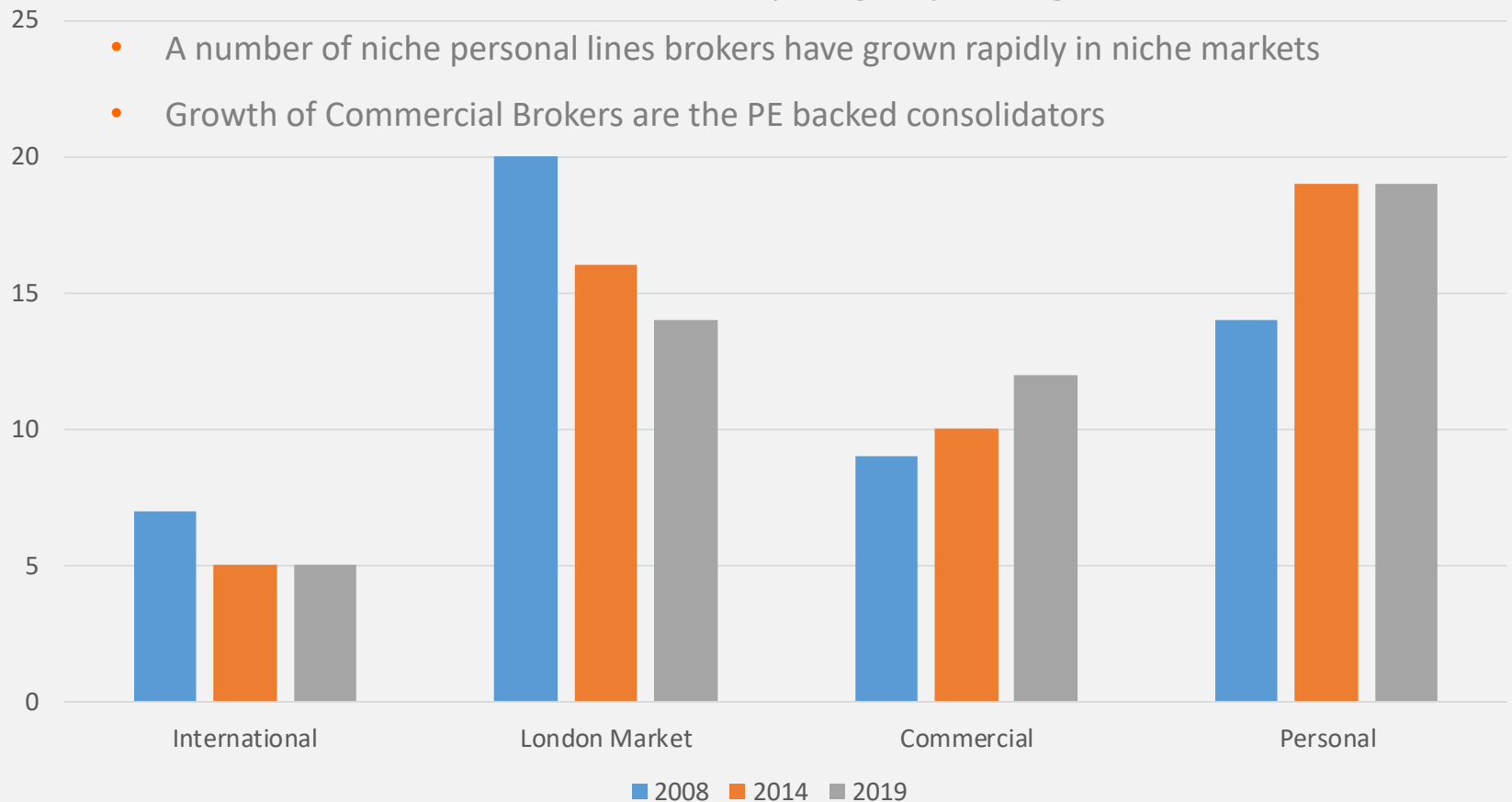


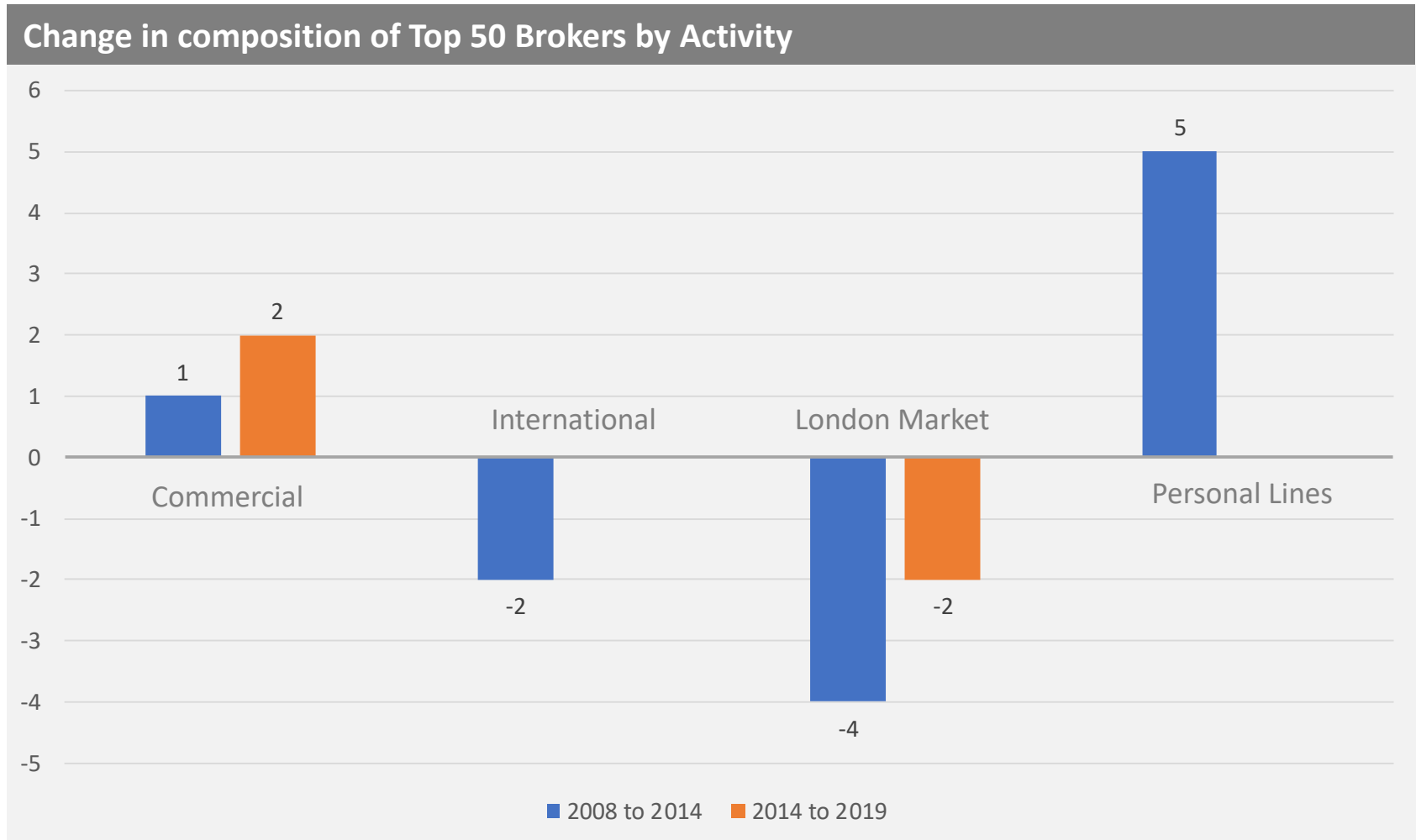
Insurance Time Top 50 Brokers 2018, in association with IMAS



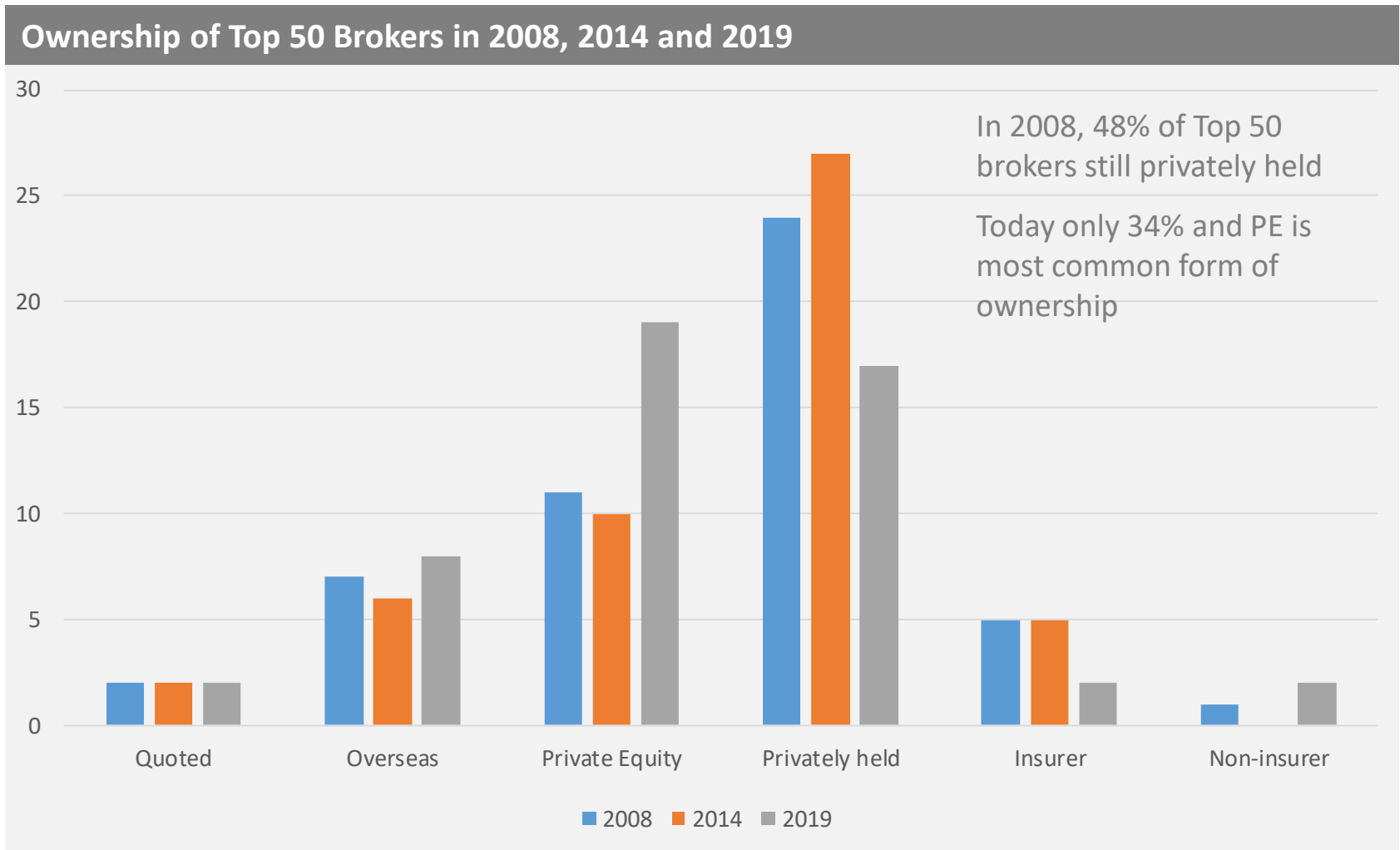
## Composition of Top 50 Brokers by Activity (2008-2019)

- Decline in London Market brokers – many bought by the largest/int'l brokers
- A number of niche personal lines brokers have grown rapidly in niche markets
- Growth of Commercial Brokers are the PE backed consolidators





Source: IMAS-Insight

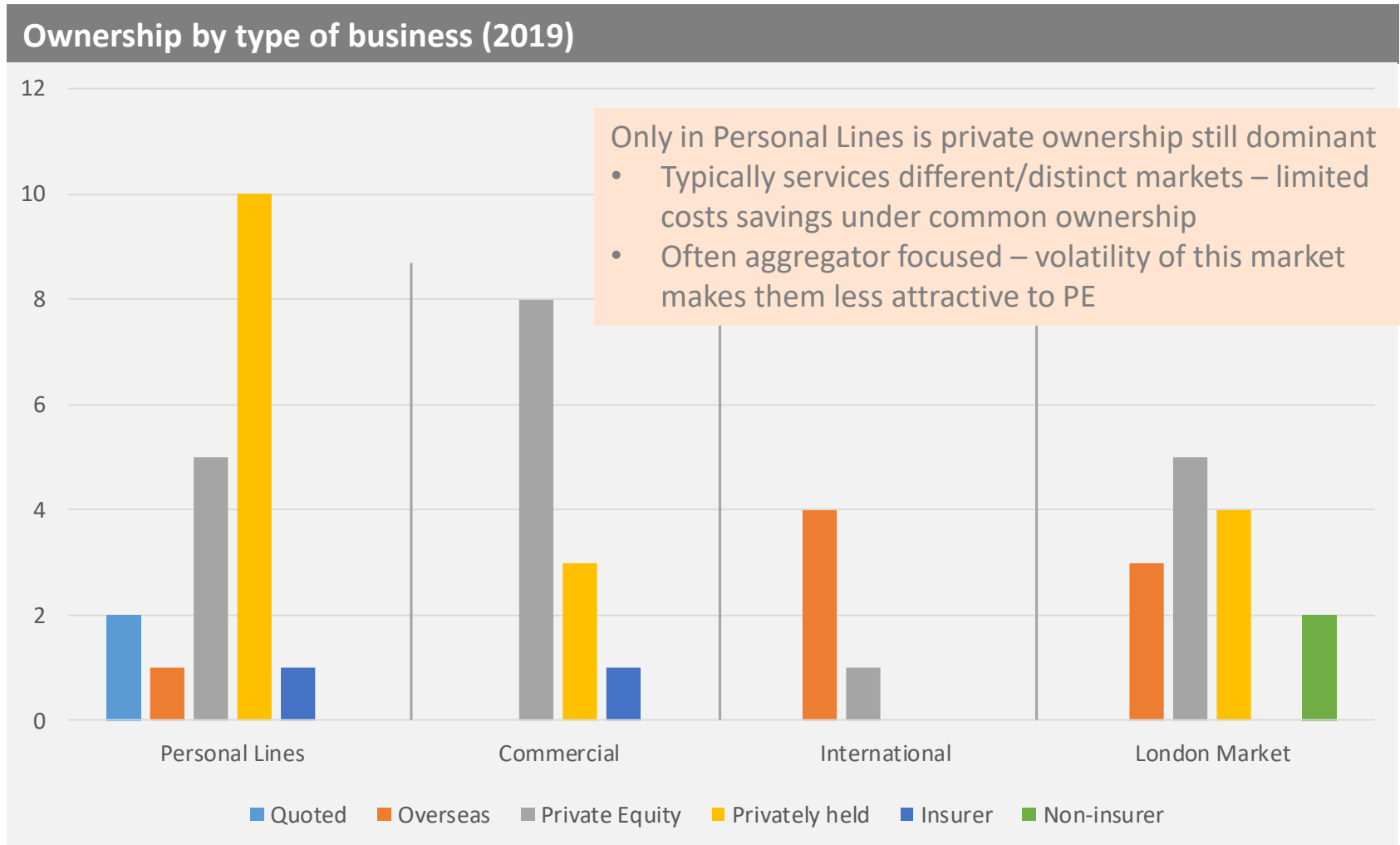


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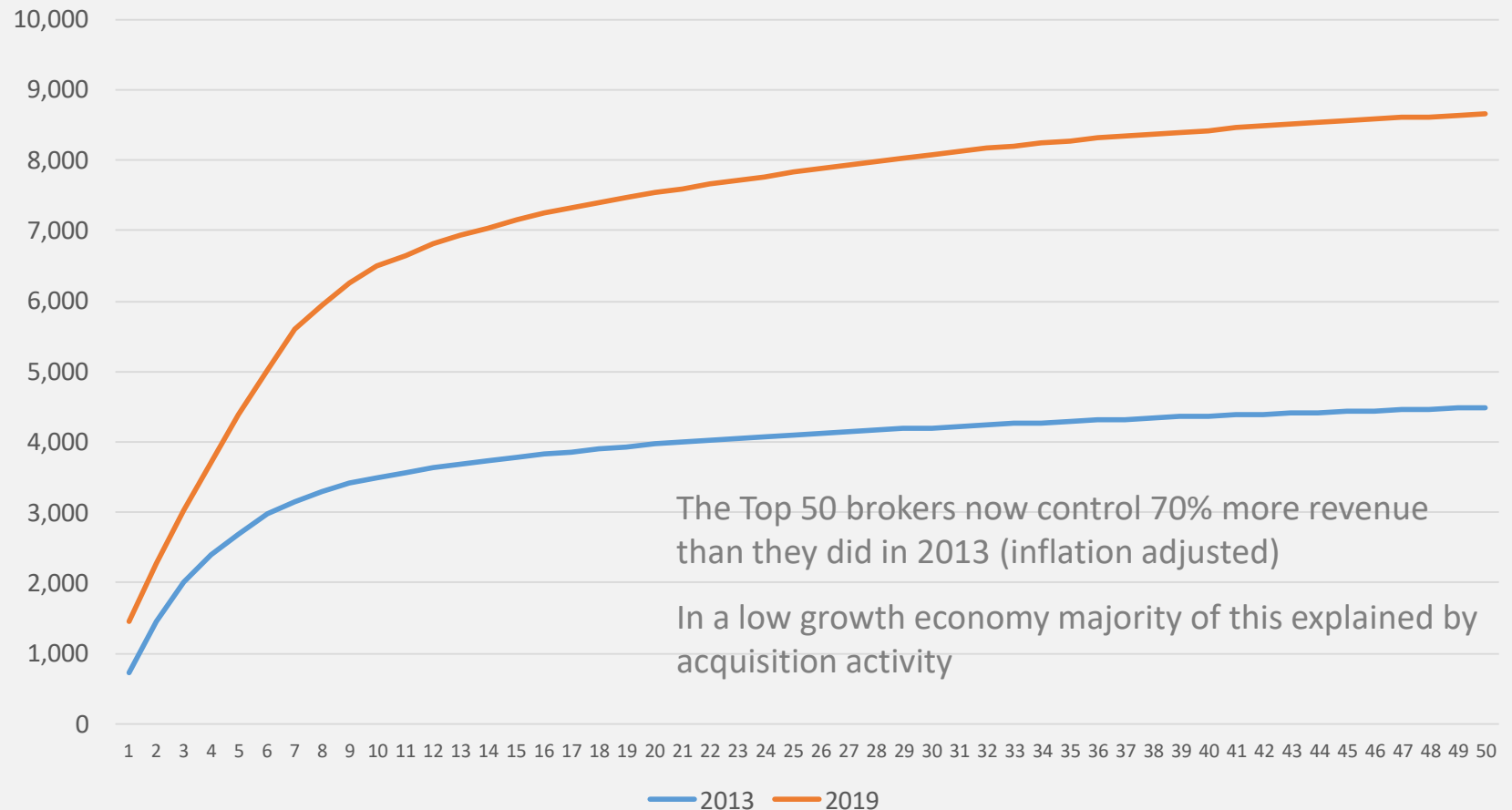
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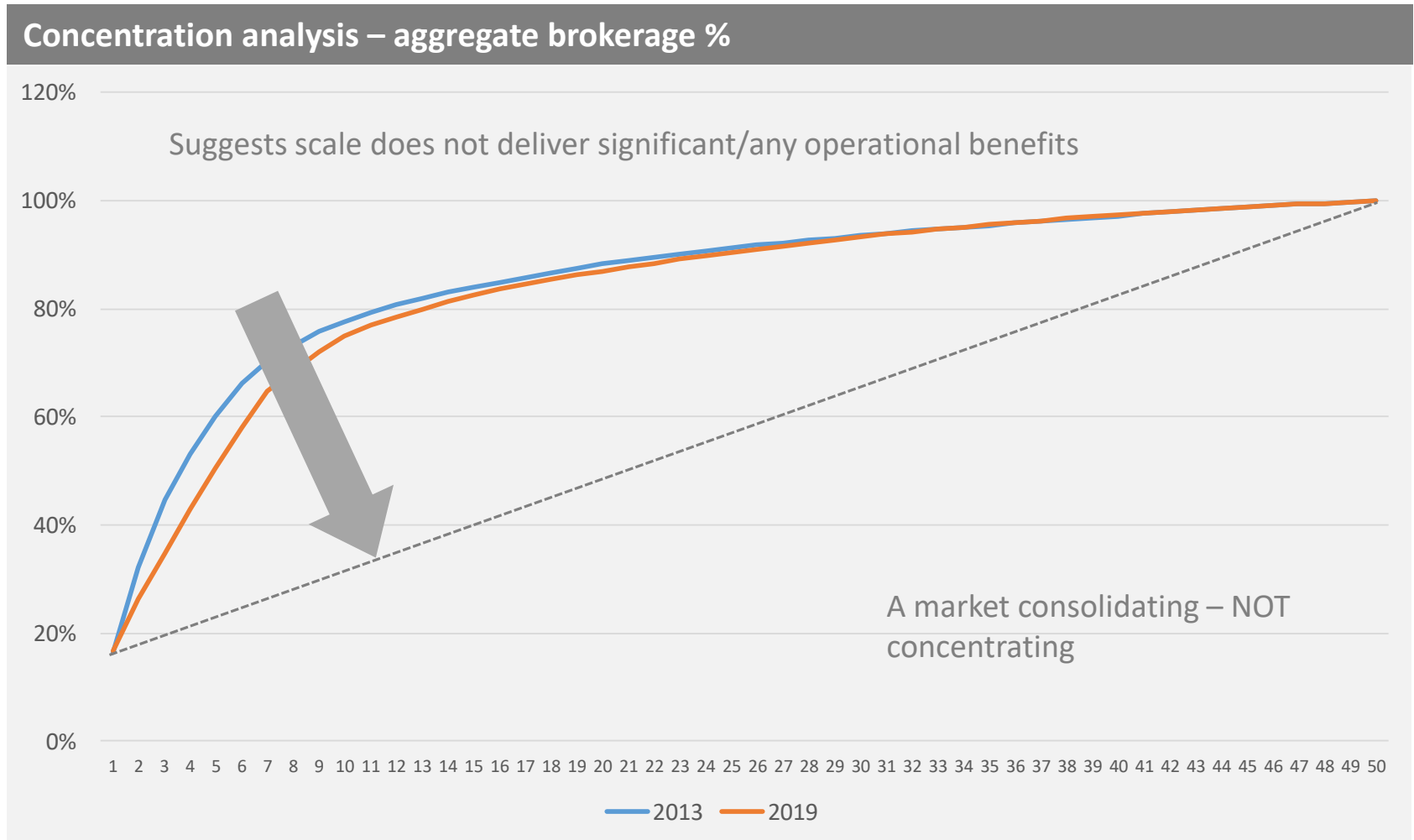
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## Aggregate brokerage (£m) – compound growth of 4.2% since 2003



\* - UK inflation has averaged 3.0% since 2003



Source: IMAS-Insight

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- Majors buy big, buy infrequently
  - Poorly set up to acquire small businesses (Gallagher the exception)
  - Pay higher prices for scale and absence of “Entrepreneurs risk”
- Preference for ‘simple’ businesses or those with demonstrable specialism
  - Those that do one or a small number of things well, rather than many things adequately
- PE back selected teams to do M&A work for them
  - Require scale only few have
  - Lack detailed knowledge of industry or people
- Good mid-sized businesses in high demand
  - Often as much work for a buyer in a small deal as a medium sized
  - Majors not competing so prices similar to smaller deals
- Renewal levels are King
  - Personal lines less highly valued as level of renewals typically significantly lower



- Importance of technology can't be underestimated
  - Technology transformed Personal Lines, increasingly impacting Commercial
  - Smaller business more nimble – hence rise of MGAs
  - Technology reduces geographical barriers
- Evidence that the number of quality mid sized targets beginning to run out
  - PE cash and appetite remain
- Options for the consolidators (current and future)
  - Acquire a larger number of smaller targets (which involves a lot more work)
  - Slacken acquisition criteria – become less picky about targets
  - Look for new opportunities in other areas
    - More personal lines business?
    - New markets / Continental Europe