



A month like no other...

£5m to £25m transactions soar

On 3rd March the Chancellor stood up to make his Budget Statement. There was plenty of pain, especially for companies, but this was deferred for a year. Importantly, there were no changes to Capital Gains Tax.

The month to 2nd March 2021 saw an unprecedented level of M&A activity within the general insurance distribution sector¹. While many transactions, including two that IMAS advised on, were publicly announced in the days and weeks following the Budget, they happened before the 3rd. Indeed, many transactions actually happened just one day before the Budget, on the 2nd March.

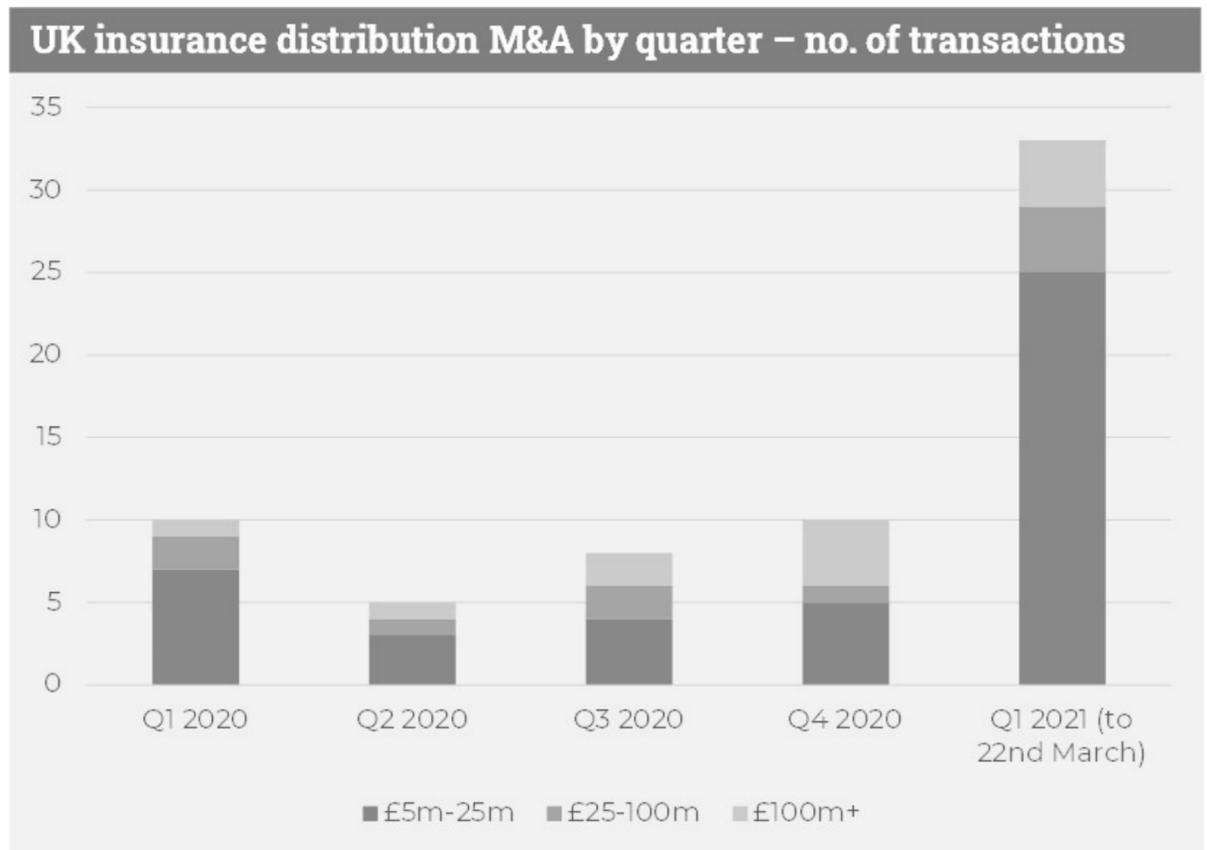
The spectre of an immediate increase in the rate of Capital Gains Tax saw a huge number of owner-managers opting to exit. In the period from 1st January to the 22nd March we saw 25 transactions take place within the £5m to £25m valuation banding alone, the great majority of which happened during the month to 2nd March 2021. This compares with just 19 deals within this banding during the whole of 2020.

Larger transaction volumes were less impacted, probably reflecting the fact that, at this higher level, company ownership is often more corporate and therefore less sensitive to CGT, but also considerably higher than in the corresponding period in 2020. There were eight sector transactions with a value of more than £25m in the period from 1 Jan to 22nd March. To put this into context, there were only five in the whole of H1 2020.

Transaction data based on all UK general insurance distribution businesses, including broking (commercial lines, personal lines, reinsurance brokers, Lloyd's brokers and network businesses) and underwriting agents; valuation bandings based on public disclosures and IMAS estimates / proprietary information. Excludes targets with focus on Private Medical Insurance distribution, where both Aston Lark and Global Risk Partners made relevant acquisitions in the period (not included in figures).

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2020 was not a bumper year for sector M&A based on volumes (it was however a record year for M&A by *value*, owing to a number of very large transactions that took place); many transactions were put on hold during the first phase of the pandemic, as demonstrated by the record low in Q2 2020. So, while 2020 transaction volumes for deals valued at above £5m were down 33% compared to 2019, we fully expect the previous record year of 2018 (when 51 such deals were announced) to be exceeded in 2021 - we are already almost two thirds of the way there and it is still only March!



Source: IMAS proprietary research/IMAS-Insight

Who has been buying?

Seeing the wood from the trees can be difficult in the world of M&A. Buyers are all jostling for profile and may publicly announce a series of deals that amount to no more than a hill of beans.

Smaller companies typically file abbreviated statutory accounts and so do not publicly disclose revenue or profit figures. However, they are now required to disclose their number of staff (on a Full Time Equivalent basis) and this provides a useful metric against which to compare the buyers in 2021 (YTD).

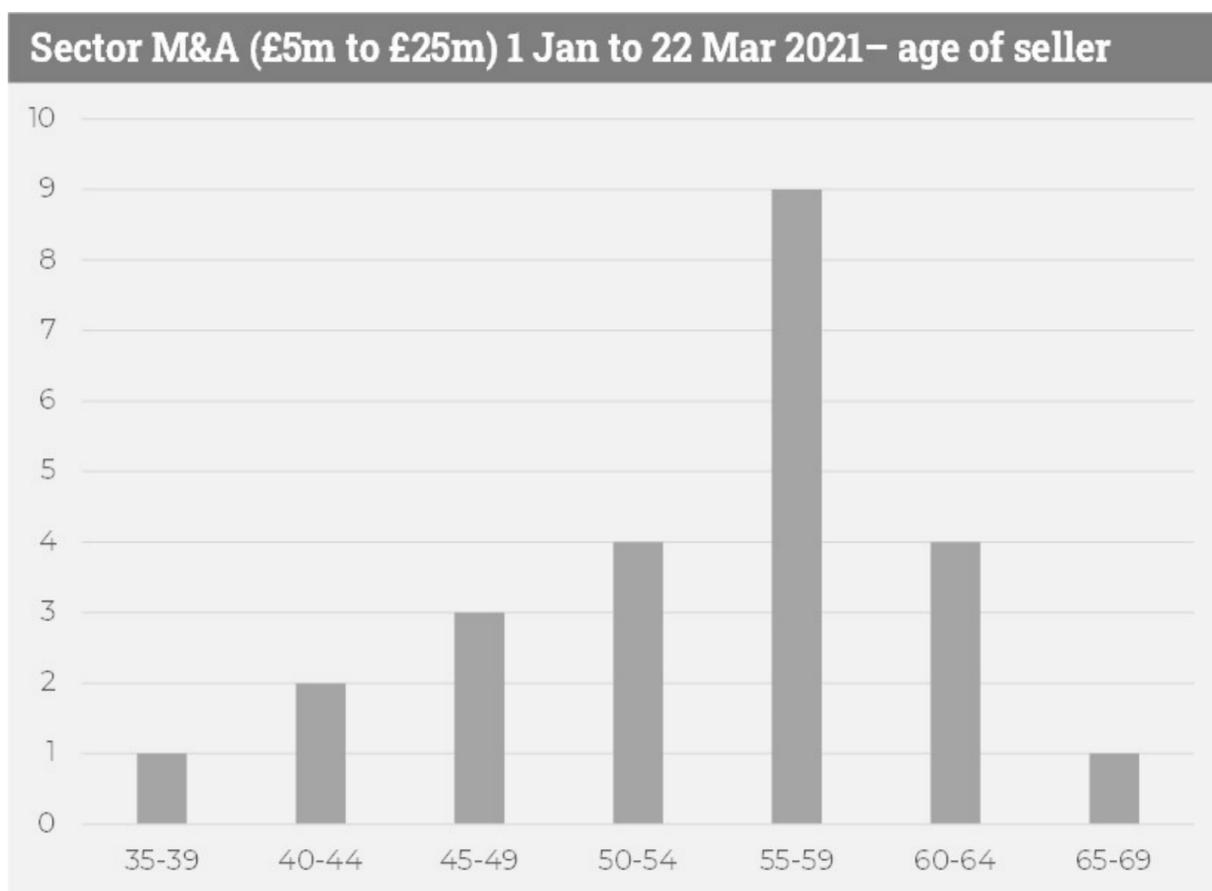
Sector M&A 1 Jan to 22 Mar 2021 – buyers acquiring > one target		
Buyer	Number	Staff acquired
Aston Lark	5	221
Specialist Risk	3	86
Global Risk Partners	2	132
Jensten Group	2	103
JM Glendinning	2	61
Clear Insurance	2	60
PSC Insurance	2	41
Ardonagh	2	22

Note: All £5m to £25m transactions (estimated value) in UK general insurance distribution: buyers ranked by number of announced transactions in 2021 (to 22nd March) and then by aggregate staff acquired (using FTE from most recently published accounts of the target businesses, where available)

Who has been selling?

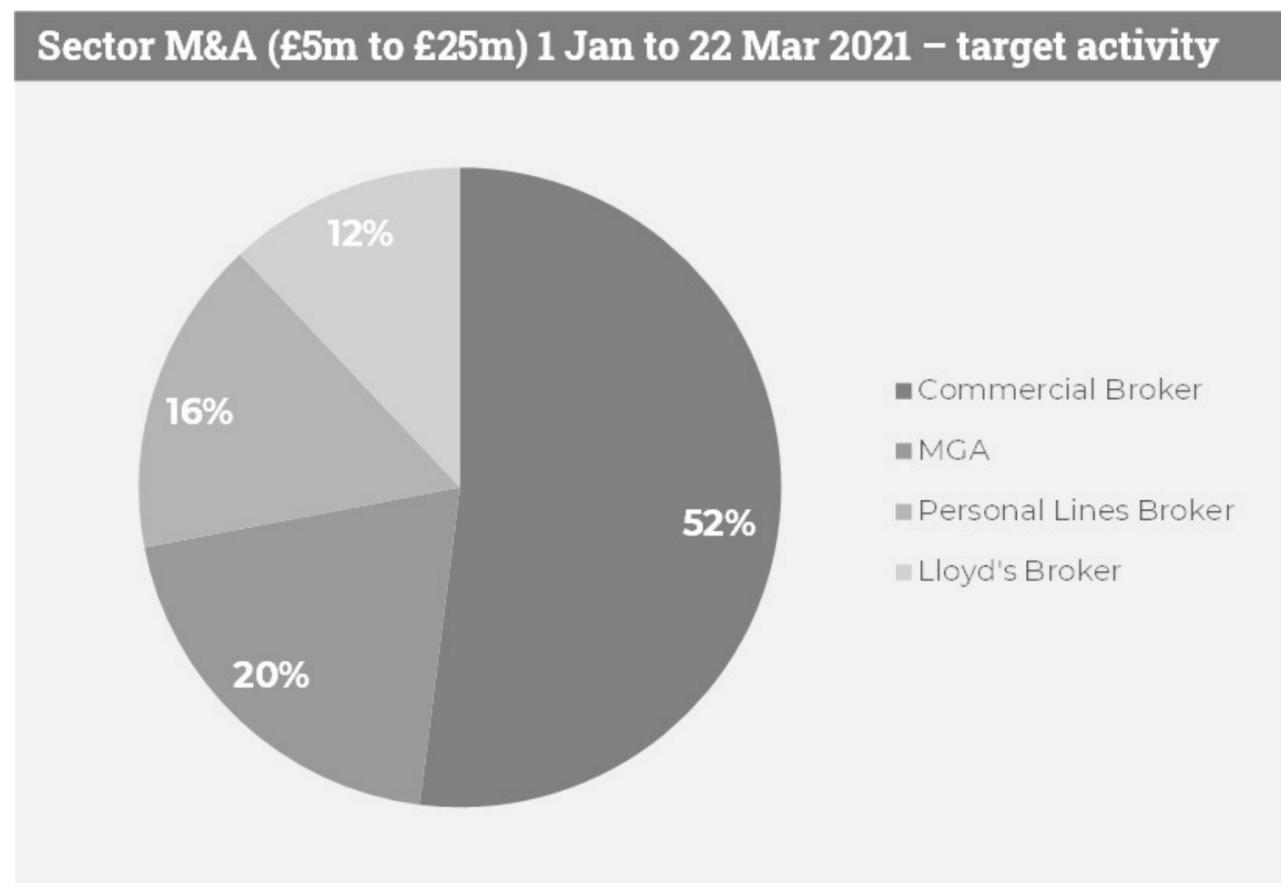
Looking at the £5m to £25m deals, 24 of the targets were privately held companies (i.e. by individuals) and one was private equity owned.

Age of owner is invariably a major determinant of selling, but clearly not the only one. Of course, the recent spike can be explained by the fear of a significantly higher rate of Capital Gains Tax. This may well prove to be a case of the tax 'tail' wagging the dog. A 45-year-old business owner may well have another 15 to 20 years of working life ahead of them, and going around for a second time is typically more difficult than many realise.



Source: IMAS proprietary research/IMAS-Insight

What has been sold?



Source: IMAS proprietary research/IMAS-Insight

Commercial brokers remain the focus of the majority of sales, a function of both the high number of commercial brokers as a proportion of the overall population, but also because their high levels of renewal income makes them particularly attractive to private equity backed vehicles, with their ability to access the debt markets on attractive terms in order to finance acquisitive growth.

What does it mean?

In beating the Budget many vendors have scored a pyrrhic victory. In their rush to complete a transaction before the 3rd of March, they often did not spend enough time looking at all of their options, in order to secure the best fit or transaction terms. Many did not take advice and will have inevitably failed to achieve the best deal they could have.

The current range of buyers has never been wider and while to an outsider they might look very similar, they all have their own DNA. Their future destinations are also very different. We have compiled a comprehensive review of the 14 most active buyers in the sector and are happy to share this on a confidential basis – please contact Olly or John (details below). We also receive ongoing enquiries from many other buyers with an interest in the sector that are not one of these 14 ‘usual suspects’.

Whilst the M&A teams, due diligence providers and FCA case officers responsible for granting change of control approvals may be taking a short breather following the Budget, in reality the recent spike in transaction activity is likely to continue to fuel demand, as each of the buyers strives to avoid being (or being perceived to be) left behind. Securing better terms for our clients means the buyers always ultimately pay our fees.

We work with our clients to ensure that they make the most of what is a once in a lifetime decision. If you are thinking about selling - or buying - we are always happy to meet/Zoom to help you formulate the right way forward.



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