2023 Year in Review: Insurance Brokerage M&A Update

And the Beat Goes On...

In the spring, we released a white paper describing how high-interest rates would likely impact insurance brokerage M&A in 2023. We argued that despite high-interest rates, acquirer demand for insurance brokers would remain extremely strong, valuations would remain robust but not likely set a new peak this year, and transaction terms would not materially change for high-quality agencies.

Since the dramatic uptick in interest rates last year, a number of articles appeared in the press arguing that the insurance brokerage M&A market would slow due to higher interest rates. The thesis went as follows: higher interest rates will lead to a higher cost of both debt and equity capital for potential buyers. To secure the same returns, buyers will have to lower their transaction pricing to account for the higher cost of capital. Superficially, this seems like a pretty convincing argument.

As this article will demonstrate, however, the prediction that the insurance brokerage M&A market would slow due to higher interest rates simply was incorrect. The M&A market for insurance brokerages has remained extraordinarily robust, as demonstrated by the overall number of transactions closed and by the valuations we are seeing in the marketplace.

Transaction Volume – By the Numbers

Sica | Fletcher publishes our Agency & Broker Buyer Index (the "SF Index") on a quarterly basis. The SF Index tracks 22 of the most active acquirers in the insurance brokerage space, who represent in excess of 70% of the acquisition activity in the sector. Each index member provides the number of deals and the aggregate revenue it acquired in each quarter.

As of the end of the third quarter, members of the SF Index acquired 402 agents and brokers in 2023, compared to 507 agents and brokers for the same period in 2022, a decrease of about 21%. However, this does not tell the entire story. If you take out the two largest acquirers in 2022 who temporarily slowed their acquisition volume in 2023, the number of insurance brokerage deals actually increased by about 5%, from 348 transactions to 365.

Furthermore, half of the members of the index increased the number of transactions they closed in 2023, as compared with 2022, some by a very substantial margin. It is simply not the case that all or most of the major acquirers slowed their acquisition programs in 2023.

S&P Global reflects the same conclusion using a somewhat different set of transactions because many of the members of the SF Index do not report their acquisitions to S&P Global. For year-to-date September 2023, S&P Global reported an increase of 8.3% as compared to 2022, to 417 from 385 transactions.

Based on either of these measures, the insurance brokerage M&A market remains incredibly robust. Our level of transaction activity at Sica | Fletcher mirrors the market and remains quite high. As of the end of September 2023, we closed 78 transactions year to date, matching last year's pace and again leading the league tables for insurance brokerage M&A.

Transaction Valuations – By the Numbers

In 2022 we completed a comprehensive analysis of multiples paid in every insurance brokerage transaction on which we worked from 2019 through 2021, about 400 transactions in total. We published the general conclusions of the study at that time and made the results available to clients upon request. Since then, we have aggregated additional data to include 2018, 2022, and year-to-date 2023.

When we analyzed the full data from 2018 to date, what we found surprised us greatly.

In each year since 2018, multiples in insurance brokerage M&A transactions have increased. To be clear, the average multiple paid in the hundreds of insurance brokerage M&A transactions contained in our database increased both in 2022 and year-to-date 2023, despite dramatically higher interest rates.

That is why we entitled this article "And the Beat Goes On". Reports of the demise of the insurance brokerage M&A market have been greatly exaggerated.

So What Has Changed?

That, however, does not mean that everything has remained the same. Higher interest rates have led to a number of changes in the marketplace of which sellers need to be aware. The market has become more complicated for a number of reasons.

First, as demonstrated by the Sica | Fletcher Index above, the cast of potential suitors has increased in recent years. As more firms have raised private equity, there are more players.

Second, the range of valuations we receive in sale processes has spread out. A few years ago, when we ran our processes, we would receive bids in a relatively tight range from practically 100% of the participating buyers. Now, when we run a process, we will likely receive a broader range of bids and at times fewer bids from the participating potential purchasers. We typically still get to an attractive valuation for the brokerages we represent, but the process is more complicated. Also, some buyers use more equity in transactions and apply a somewhat broader range of deal structures and earnouts than those used in the past.

Finally, the buyers themselves are increasingly differentiated across a number of very important criteria. These include:

- size (ranging from $10 million to billions of revenue);
- acquisition experience;
- integration practices;
- relationship with their private equity investor or other capital provider;
- capital structure;
- level of control over acquired businesses;
- level of aggressiveness in pursuing transactions;
- transaction price and structure; and
- approach to evaluating the earnings and cash flows of a potential target.

It is increasingly critical to run a competitive process with multiple bidders in order to create the level of competition necessary to achieve the maximum valuation with the right partner.

The Implications

Simply stated, the insurance brokerage M&A market is still going strong and valuations are, on average, at peak multiples. However, the developments articulated in the prior section increase the importance for a seller to retain an advisor when they consider a strategic transaction.

It doesn't take a degree from Harvard Business School to figure out that a competitive process for the sale of an agency will generate better results than negotiating with only one buyer. Our market data confirms this. In the hundreds of closed transactions tracked by Sica | Fletcher over the past 5 years, those sellers without an advisor sold their agencies for an average of about 30% less than those with an advisor.

The discussion in this article highlights that it is even more important to use a strategic advisor in the current market. The buyers do differ, and they are increasingly differentiated in today's market. These differences have an enormous impact on transaction valuation and structure, as well as seller satisfaction post-transaction. We at Sica | Fletcher help our clients evaluate and choose the best potential partner in a transaction and maximize the transaction pricing and terms. Our deep industry relationships allow our clients to meet a wide range of potential partners specifically tailored to fit their long-term plans and company cultures. The right process is key to generating the right result.

About Sica | Fletcher

Among the brokerage community, Sica | Fletcher is well known as the leading strategic advisory firm in the U.S. that specializes in the insurance brokerage space and related industries that complement it. We are also the leading advisor to the private equity firms that are most interested in investing in insurance brokerages and in the private equity sponsored agencies that have been created in recent years.

The firm was founded in 2014 by Michael Fletcher and Al Sica, two of the industry's leading insurance M&A advisors who have closed over $16 billion in insurance agency and brokerage transactions since 2014. Sica | Fletcher is ranked by S&P Global as the #1 insurance M&A advisory firm for 2017, 2018, 2019, 2020, 2021, and 2022 in terms of total deals advised on.

For more information or to discuss your strategic options, contact Matt Beizer at mbeizer@sicafletcher.com or 917.836.0373.