

THE EMPIRE STRIKES BACK II: SICA | FLETCHER'S TAKE ON BROWN & BROWN'S ACQUISITION OF RISK STRATEGIES



OVERVIEW

The insurance brokerage industry looks very different from how it looked in 2000 when half of the 10 largest brokers in the U.S. were publicly traded and the private equity world didn't know insurance brokers even existed. A consistent and sustained trend in this fragmented industry for decades has certainly been consolidation, which has led to the creation of some of the world's largest and most diverse insurance brokers. From 2000–2010, highly acquisitive public brokers such as Arthur J. Gallagher (NYSE: AJG), Brown & Brown (NYSE: BRO) and Aon PLC (NYSE: AON) accounted for the majority of broker acquisitions aided by their well-oiled M&A machinery and ready access to capital. As these firms were amassing their global brokerage empires, private equity sponsors entered the brokerage scene around 2007, and by 2014, essentially dominated the M&A landscape having completed thousands of transactions worth billions in the aggregate. [Sica | Fletcher's 2024 Index](#) shows that private-equity-backed brokers accounted for 88% of all announced deals, with public brokers and other buyer types making up the remainder.

In December 2024, publicly-traded AJG announced its acquisition of private-equity-backed AssuredPartners for \$13.45 billion – the largest acquisition to date of a PE-backed broker by a publicly-traded broker and barely surpassing Aon's 2024 acquisition of NFP, valued at \$13.4 billion. In light of the recent trend of these mega-unions where PE-backed brokers are being consumed by their publicly-traded counterparts, in March of this year, Sica | Fletcher published an article about the AJG/Assured transaction and asked a fundamental question: **Is this the beginning of the empire striking back where strategics begin to reclaim their historical M&A dominance and market share from PE-backed investors?**

So far, the answer has been a resounding yes. On August 1, barely eight months after AJG announced its intent to acquire Assured, Brown & Brown, the seventh-largest U.S. insurance broker, announced that it would acquire the 14th-largest, Risk Strategies (RSC) underscoring our thesis that the publicly traded brokers will continue to supplant private equity firms as the dominant force in this industry. At the time of the announcement, RSC reported revenue of \$1.7 billion and pro forma EBITDA of \$600 million which produced a \$9.8 billion valuation.

It was widely reported that Risk Strategies had been actively exploring strategic options for much of 2024 and many industry insiders speculated that RSC would recapitalize with a new PE investor. At one point, it was reported that RSC was close to a deal with London-based Howden, which sought a U.S. retail presence and would have been a compelling strategic fit. The transaction, however, surprisingly collapsed as a result of several purported due diligence issues that could not be adequately resolved.

Many, including some RSC insiders, were equally surprised when just a few months later Brown stepped in and acquired RSC. On the [Sica | Fletcher Leaders & Legends podcast](#), Mike Christian, Chairman & Founder of RSC, when responding to a question about selling RSC to a publicly traded broker, he stated clearly, “That would’ve been the last thing I would’ve thought about.”

Despite the initial shock, we believe RSC shareholders will come to view this deal favorably outcome, and since approximately 38% of RSC’s 200+ completed transactions in the past five years were Sica | Fletcher clients, we can express this opinion with some confidence.

Given RSC’s scale, specialty focus and our deep knowledge of the firm, we believe many shareholders expected an 18.0x multiple and preferred a recap with another PE sponsor that would have enabled it to stay out of the publicly traded realm. But in today’s interest-rate environment, math makes that difficult. Why? PE limited partners (LPs) typically expect at least 15.0% returns before allocating capital to any fund. Given industry average fund management fees (2.0% plus a 20.0% carry), PE funds generally need 20.0%+ gross returns to satisfy LP expectations. Over the past decade, however, PE firms relied on multiple expansion and arbitrage, cheap and abundant leverage and heavy M&A activity in order to deliver those returns. That recipe produced spectacular and unprecedented results but will be harder to consistently replicate going forward.

WOULD RSC HAVE BEEN BETTER OFF FORGOING OPTIONALITY?

Given these hurdles, we posed another fundamental question: Would RSC have been better off forgoing optionality and recapitalizing with another private equity firm, rinsing and repeating the same M&A program and then reselling in another five years? We don’t believe so. The chart below compares expected returns for a hypothetical PE investor acquiring RSC under two valuation scenarios of 16.3x and 18.0x vs. Brown’s actual deal at 16.3x and fundamentally takes RSC out of the acquisition arena - a key element of its growth and expansion over the past decade.

In the 18.0x scenario, a PE investor should expect an approximately 9.6% levered return and at 16.3x, an approximately 10.1% return. In our Expected Return analysis, we did not assume any add-on acquisitions, which would raise returns for any acquirer. The issue is RSC’s size: at \$600 million of EBITDA, generating meaningful uplift in returns purely through add-ons is more difficult than it would be for, say, a \$200–\$300 million EBITDA platform, i.e., moving the needle via acquisitions simply gets more challenging the larger the buyer becomes. We would argue a smaller RSC might well have attracted a PE investor at 16.0x.

In the 16.3x scenario, a 10.1% expected return on the RSC deal for a private equity investor would have meant continued reliance on significant M&A activity to boost returns. After fees, LPs could be left with returns as low as 5% assuming RSC isn’t able to generate material future add-on activity.

WHY BROWN'S RETURNS LOOK MORE ATTRACTIVE

Brown's expected levered return is approximately 12.9%, which assumes no incremental returns from M&A add-ons.

Brown can achieve this more attractive return largely through transaction synergies (estimated at \$150 million of EBITDA) and favorable borrowing terms to partially fund the transaction (roughly \$4.0 billion at about 5.3%). Most importantly, Brown does not face PE's fee-driven return hurdles.

Finally, expected returns aside, RSC shareholders should recognize that liquidity – i.e., bankable proceeds today – matters. Many announced deals tout headline multiples and valuations but offer limited near-term liquidity for the equity portion of consideration. In Brown's acquisition, RSC shareholders received an 86%/14% cash/stock mix. Although the Brown stock is restricted, or "locked up", for 2–5 years depending on certain scenarios, at least there is a clear and enforceable liquidity path for the equity portion of consideration.

To be fair, equity provided in PE deals also provides eventual liquidity, but the timing of recapitalizations is uncertain and there are usually restrictions on how much can be monetized during a recap.

From a timing perspective, things could not have been worse. To take a company private requires the buyer to pay a significant premium over the current market price of the stock. So not only did Goldman and Apax have to pay a premium, but they paid a premium at the top of the 2007 stock market, just before the market fell by 53% in the largest financial crisis to take place since the Great Depression.

So how did those deals turn out for investors? Despite these headwinds, the returns proved impressive. **USI reportedly generated 2.5x returns over five years and HUB generated 3.5x returns over five years.** For lenders, the test case of lending to insurance brokers with no real assets in a challenging environment proved lucrative. These two deals would set the stage for what was to come next.

EXPECTED RETURNS – BROWN & BROWN / RSC

Our Expected Return model estimates “ballpark” returns from a general investor perspective rather than forecasting returns for a specific investor. Institutional investors typically use IRR, ROIC, CAPM and other models, which are investor specific. Sica | Fletcher built its model on the framework of AQR’s expected-return model for private assets¹, swapping inputs to enable transaction-level views in our industry.

First and foremost, we note that each input is variable, and changes can materially affect the final output. We begin the unlevered Expected Return calculation with the inverse of the EBITDA multiple to derive an EBITDA Yield (EY). We then reduce that yield by 25% as a proxy for Free Cash Flow (FCF) Yield, which accounts for CAPEX, taxes and other outflows. We believe this 25% assumption is a conservative baseline as brokers generally need little in terms of capital expenditures. We then add expected growth (G) to the FCF Yield to arrive at our Expected Return (ER), apply leverage and its corresponding Cost of Debt (CD) based on the Secured Overnight Financing Rate (SOFR) plus a market standard spread, and finally, add expected Multiple Expansion (ME), which we assume to be zero in our analysis, to compute our Expected Return (Levered), or ERL.

1.AQR Alternative Thinking 2025 Issue 1: Capital Market Assumptions for Major Asset Classes

	EM	EY= 1 / EM	SYN	EYS = EY + SYN	FCF	G	ER = FCF + G	DE	SOFR	Spread	CD = SOFR + Spread	LER = ER + (D)(ER-CD)	ME	ERL
RSC Deal Options	EBITDA Multiple	EBITDA Yield	Est. Synergies	EBITDA Yield w/ Synergies	FCF Yield	Est. Growth	Expected Return	Debt/ Equity	SOFR	Spread	Cost of Debt	Gross Levered Expected Return	Multiple Exp	Expected Return (Levered)
Private Equity @ 18.0x	18.0x	5.6%	0.0%	5.6%	4.2%	5.0%	9.2%	30.0%	4.3%	3.5%	7.7%	9.6%	0.0%	9.6%
Private Equity @ 16.3x	16.3x	6.1%	0.0%	6.1%	4.6%	5.0%	9.6%	30.0%	4.3%	3.5%	7.8%	10.1%	0.0%	10.1%
Brown & Brown	16.3x	6.1%	1.5%	7.7%	5.7%	5.0%	10.7%	40.0%	4.3%	1.0%	5.3%	12.9%	0.0%	12.9%

(EM) EBITDA Multiple = Reported Purchase Price Multiple

(EY) EBITDA Yield = 1 / EM

(SYN) Est. Synergies = Accounts for \$150m of Est. Synergies by Brown

(EYS) EBITDA Yield w/ Synergies = EY + SYN

(FCF) FCF Yield = Assumes 25% of EBITDA allocated toward CAPEX, taxes, leakage

(G) Est. Growth = 5% organic growth

(ER) Expected Return = Unlevered Expected Return

(DE) Debt / Equity = Assumed for PE; Actual for Brown

SOFR = 90-day SOFR rate as of 9/12/2025

Spread = Assumed for PE at +350 bps; Actual for Brown

(CD) Cost of Debt = SOFR + Spread

(LER) Gross Levered Expected Return = ER + (CD*(ER-CD))

(ME) Multiple Expansion = Assumes none

(ERL) Expected Return (Levered) = LER + ME

CONCLUSION

Our conclusion is that Brown's acquisition of RSC at 16.3x was a shareholder win with an Expected Return (Levered) of 12.9% stemming, in part, from the impact of material transaction-related synergies and an overall lower cost of debt.

As other PE-backed brokers approach the scale of RSC and AssuredPartners in the coming years, their future exit options will increasingly – and necessarily – include the publicly-traded “empires” that can realize material synergies and deliver compelling economics to shareholders without private equity's liquidity and return constraints. It's taken nearly two decades, but the empire has indeed struck back and the next wave of PE-backed broker ownership changes, whether involving an IPO, a recapitalization with other private equity firm or a sale to one of the handful of publicly traded firms, will continue to dramatically shape this ever-evolving industry.

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Sica | Fletcher is well known as the leading strategic and financial advisory firm in the U.S., specializing in the insurance brokerage space and related industries. We are also the leading advisor to the private equity firms most interested in investing in insurance brokerages and the private equity-sponsored agencies 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 \$19 billion in insurance agency and brokerage transactions since 2014. Sica | Fletcher has been ranked by S&P Global as the #1 insurance M&A advisory firm since 2017 in terms of total deals advised.

SICA | FLETCHER
Opportunities Abound

Sica | Fletcher LLC
250 West Street, Suite J
New York, NY 10013
mjf@sica.fletcher.com
516.967.1958
SicaFletcher.com