Sica | Fletcher
Agency & Broker Buyer Index

Q1 2020 DEAL ACTIVITY

S|F Agency & Broker Buyer Index

Q1 2020 DEAL ACTIVITY

Q1 2020 – Sica Fletcher Agency & Broker Buyer Index

ACRISURE	ALERA GROUP	AssuredPartners INC	BroadStreet Partners
Brown & Brown INSURANCE	Gallagher	Hilb GROUP	HUB
MARSH & McLENNAN AGENCY	NFP	RISK STRATEGIES	USI

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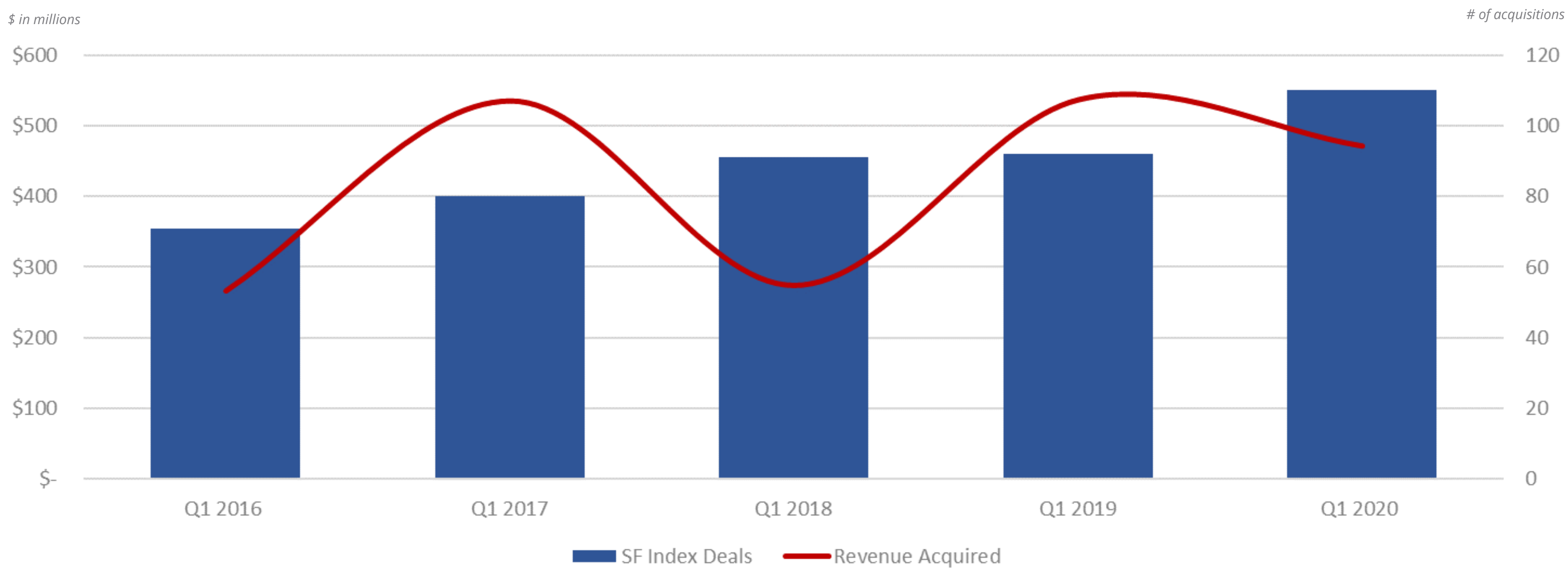
Q1 2020 DEAL ACTIVITY

The Sica | Fletcher Buyers Index tracks twelve of whom we believe to be the most prolific agent and broker acquirers in the industry.

In addition to tracking the number of deals by Index member, we are able to track the aggregate revenue acquired by the Index.



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Q1 2020 DEAL ACTIVITY

In Q1 2020, SF Index Members acquired 110 Agencies/Brokers, a 20% YoY increase over Q1 2019.

In Q1 2019, SF Index Members acquired 92 Agents/Brokers vs 91 in Q1 2018.

110

# of agencies acquired by SF index members in Q12020

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Q1 2020 DEAL ACTIVITY

$470.6 Million

Total revenue acquired by SF Index – Q1 2020

SF Index members acquired $470.6 million of agency and broker revenue in Q1 2020.

$4.3 Million

Average revenue per acquisition

Average revenue per agency acquired was $4.3 million vs. $5.8 million in Q1 2019.

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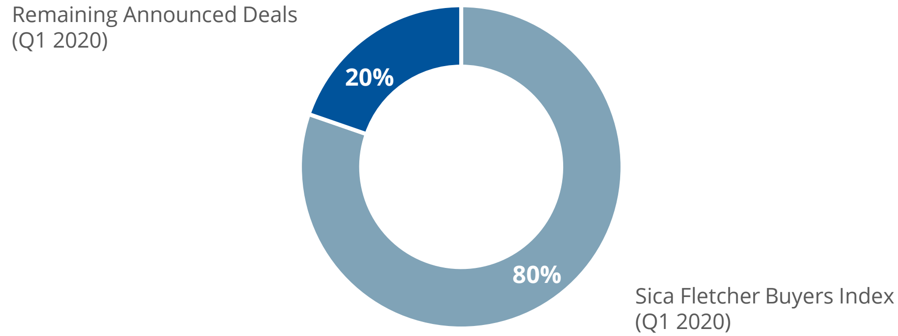
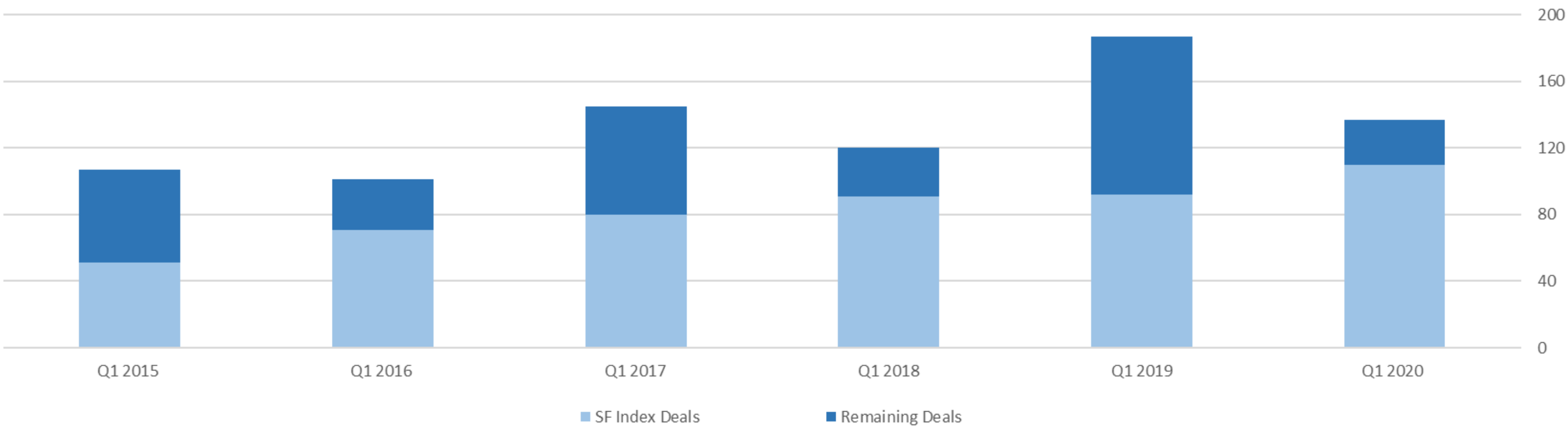
Q1 2020 DEAL ACTIVITY

In Q1 2020, the SF Index accounted for 80% of all deal activity in the brokerage space, or 110 of 137 announced U.S. transactions.



Year Over Year Announced Transactions



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Q1 2020 DEAL ACTIVITY

Who's Buyin' – Year Over Year Comparison

In Q1 2020, the top three buyers were Acrisure, Hub and BroadStreet Partners, with 19, 17 and 16 respectively. Collectively, members of the SF Index acquired 18 more agencies than in Q1 2019.

Deals by SF Index Member	# of Deals, Q1 2019	# of Deals, Q1 2020
Acrisure	16	19
Hub International	14	17
BroadStreet Partners	9	16
AssuredPartners	12	15
Gallagher	11	8
Hilb	2	8
USI	4	6
Alera	6	5
Brown & Brown	8	5
Risk Strategies	2	5
NFP	6	4
Marsh & McLennan	2	2

Total Acquisitions – SF Index Members – Q1 2020

110 Transactions

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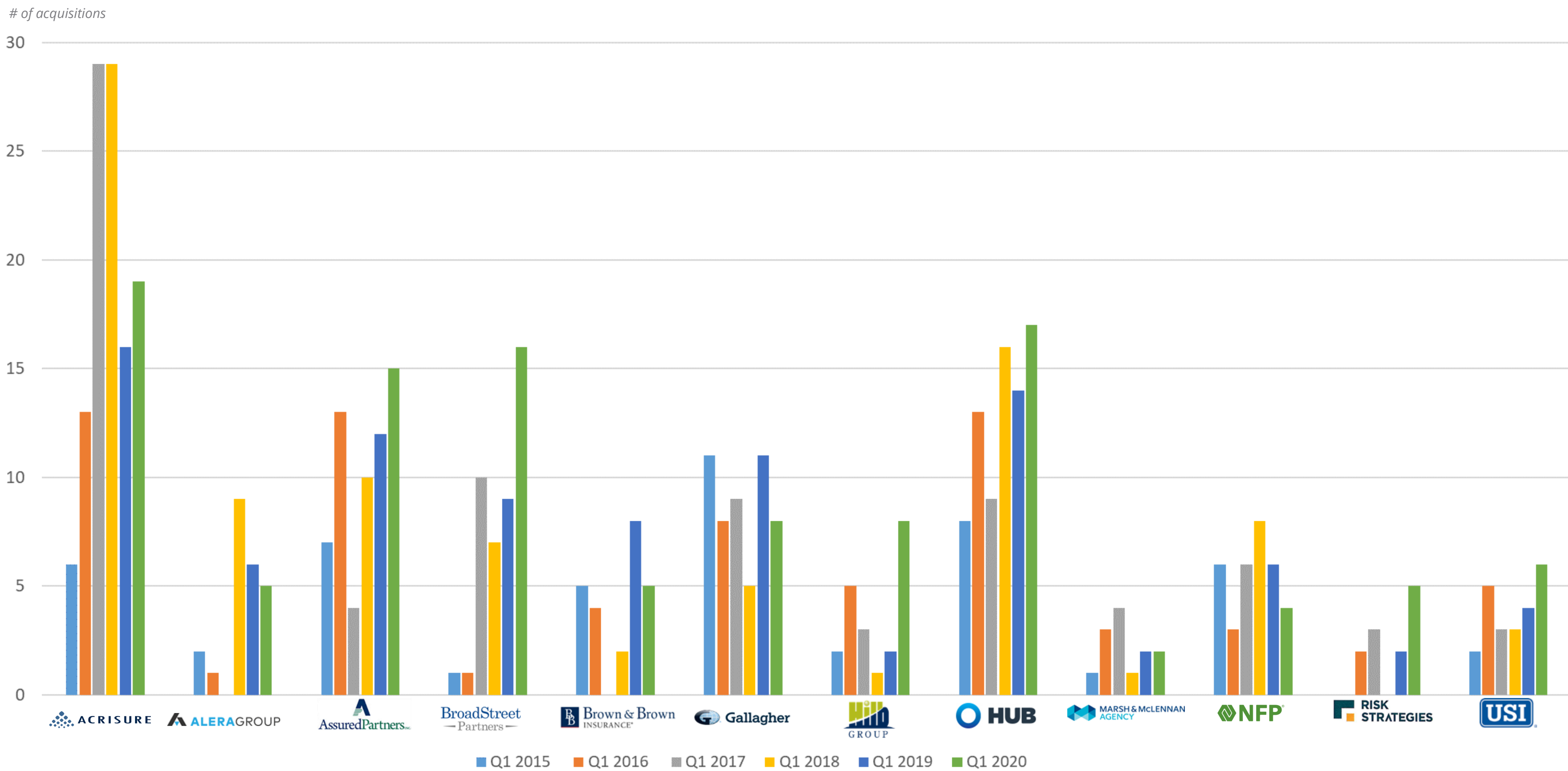
Q1 2020 DEAL ACTIVITY

Who's Buyin' – Year Over Year Comparison



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Q1 2020 DEAL ACTIVITY

Who's Buyin' – Year Over Year Comparison

S|F Agency & Broker Buyer Index

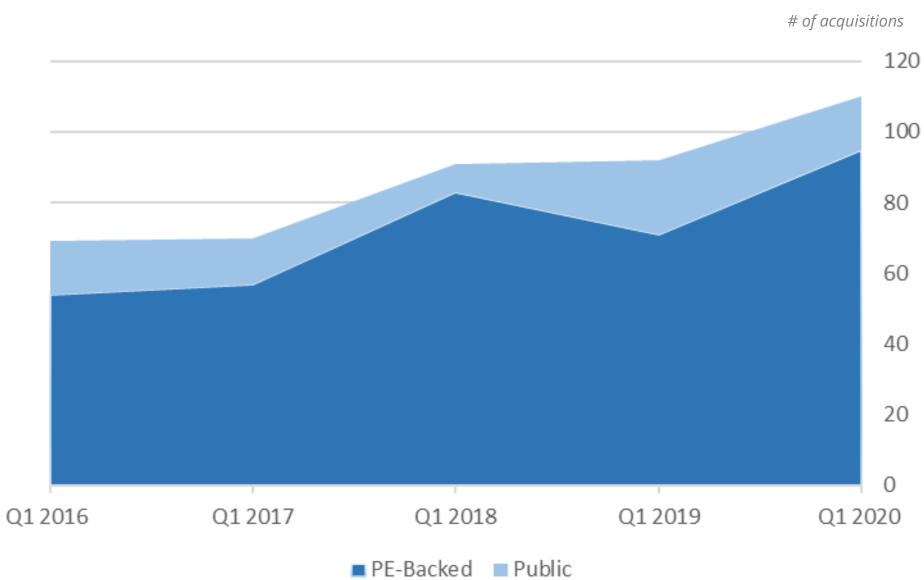
Q1 2020 DEAL ACTIVITY

Public vs. PE-Backed Analysis – Year Over Year

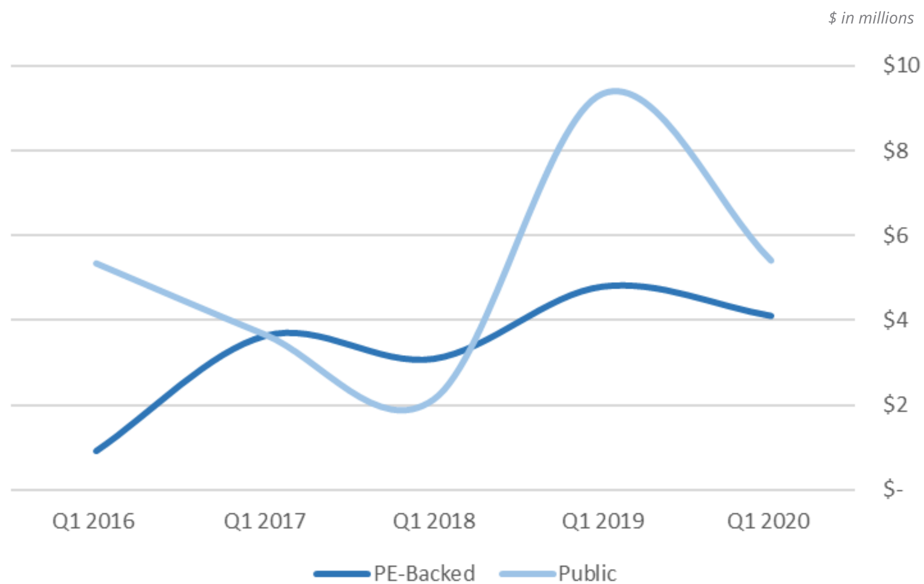
Private Equity-backed buyers continue to drive deal activity. 86% of SF Index transactions were done by PE-backed firms in Q1 2020 vs 77% in Q1 2019.

While PE backed buyers had higher transaction counts, publicly traded acquirers had larger deals.

Number of Acquisitions PE vs. Public



Average Revenue Acquired – PE vs. Public



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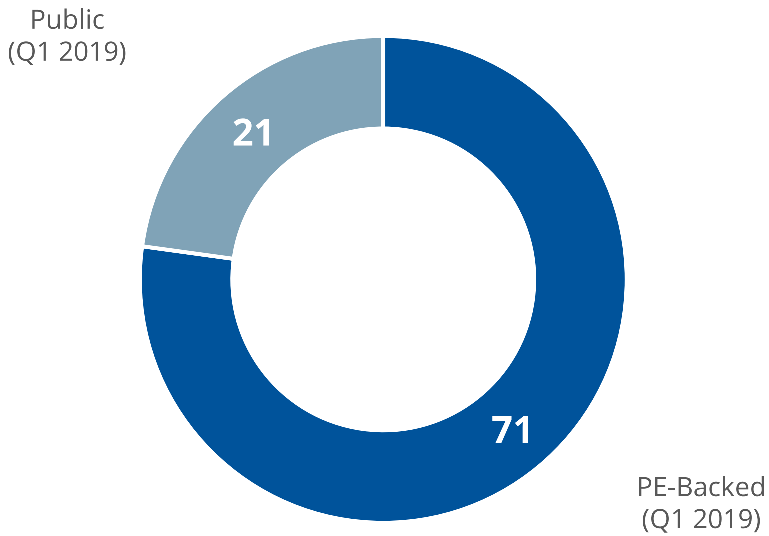
Q1 2020 DEAL ACTIVITY

Public vs. PE-Backed Analysis – Year Over Year

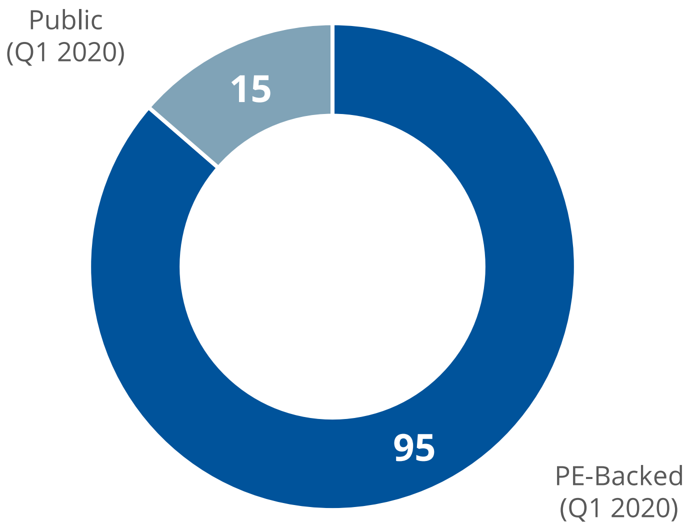
Three of the 12 Index members are publicly traded

Brown & Brown INSURANCE · Gallagher · MARSH & McLENNAN AGENCY

SF Index PE vs. Public – Q1 2019



SF Index PE vs. Public – Q1 2020



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Public vs. PE-Backed Analysis – Q1 2020

Public Companies – **15 Acquisitions**

Brown & Brown Insurance	5
Gallagher	8
Marsh & McLennan Agency	2

PE-Backed Companies - **95 Acquisitions**

Acrisure	19
Alera Group	5
AssuredPartners	15
BroadStreet Partners	16
Hilb Group	8
HUB	17
NFP	4
Risk Strategies	5
USI	6

SF Agency & Broker Buyer Index

Q1 2020 DEAL ACTIVITY

Recent Deals – 27 Transactions Completed in Q1 2020

SICA|FLETCHER, LLC
is pleased to announce its role as financial and strategic advisor to:
PCF
In its sale to:
HGGC
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
is pleased to announce its role as exclusive financial and strategic advisor to:
RLA Insurance Intermediaries
In its sale to:
Brown & Brown Insurance
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
UNIRISC
In its sale to:
Risk Strategies
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
BA Bagatta Associates
In its sale to:
PATRIOT
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
ARS
In its sale to:
ACRISURE
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
Virginia Insurance Partners
In its sale to:
World Insurance Associates LLC
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
Founders Professional
In its sale to:
ACRISURE
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
Maloney & Associates
Bonding for Contractors
In its sale to:
PCF
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
Newkirk, Dennis & Buckles, Inc.
In its sale to:
ACRISURE
SICA|FLETCHER
Opportunities Abound

SICA|FLETCHER, LLC
Is pleased to announce its role as exclusive financial and strategic advisor to:
KERN INSURANCE ASSOCIATES
WE MAKE YOUR INSURANCE MAKE SENSE
In its sale to:
PCF
SICA|FLETCHER
Opportunities Abound

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Agency & Broker Buyer Index

Q1 2020 COVID-19 Report

S|F Agency & Broker Buyer Index

COVID-19 and Credit: Debt Market Volatility and Insurance Brokerage M&A

Many PE-backed Insurance Brokers Secured Sizable Loans Immediately Prior to the Crisis

Over the past several years, the demand for high yield debt issued by private equity (PE) backed insurance brokers has been extremely strong. As a result, the top tier of these companies has had ready access not only to equity provided by PE firms, but also to highly inexpensive debt. This trend continued unabated at the start of 2020, at least until the economic impact of the pandemic hit.

As you can see from the chart below, four of the twelve leading brokers in the SF Index (Assured Partners, Alera Group, NFP Corp. and Acrisure) secured large loans between January 31 and February 11 of this year. In total, these four companies successfully borrowed $7.8 billion at yields between 5.1% and 5.9%:

					At Issue Ratings		At Issue	
Date Priced	Issuer	Size	Spread	Maturity	CCR	Tranche	QID	Yield
11-Feb-20	AssuredPartners	$2,122	L + 350	2027	B2 / B	B2 / B	99.75	5.38%
7-Feb-20	Alera Group	697	L + 400	2025	B3 / B	B2 / B	100.00	5.88
4-Feb-20	NFP Corp	1,850	L + 325	2027	B3 / B	B2 / B	99.50	5.24
31-Jan-20	Acrisure	3,175	L + 350	2027	B2 / B	B2 / B	99.75	5.41

Sources: Bloomberg, Goldman Sachs, S&P Global.

Note: Amounts in USD millions unless otherwise noted.

S|F Agency & Broker Buyer Index

COVID-19 and Credit: Debt Market Volatility and Insurance Brokerage M&A

	Issuer	Issue Date	Amount	Spread	Maturity	20-Mar-20 4yr Yield	21-Feb-20 4yr Yield
Insurance Brokerage	Acrisure	Jan-20	$3,175	L + 350	Feb-27	10.20%	5.18%
	Alera	Aug-18	697	L + 400	Aug-25	10.20	5.65
	Alliant	Apr-18	2,086	L + 300	May-25	9.17	0.00
	Alliant	May-19	530	L + 325	May-25	9.41	4.92
	AmeriLife	Feb-20	390	L + 400	Feb-27	9.70	5.65
	AmWINS	Jan-17	1,811	L + 275	Jan-24	8.78	4.33
	AssuredPartners	Feb-20	2,122	L + 350	Feb-27	9.20	5.20
	BroadStreet Partners	Jan-20	1,111	L + 325	Jan-27	9.37	4.91
	Confie	Oct-16	665	L + 475	Oct-21	19.76	7.59
	Confie	Oct-18	220	L + 850	Nov-25	17.20	12.93
	EPIC	Jan-19	969	L + 425	Sep-24	6.86	6.05
	Hub International	Apr-18	3,210	L + 300	Apr-25	9.45	4.75
	Hub International	Oct-19	1,270	L + 400	Apr-25	9.74	5.52
	NFP Corp	Feb-20	1,850	L + 325	Feb-27	9.70	5.03
	OneDigital	Oct-18	669	L + 400	Oct-25	10.20	5.61
	USI	Apr-17	2,610	L + 300	May-24	9.29	4.73
	USI	Nov-19	550	L + 400	Nov-26	9.08	5.66
	1LTL Mean		**$1,482**	**L + 359**		**10.01%**	**5.34%**
	1LTL Median		**$1,191**	**L + 350**		**9.43%**	**5.19%**
	2LTL Mean		**$220**	**L + 850**		**17.20%**	**12.93%**
	2LTL Median		**$220**	**L + 850**		**17.20%**	**12.93%**

Sources: Bloomberg, Goldman Sachs, S&P Global.

Note: Amounts in USD millions unless otherwise noted.

Impact of the Pandemic

As markets began to absorb the economic and social ramifications of the pandemic, the impact on capital markets was sudden and significant. There was a flight to “safe haven” - less risky assets. You felt this in your investment and retirement accounts, and the debt markets were dramatically affected as well.

We can see the impact in the debt markets very clearly. The loans which had been raised by the PE-backed brokerages trade on secondary markets together with other issues of high yield debt. As you can see from the chart to the left, in the month following February 21, the yield on these loans as priced by the debt markets nearly doubled, from an average of 5.3% to 10.0%.

S|F Agency & Broker Buyer Index

COVID-19 and Credit: Debt Market Volatility and Insurance Brokerage M&A

And it was not just insurance broker loans whose yields nearly doubled; the same thing happened to the bonds issued by these PE-backed insurance brokerages:

	Issuer	Issue Date	Amount	Coupon	Maturity	20-Mar-2020 Price	20-Mar-2020 YTW	21-Feb-2020 Price	21-Feb-2020 YTW
Insurance Brokerage	Acrisure	Jan-19	$950	8.125%	Feb-27	90.75	11.10%	107.50	4.34%
	Acrisure	Aug-19	400	10.125	Aug-26	93.00	11.71	111.00	7.62
	Alliant	Oct-19	690	6.750	Oct-27	87.50	9.07	104.50	5.63
	AmWINS	Jul-18	550	7.750	Jul-26	97.00	8.37	109.50	4.65
	AssuredPartners	May-19	475	8.000	May-27	86.00	10.86	107.25	6.03
	Hub International	Apr-18	1,320	7.000	May-26	84.50	10.50	104.00	5.61
	NFP Corp	Jul-17	650	6.875	Jul-25	89.00	9.56	102.50	5.74
	USI	Apr-17	615	6.875	May-25	88.00	9.92	103.00	5.40
	Mean		**$671**	**7.625%**		**88.29**	**10.00%**	**105.96**	**5.81%**
	Median		**$615**	**7.000%**		**88.00**	**9.92%**	**104.50**	**5.63%**

Sources: Bloomberg, Goldman Sachs, S&P Global.

Note: Amounts in USD millions unless otherwise noted.

From looking at these charts, the impact of the coronavirus pandemic is very clear. The public markets have substantially increased the implied yields on both loans and bonds issued by these brokerages, repricing the debt to imply yields in the high single digits or low double digits.

One outlier is Confie Seguros, whose loans were priced to yield close to 20%. Confie has traditionally focused on the non-standard auto market, and perhaps the concern is that their demographic may be the first to stop paying their insurance premiums.

S|F Agency & Broker Buyer Index

COVID-19 and Credit: Debt Market Volatility and Insurance Brokerage M&A

Implications of the Data

The good news from this data is that the top echelon of PE-sponsored insurance brokers had secured their debt financing at highly attractive terms before credit markets were substantially affected by the coronavirus. This is one of the key reasons that the deals we have in our pipeline are getting done on the same terms and conditions as before, and most of the large strategic players are telling us it is "full steam ahead," as they have the capital and desire to continue to acquire. The parties involved are working around the logistical obstacles presented by the virus, mostly by teleconferencing.

Having said that, we are now dealing with a more uncertain future that will only resolve itself with time. While we cannot predict what will happen, this data raises interesting questions.

Some of the questions we ask ourselves:

- Will the debt markets continue to demand a risk premium reflected in higher yields over the upcoming months? To the extent that new capital has become more expensive, how will this affect transaction pricing over time?
- Would these insurance brokers be better off buying their own loans at discounted pricing rather than using this capital to acquire other agencies?
- To the extent that there is long term damage to GDP and economic growth, how will this affect insurance brokerage revenues and margins? And in turn, how will this affect insurance brokerage M&A pricing and terms?

S|F Agency & Broker Buyer Index

Helicopter Money How It May Save the Insurance Brokerage Business (and the Rest of the Economy)

The Insurance Business is a GDP Business – That is the Big Risk

What do we mean when we say that the insurance business is a GDP business? The total premium growth in the industry (and thus its revenue) is strongly correlated to the growth of gross domestic product ("GDP") in the United States. Hard and soft market forces act as the variables that move premium growth either higher or lower than GDP growth.

Some of the economic predictions regarding the economic impact of the coronavirus on the economy and GDP are quite dire. James Bullard, the President of the Federal Reserve Bank of St. Louis, predicts the U.S. unemployment rate may hit 30% in the second quarter, with an unprecedented 50% drop in GDP. Goldman Sachs and Morgan Stanley also forecast a substantial drop of 25-40% in Q1/Q2.

To give you some perspective on how draconian these numbers are, during the Great Recession of 2008/2009, GDP dropped by 4.3%; during the Great Depression, GDP dropped by about 30%.

While Bullard, Goldman Sachs, and Morgan Stanley all expect the economy to bounce back toward the end of the year, substantial economic damage will be done. In fact, without a strong policy response (which is already underway), the economic damage could take a decade to repair. While insurance premiums tend to be one of the last bills not to be paid, a 50% drop in GDP would surely have a massive impact on insurance premiums, brokerage revenues, and profit margins.

The Great Depression lasted for an entire decade. It took gearing up for World War II to ultimately end the economic dislocation. A sustained 20-50% drop in GDP would represent an economic tsunami that would be worse than the impact of the Great Depression, and in our opinion, would ultimately cause more death and destruction than the actual virus itself. So how do we stop the U.S. from entering a decade-long Depression?

S|F Agency & Broker Buyer Index

Helicopter Money How It May Save the Insurance Brokerage Business (and the Rest of the Economy)

Helicopter Money to the Rescue

We believe the response by the federal government will be massive doses of Helicopter Money.

As well explained by Investopedia:

> *While 'Helicopter (Money) ' was first mentioned by noted economist Milton Friedman, it gained popularity after Ben Bernanke made a passing reference to it in a November 2002 speech, when he was a new Federal Reserve governor. That single reference earned Bernanke the sobriquet of 'Helicopter Ben', a nickname that stayed with him during much of his tenure as a Fed member and Fed chairman.*
>
> *Bernanke's reference to 'helicopter drop' occurred in a speech that he made to the National Economists Club, about measures that could be used to combat deflation. In that speech, Bernanke defined deflation as a side effect of a collapse in aggregate demand, or such a severe curtailment in consumer spending that producers would have to cut prices on an ongoing basis to find buyers. He also said the effectiveness of anti-deflation policy could be enhanced by cooperation between monetary and fiscal authorities and referred to a broad-based tax cut as "essentially equivalent to Milton Friedman's famous 'helicopter drop' of money."*
>
> *Even though Bernanke's critics subsequently used this reference to disparage his economic policies, they were effectively silenced by his adroit handling of the U.S. economy during and after the Great Recession of 2008-09. Faced with the biggest recession since the 1930s, and with the U.S. economy on the brink of catastrophe, Bernanke used some of the very same methods outlined in his 2002 speech to combat the slowdown, such as expanding the scale and scope of the Fed's asset purchases.*

While the notion of printing money as a means to avoid economic catastrophe may seem absurd for such an advanced economy as the U.S., that's exactly what we did from 2009-2014. At one point during that period, the Federal Reserve was printing up to $80 billion per month which was then used to buy U.S. Treasury bonds and mortgage-backed securities. While not perfect, the policy worked, saving us from another depression and ultimately leading to the longest economic expansion in history. Sadly, the economic expansion ended with an abrupt halt with the advent of the COVID-19 pandemic.

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Helicopter Money How It May Save the Insurance Brokerage Business (and the Rest of the Economy)

So How Will Helicopter Money Work This Time?

This time, Helicopter Money will be in a somewhat different form than in the Great Recession. Interest rates are already at or close to zero, so reducing rates is basically impossible and will not save the economy. What is happening and will continue is massive government spending to stop the free fall in the economy. The first part of this is already in progress with the newly passed $2+ trillion CARES Act stimulus bill. The plan is for the government to issue bonds at low-interest rates in order to borrow the trillions of dollars needed, which represents about 10% of total GDP and 50% of total government spending in 2019. This money will be pushed into the economy via various programs such as unemployment insurance, a small business payroll protection program, bailouts of large industries such as the airlines, tax relief, healthcare subsidies, etc. Our guess is that we will see another similarly sized relief package to follow this one.

This leads us to the following question - “Since the U.S. already has massive debts, who will lend the government this money by buying all of these bonds?” The answer is the Federal Reserve. The plan is for the Fed to create the money and buy up the U.S. Treasury bond issuance via a mechanism called quantitative easing “QE”.

Another question you may have is - “Won’t this spark massive inflation and destroy the value of the dollar?” Similar arguments were made in 2008 and 2009. The bottom line is that in those days inflation never got above 2% and the dollar never collapsed. The mechanics of why that was the case are complicated and better left to another article.

Can the Fed overdo it and print too much money creating out-of-control inflation or hyperinflation? The answer is “Yes, they can.” However, in 2008 and 2009, it was able to print just the right amount during the financial crisis, and odds are they can do it again.

Right now, a deflationary spiral is a greater risk than overdoing stimulus. For the insurance distribution industry, limiting the damage to GDP is the number one priority. If the policy response can do that, insurance distribution will continue to be one of the best investment assets classes going forward.

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Helicopter Money How It May Save the Insurance Brokerage Business (and the Rest of the Economy)

The Bottom Line

We believe that Helicopter Money will work and get us through this phase of the economic catastrophe — but there are unknowns and risks.

For example, what if there is a second COVID-19 wave after the economy is restarted or later in the fall? It bears remembering that the Spanish Flu of 1918 came in three waves that lasted from the spring of 1918 to the summer of 1919. In fact, it was the second wave of the Spanish Flu in the fall of 1918 that accounted for most of the U.S. deaths from that pandemic. We are not out of the woods with COVID-19 once the initial death rate subsides.

So while there is room for optimism, many questions remain. Could we see more than one wave of fatalities with the coronavirus? Can we withstand two massive economic contractions in the same year? Only time will tell.