

COVID-19 and the Insurance Brokerage M&A Market

The past several weeks have been difficult for us all as we adapt to the changing reality of COVID-19 and its impact on our families, communities, and businesses. Many of our clients have asked us about the impact on insurance brokerage M&A of the pandemic and the resultant containment efforts. While it is still relatively early, here are some of our initial observations:

Deals in the Pipeline Are Getting Done

Virtually all of the transactions we were working on are continuing to move forward at the present time on the same terms and conditions we had anticipated. We have not seen any transactions yet in which buyers have changed the terms of their proposals based on the impact of the coronavirus, and over the past few weeks, we have closed a number of significant insurance brokerage transactions and have signed letters of intent on others. We anticipate being in the position to send you a further update within the next week or two on transaction developments.

The Largest Strategic Players Tell Us Full Steam Ahead

The major strategic acquirors have informed us that they plan to continue to aggressively pursue acquisitions of insurance brokers. These strategic acquirors typically have both their equity and debt facilities in place, so there is no shortage of capital. Also, over the past few weeks, a number of private equity firms have expressed their continued interest to us in investing in growth strategies in the brokerage sector.

The Parties Are Working Around the Obstacles

The inability to meet face-to-face and travel has required a number of work-around solutions, generally involving teleconferencing. Much of the prep work to prepare a company for sale and to handle due diligence is completed electronically, so this part of the transaction process has not been affected. One challenge for certain sellers has been the need to transition their employees to working remotely from home, and this has delayed their ability to gather and disseminate information required in a transaction process.

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Impact of the Pandemic on Broker Margins and Earnings Is Unclear

The ultimate economic fallout of the pandemic is still unknown, but containment efforts have already produced substantial economic pain for many businesses and families. This could have an impact on brokerage revenues and profit margins, depending on the length and severity of the containment efforts. As brokerage valuations are a function of both the EBITDA multiple and the EBITDA profit margin, over time acquirors may have to incorporate mechanisms into their transactions so that sellers do not receive impaired value due to a short-term and temporary pressure on revenues and earnings.

If you would like to have a discussion about your strategic options in these uncertain times, please visit our website, sica Fletcher.com, or call us directly at 516.967.1958. We are here to help and would appreciate the opportunity to develop a dialogue and work as your strategic advisor to help you reposition your business for further growth and success.

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 compliment it. In 2019, we led the country with 92 transactions completed for the insurance agents and brokers, and in 2018, we led the country with 79 closed transactions. 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 \$6 billion in insurance agency and brokerage transactions since 2014.