

Hines Associates

Key trends and challenges in the UK insurance broker market

17 December 2019



Table of Contents (of full publication)

 1	Transaction landscape	3
 2	Key industry themes and drivers of M&A activity	8
 3	What has been driving transaction values?	12
 4	Consolidation vehicles – star appeal	17
 5	Regulatory backdrop / developments	20
 6	Appendix <i>UK Broker Transactions – 2019 YTD</i>	23

Section 1

Transaction landscape

Hines on the UK Insurance Broker Market

Foreword

- *We are pleased to share our review of the UK insurance broker market. The commentary in this document is principally based upon our own analysis and research into the sector, including interviews with several key market participants*
- Notwithstanding the recent political and economic uncertainty in the UK and overseas, there has been a **steady flow of M&A activity** within the **UK insurance broker market** over the last 12 months, driven by the continuing theme of **consolidation**
- We count **93 publicly disclosed UK insurance broker transactions to date in 2019**, with many more which have either not been disclosed or are yet to be announced
- Over the following pages we discuss some of the key industry themes and drivers of transaction activity and value. We also take a look at transaction multiples observed across the sector

If you would like to discuss either the value of your business or one that you might be interested in acquiring, **we'd be delighted to hear from you**

Hines contacts



Richard Hines

Partner

Tel: +44 (20) 375 19407

Email: richard@hinesassociates.com



Jack Stewart

Partner

Tel: +44 (20) 375 19406

Email: jack@hinesassociates.com



Dilipe Arul

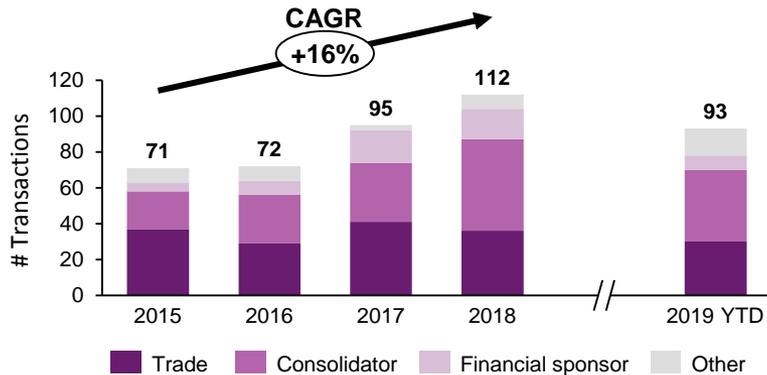
Vice President

Tel: +44 (20) 375 19411

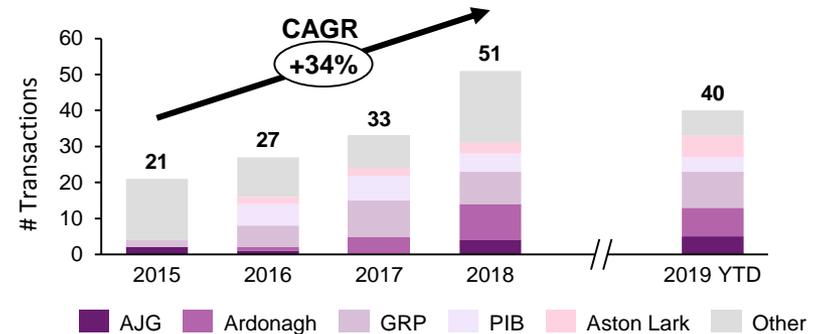
Email: dilipe@hinesassociates.com

Snapshot of M&A activity

A steady flow of M&A activity over the past five years, dominated by trade and trade consolidators



Increased activity amongst the top trade consolidators in recent years



A range of financial sponsors invested into the sector in 2019 YTD

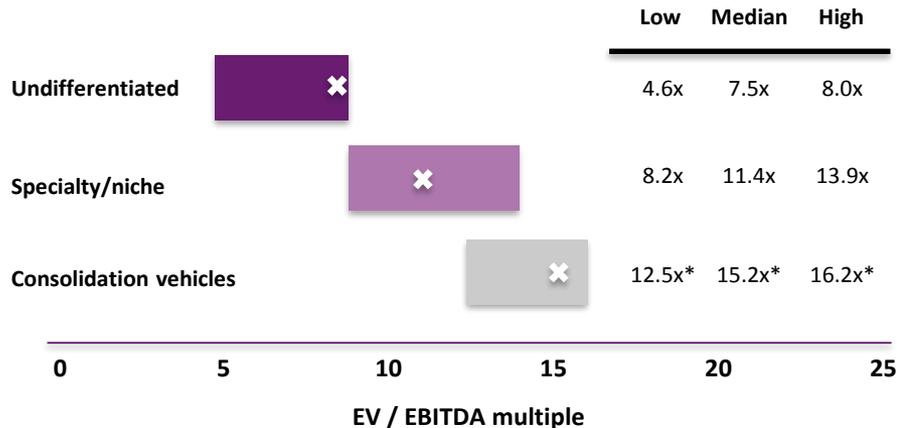
Financial Sponsor	Target	Deal value
MDP / HPS	Arachas	£210m (majority)
BP Marsh	Lilley Plummer	£1m (minority)
Beech Tree PE	Avid Insurance	Undisclosed (majority)
Preservation / BCI	BMS Group	£500m (majority)
Goldman Sachs PE	Aston Lark	£320m (majority)
Dunedin	Acquis Insurance	Undisclosed (majority)
Warburg Pincus	McGill & Partners	Up to \$250m (initial)
Inflexion	Granite Underwriting	Undisclosed (minority)

Continued interest from overseas investors during 2019 YTD

Overseas investor	Target	Acquiror nation
ERGO Group AG	JRP insurance	Germany
Preservation / BCI	BMS Group	UK/ Canada
PSC Insurance	Paragon	Australia
Integro-Tysers	RFIB	US
Warburg Pincus	McGill & Partners	US
H.W. Kaufman	MGA Barbican Protect	US

Segmentation of the UK broker market

Price distinction across segments of the market



* Consolidation vehicle multiples are based on pro forma adjusted EBITDA

Source: Company reports and accounts, Insurance Press, Hines' analysis and estimates

Commentary

- The summary opposite is based on our analysis of **relevant UK insurance broker transactions** over the **past 36 months**, excluding outliers
- The majority of precedent transaction analyses tend to segment the market into personal, commercial and specialty lines in order to detect valuation themes
- Our view is that there are far too **many drivers of value** to segment the market in this way and that more meaningful themes can be found in the categories outlined opposite
- Although at face value certain markets may appear more attractive to buyers than others (i.e. commercial lines vs personal lines), **valuation premia** are ultimately driven by **more tightly defined factors**, including (i) focus on **niche, profitable lines** (ii) extent of **technical, operational and technological capabilities** (iii) **scalability** and (iv) historical and forecast **growth rates** (organic and/or inorganic)
- While **synergy potential** can create **additional value** for buyers, this upside is **not always shared** with the vendor
- We have dedicated a section (section 4) **to consolidation vehicles** as these have become one of the most widely talked about topics in the UK insurance broking sector – for the **flurry of M&A activity** they have been responsible for, and **significant multiples at which they are being traded**

About Hines Associates Ltd.

Hines Associates Ltd. was founded in 2002 as a specialist corporate finance advisor to financial institutions. It has broad financial industry expertise, with specialisms in banking, insurance, wealth management, asset management, distribution and financial technology.

Hines Associates Ltd. advises on the buying and selling companies, raising capital, financing, corporate strategy, valuations and structuring family assets.

Hines Associates Ltd. is a partner of the international adviser network of Wells Fargo Securities.

Disclaimer

This document has been prepared by Hines Associates Ltd. solely for discussion purposes. The information and opinions contained in this document are derived from public and private sources which we believe to be reliable and accurate but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness. The information is supplied on the condition that Hines Associates Ltd., and any partner or employee of Hines Associates Ltd., are not liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for the loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such supply. In particular, any numbers, initial valuations, schedules and any other analysis contained in this document are preliminary and are for discussion purposes only.