CONSOLIDATION IN THE GLOBAL INSURANCE BROKERAGE MARKET: HOW TO CREATE VALUE EXECUTING A CONSOLIDATION STRATEGY

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠

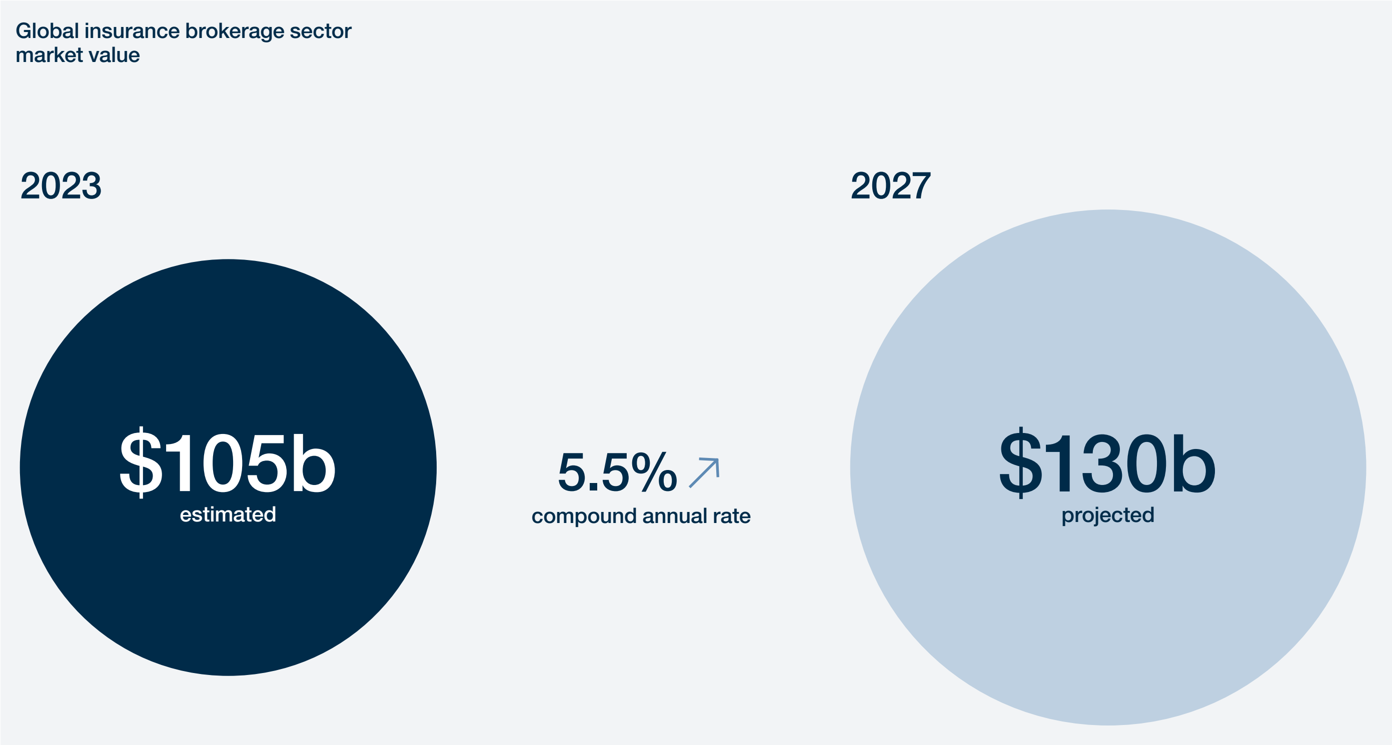
CONTENTS

Introduction	04
EMEA Overview	08
United Kingdom	10
France	11
Germany	12
The Netherlands	13
Spain	14
United States	15
Consolidation Players and Key Takeaways	16
What's on the Horizon	21
Summary	24
How Can A&M Help?	25
Key contacts	27

INTRODUCTION

The global insurance brokerage sector is immense, as the market has developed significantly over the past decade across various regions. Valued at an estimated $105 billion in 2023 and expected to grow at a compound annual rate of 5.5 percent, the market is projected to increase to $130 billion by 2027.[1] As the sector is maturing, brokers, consolidators and investors have searched for ways to create value and new revenue through growing their local market share or regional presence.

[1] https://www.researchandmarkets.com/reports/5734991/insurance-brokers-global-market-report



Personal lines, the brokerage of insurance products to retail clients, are increasingly displaced by online comparison websites and online direct access to insurance companies. However, the brokerage of insurance products to companies (commercial lines), be it large international corporations, mid-sized companies or SMEs, is still very much performed through insurance brokers. The commercial lines insurance brokerage sector has seen an almost continuous stream of consolidation over the past decade. This is set to continue, albeit sizeable candidates are harder to come by in the countries where the consolidation has already progressed. In those countries a next step might be the combination between consolidators to achieve further scale but also, as we increasingly see, the consolidation of players beyond national boundaries.

Across the industry, consolidation has become the driving theme due to the high level of competition, increased regulation, the aging of founders of independent brokers and the challenge of dealing with multinational insurers. We believe this will continue into the future.

Private Equity (PE) firms that are still sitting on large stores of cash have stepped in to help insurance brokerage consolidators finance acquisitions alongside other sources of funding. While each region has its unique challenges, investors and other players still have opportunities to acquire and consolidate brokerages in any of them. The business model of insurance brokers is attractive as there is a clear sight of future performance due to high levels of client loyalty and strong cash generation.

PE firms have especially shown their prowess for effectively closing merger and acquisition (M&A) deals. However, they are increasingly looking to create value through post-acquisition integration. Whilst PE initially rolled up brokers in search of scale, now they are looking to optimise acquired businesses. So, companies that can define the right operating model and effectively integrate target companies into that single platform can create efficiencies through the implementation of best-in-class systems and procedures and, thus, value.

NO MATTER THE REGION, THERE'S A PATH TO ADDED VALUE IN THE COMPETITIVE INSURANCE BROKERAGE MARKET

This report focuses on the unique drivers of consolidation and the challenges inherent in each country across Western Europe and the United States, the key players and takeaways from A&M's observations and finally, "value win" opportunities for consolidators in the sector.

Each major region and each individual country has unique market conditions and varying levels of opportunities, but major trends can be identified at a higher level. Together with the ability to accurately choose the right targets and optimise value through post-acquisition integration, buyers and investors can take advantage of those opportunities.

EUROPE, MIDDLE EAST AND AFRICA (EMEA) REGION OVERVIEW

With such a wide swath of nations, the EMEA market is unsurprisingly uneven, with a concentration of brokerages in primary markets such as the U.K., France and The Netherlands, whereas in other markets such as Italy, Spain and Portugal, the consolidation is less advanced. In the latter, Pan-European consolidators enjoy opportunities to invest in new markets and possibly new products. Many firms which learned how to effectively consolidate brokers in one market, in particular the U.K., are looking to replicate the process in other parts of the EU.

The rate of consolidation also varies across the region, with rapid acceleration in some markets such as Germany, but it also depends on the combination of local consolidators and the advent of cross-border platforms.

The EMEA market has been largely shaped by several waves of consolidation in the U.K., where the industry is mature. It still features a large number of brokers — more than 3,000 — that offer a broad set of products, but the firms are largely confined to the local market. Internationally active brokerages have been focused on strengthening their global reach to accommodate the needs of large corporations.

The second level of internationally active brokers initially focused primarily on building out their U.K.- or U.S.-originated businesses in countries with an Anglo-Saxon insurance heritage, such as Singapore, Australia, India and other similar countries. However, they are now increasingly active across Europe.

With the advent of Brexit, some U.K. brokers moved to explore more readily accessible European markets, including the Nordics, Benelux, France, Spain and, to a lesser extent, Switzerland. Local players were targeted by PE-owned companies to create platforms to consolidate the market and reap the benefits of scale and broader footprints.

Outside the U.K., countries in EMEA show different stages of consolidation. In Italy, Belgium and Germany, consolidation is accelerating rapidly. In countries such as Netherlands, France and Spain, consolidation is well underway with a growing focus on building pan-European leadership. Local leading consolidators are emerging in Germany, Netherlands and Spain, with others moving fast to become a leading force in the market.

Consolidation Drivers, Challenges and Opportunities:

Although consolidation is happening in the various countries at different paces, the consolidation drivers, challenges and opportunities are fairly similar in nature. In the following table we touch on the key ones that we tend to find in most countries:

Consolidation drivers:

- A generational shift from founders to non-family management.
- Growing compliance pressure on insurance brokers, requiring investments that companies are not inclined to make given their own management horizon.
- A push from insurers to professionalise the underwriting capability at a time technical capabilities are in short supply.
- A need to think strategically given the change in composition of international brokerage networks due to the consolidations.
- The availability of pools of PE money that are seeking attractive returns by investing in solid, cash generating businesses.

The drivers above offer opportunities for consolidation:

- An opportunity to cross sell different insurance products to the same clients.
- The opportunity to 'follow' clients during their international growth trajectory into other countries by also being able to offer insurance coverage to international scale benefits resulting from the opportunity to capitalise on IT investments across a single platform, lowering unit investment expense.
- Digital transformation and technology efficiencies provide key opportunities to create value.
- The creation of subsidiaries.
- Stronger bargaining power vis-à-vis insurance companies.

However, there are some structural and temporary challenges that need to be dealt with:

- The Western insurance market is fairly mature and shows growth rates that are quite modest and generally in track with GDP growth.
- PE's focus on the sector has pushed up prices for attractive targets.
- Businesses are generally founder-led, and consolidation comes with a change in governance. Maintaining the entrepreneurial, client-focused nature of the business whilst streamlining the business to realise the benefits from consolidation is a challenge.

In Summary: Over the past several years the attractiveness of the business model as well as the strong drivers for consolidation have led to a significant interest of PE in the sector. As a result, prices of both insurance broker platforms as well as smaller add-ons have increased significantly, making it all the more challenging for new entrants and established players to carry out an M&A strategy that is value accretive.

UNITED KINGDOM

The U.K. insurance brokerage sector has always been the most important one in Europe in terms of size and breadth of products offered.

The U.K. commercial lines brokerage market has also been the first to show significant consolidation, with PE also flocking to the industry and playing an important role in backing management teams and consolidators to carry out a so-called 'roll-up' play.

Industry revenue is expected to increase at a compound annual rate of 3.5 percent between 2022 and 2028, reaching £18.7 billion.[2] This growth is likely to be driven by rising demand for specialty commercial lines. Further industry consolidation is expected despite the sector's maturity. According to industry body BIBA, there were still around 2,200 insurance brokers in the U.K. at the end of 2022, around 700 of which are employing at least 10 full-time equivalent (FTE) positions and the largest portion of these being in private hands.

The net investment in the sector by PE is reducing. This is because the U.K. consolidation is the most advanced and money was invested earliest, therefore making sense that some investment is coming towards the end of its cycle. Secondly, there are still huge PE-owned businesses, but they are finding it harder to generate meaningful inorganic growth and so are looking elsewhere, where it is easier to continue the consolidation strategy. U.S. investors in the sector have come to the U.K. for a long time for international expansion. Still, increased inbound investment from U.S. investors is happening as assets on their home market are become increasingly expensive.[3]

Consolidation trends

- Consolidation has progressed, which has also led to attractive targets becoming more difficult to come by while no new consolidation platforms are entering the market.
- Price expectations of sellers have become excessively high, resulting in inorganic growth becoming a less attractive strategy in the U.K.
- Various PE-owned consolidation platforms are under pressure to show returns through the realisation of operational efficiencies.
- Cross-selling of products across different regions continues to be a potential synergy opportunity for consolidation platforms.

[2] Source: K66.220 Insurance Agents – Brokers in the UK Industry Report
[3] Source: IMAS, UK insurance distribution M&A, Annual Review 2022

FRANCE

French brokers are a key part of the insurance landscape as they are responsible for almost 25 percent of the distribution of premiums.

Brokerage activity remained dynamic in 2022 with a market turnover growth of 3.5 percent. The major segments (auto, home, professional risks), which represent a large part of the activity, benefited from the growth in the insurable market and were reinforced by an increase in pricing.

Health insurance also experienced vibrant activity over the year, driven by the continued aging of the population and the economic impact of the consumption of medical care and goods in a post-Covid context. Overall, 2022 confirmed the importance of the role of brokers in distribution, particularly surrounding the advisory roles they provide. Niche brokers have performed well because they serve as a key link between clients and risk bearers, who tend to delegate distribution to brokerage networks.

Wholesale brokers are now essential in the distribution chain of insurance products. Originally seen as exploiting the flaws in the traditional models of insurers by providing answers to niche needs, especially in professional insurance, they now benefit from a very buoyant context. Regulatory pressure, legislative changes facilitating premium terminations and the tightening of rules on cold calling reinforce the role of wholesale brokers in ensuring compliance across the distribution and wider value chain.

Alternative digital players bringing technology efficiencies, such as insurtech, have recently stepped onto the stage and are rising to power, leaving in their wake less agile brokers who now face an increasingly digital model.

Despite a slowdown in fundraising, digital and insurtech players have been on the offensive since 2021. For example, Luko, launched in 2016 and now with more than 500,000 policyholders, has made a few acquisitions in 2022, including the German Coya and the rental guarantee specialist Unkle.

For traditional players in the brokerage sector, digital transformation has become a priority, leading them to launch remote claim reporting solutions, AI-based verification processes and electronic signature tools to compete with new entrants in the market.

In this context of intense competition, diversification remains essential for many brokers looking for new sources of growth. In June 2022, the wholesale broker iAssure, historically a player in the borrower insurance segment, continued the diversification strategy it initiated in 2020 by positioning itself in the individual health insurance market.

Many other specialist brokers have carried out external growth plans to combine diversification and cross-sell potential. This illustrates that the race for size is not over for brokerages in France. Even beyond strategies to diversify products, customers, geographical presence and other factors, external growth is also necessary to serve economies of scale and prevent the pooling of resources.

Consolidation trends

- The fragmented nature of the market, with more than 20,000 entities, offers an abundance of assets to the PE-backed platforms that have driven local brokerage M&A activity.
- The market's increased reliance on the advisory role of brokerages favours investor interest.
- Niche brokers and wholesale brokers offer different but potentially lucrative opportunities for growth.

GERMANY

A bit of an outlier, German insurance brokerage consolidation was, until recently, not driven by PE firms as in other markets, and the benefits of consolidation were not as evident to investors. However, like in other countries, market pressure or tightening compliance regulations are the key drivers of consolidation.

The annual revenue of the German insurance agent and broker sector was €2.0 billion in 2022. The number of active enterprises in the sector has remained relatively stable, with 7,627 active enterprises in 2013 and 7,158 active enterprises in 2021.[6] The German market had around 46,400 active insurance brokers in 2021.[7] Insurance brokers were responsible for 20 to 25 percent of all new business in Germany in the life insurance, private health insurance, car insurance and legal protection insurance sectors in 2021.[8] In the property, accident and liability insurance sector, insurance brokers were responsible for around 40 percent of all new business.[9]

Due to the size and fragmentation of the German insurance broker market, there are opportunities for consolidation. The German commercial insurance broker market is one of the largest European markets behind the U.K. and France, and the sixth largest insurance market in the world based on contributions in 2021.[10]

The number of M&A transactions in the German insurance broker market has increased over the last several years, with several consolidators emerging. Despite this, the German insurance broker market is still lagging the more consolidated markets like the U.S. or U.K. in terms of M&A activity.[11]

Consolidation trends

- Generational shift from founders to non-family management.
- Growing compliance pressure on companies, requiring investments that companies are not inclined to make given their own management horizon.
- Internationalisation of the insurance broking business and access to international talent and markets, requiring investments.[12]
- The German insurance broking market is highly fragmented, offering consolidation opportunities.[13]

Some German consolidators have been quick to look at opportunities for international expansion and are already active as acquirers in countries such as The Netherlands.

[6] Source: IBIS World Industry Report K66.22DE
[7] Source: GDV Statistiken zur deutschen Versicherungswirtschaft 2022
[8] Source: GDV Statistiken zur deutschen Versicherungswirtschaft 2022
[9] Source: GDV Statistiken zur deutschen Versicherungswirtschaft 2022
[10] Source: GDV
[11] Source: asscompact.de
[12] Source: Interview with AON CSO Marcel Armon from 2021
[13] Source: Strategy& Developments and trends in the German market for commercial insurance brokers

THE NETHERLANDS

The Netherlands and the U.K. can be characterised as countries in which brokers tend to be independent, whereas in Southern Europe in particular, the (tied) agent model is more prevalent.

The Netherlands has witnessed accelerating consolidation. Over the past decade the number of brokers has decreased significantly, from about 6,300 in 2007 to about 4,900 in 2019, a 22 percent drop.

Even with such high activity already, further consolidation will continue, mainly because of the market structure. Nearly 4,800 brokers have fewer than 20 FTE positions and roughly 120 brokers have more (compared to roughly 370 in the U.K.). The top-100 largest players accounted for €2.6 billion in revenues in 2020.

Around €4.8 billion, or 77 percent, of commercial insurance premiums were brokered through the intermediary channel in 2020, according to Adfiz, the industry association of brokers in The Netherlands.

In the past, consolidation was largely driven by transactions between brokers. However, over the past five years several mid-sized platforms have been acquired by international PE firms to execute accelerated buy-and-build strategies, bringing considerable upward price-pressure to bear on targets with roughly €10 million in revenue or higher.

The recent trend among brokerage platforms has been to focus on volume growth rather than developing specialties, as well as to focus on acquisition plans over post-merger integration. They're also keen to benefit from opportunities created by consolidating managing general agents (MGAs) and proxies, and some see benefits from teaming up with service providers to cover a larger part of the value chain.

Dutch insurers have come under increased pressure to reduce costs. In the past, this has also led them to sell their origination through intermediary channels and sell their own brokers. More recently, this trend has reversed as insurers are keen to maintain their pricing power in the value chain and not become price takers. In addition, insurers are in the process of increasing their requirements for MGAs in an effort to reduce the number of suppliers and get a better handle on the quality of underwriting.

Consolidation trends

- Scarcity of attractive consolidation platforms in the Dutch market underpins price pressure for those platforms, several of which are likely to come to the market in the next six to nine months.
- Compared to the U.K., Dutch insurers tend to have more pricing power over insurance brokerage firms.
- Continuous increases in compliance requirements force smaller founder-managed businesses to seek stronger partners who can offer scale benefits and back-office investments.
- Opportunities can be found in specialization and effective post-merger integration.

[4] Source: public information, Xerfi
[5] Source: Adfiz, Advies in Cijfers 2022 – 2023

SPAIN

The insurance brokers' business in Spain is a highly fragmented field. Currently, Spain has approximately 3,500 insurance brokers and more than 65,000 insurance agents, where only five insurance brokers generate revenues of over €50 million and around 20 brokers generate more than €10 million.

In 2021, brokers in Spain intermediated €14.5 billion in premiums and generated €1.6 billion in commission income, maintaining a stable average commission of 11 percent to 13 percent during the period of 2013 to 2020. In terms of distribution, the life segment in Spain is dominated by bancassurance operators, as many risks policies are linked to loans led by commercial banks, whilst the non-life segment is dominated by agents and brokers (26 percent of life market share versus 62 percent of non-life market share). Insurance brokers have maintained market share (25.1 percent of total premiums in 2015 versus 25.6 percent in 2020) and its weight in new production (34.1 percent in 2020) indicates a positive trend in the following years.

Given the large fragmentation and the positive market trends, the industry has attracted the interest of both national and international PE funds, though the lack of sizeable players that could be used as the entry point in the market in Spain has so far impeded the appetite for Spain of some of the international consolidators.

Over the past couple of years, we have seen the consolidation activity picking up with more than 20 deals closing. Major international PE or PE-backed players leading this consolidation in Spain include PIB, Howden, BMS, Blackfin and Soderberg. It is worth highlighting that local PE funds, such as Miura, are placing themselves strongly in the industry consolidation while other local PEs are demonstrating interest but still have not been too active. As well as PE houses, there are also local corporates such as Acrisure and Asterra (backed by founders and Marsh & McLennan) involved in the sector's consolidation in Spain.

Consolidation trends

- The Spanish market is heavily fragmented and has been impacted by several positive trends recently.
- This has attracted the interest of both national and international PE funds as well as local corporates.
- The lack of sizeable players has mitigated the appetite of international consolidators.

UNITED STATES

Consolidation in the U.S. insurance brokerage sector continues at a fast pace despite being one of the most mature M&A markets for these assets. Well-capitalised, PE-backed platforms are driving both activity and valuations.

However, in order to stay competitive, insurance brokers must find a way to differentiate themselves in the market by broadening service offerings, investing in technology and expanding into new geographic areas.

Many U.S. companies are searching for ways to tap into new revenue streams, steering towards other services in the insurance distribution value chain including claims management and third-party administration companies or even offering up new services and products. Brokers are adding enhanced offerings, including retirement and wealth management advisory services, along with traditional insurance to differentiate themselves in the market.

There is also growing demand for wholesale brokers and MGAs, allowing buyers to expand into niche markets, strengthen carrier relationships, obtain better commission structures and participate in the profitability of underwriting risk.

Digital transformation continues to impact the insurance brokerage industry most notably through larger players making investments in technology and acquiring new entrants. The insurance industry, traditionally risk adverse, has historically been reluctant to embrace new technologies. However, with an increased emphasis on efficiency, better risk management tools and investors' need to differentiate their assets in the market to prove high valuations, technology will continue to play a role in the insurance brokerage industry to keep players relevant. Technology has also driven increased focus on personal lines insurance (e.g., homeowners, small business, auto, etc.) where direct-to-consumer platforms generate efficiencies and economies of scale, improving profitability for these product offerings.

Given the competitive nature of the market in North America, PE firms require initial platforms to build off, but those platforms are quite large and expensive to acquire. Therefore, in many cases, multiple sponsors are joining forces to buy them or even build them from scratch. Furthermore, the IPO market is a likely next step for several insurance brokers that are now too large for the private market.

Other companies are moving beyond U.S. borders to Canada, the U.K. and mainland Europe as they explore other markets ripe for consolidation.

Companies face very few headwinds in the market except for fierce competition and high valuations. Insurance brokers have been able to benefit from a hardening market, but as markets stabilise this may lead to a flattening of valuations.

Consolidation trends

- The market continues to be competitive regarding consolidation.
- Companies are targeting firms that add new services or revenue streams.
- There's activity in the high end of the market, but smaller targets are also getting attention because of their strong cash flows.
- Consolidations are going beyond the U.S. border to Canada and Europe as U.S. investors see opportunities elsewhere.
- Platforms are being built from scratch from multiple sponsors so the company can begin seeking acquisitions.
- Larger insurance brokers are likely to pursue an IPO as they outgrow the private market.

CONSOLIDATION PLAYERS AND KEY TAKEAWAYS

Based on an analysis of the activity level of a set of leading insurance broker consolidators, A&M has identified the following trends. The set of most active consolidators was based off MergerMarket information that generally does not capture the deal activity at the smaller end of the market. The MergerMarket data was supplemented by deal announcements made by the consolidators on their own websites. There are inherent limitations to this approach, but we consider the outcome reflective of the key market trends we also see in in our day-to-day practice.

Continued acceleration of deal activity

There is a significant acceleration in the level of transaction activity over the past few years, with FY23 clearly being a year set to outpace activity in both FY21 and FY22.

Most activity is taking place in the U.S., with the selected set of consolidators accounting for around 60 percent of total deal volume. In Europe, most activity is in the U.K., with this country accounting for most of the activity in FY21. Consolidation moved to Ireland in FY21 and activity in that market has remained relatively significant over the past year.

More focus on international expansion

International expansion was not really on the agenda for most consolidators until FY19, with AJ Gallagher being an exception to the rule. Still, for most, the local consolidation agenda is of most importance, and it accounts for 60 to 80 percent of overall deal flow in FY22, FY23 year to date.

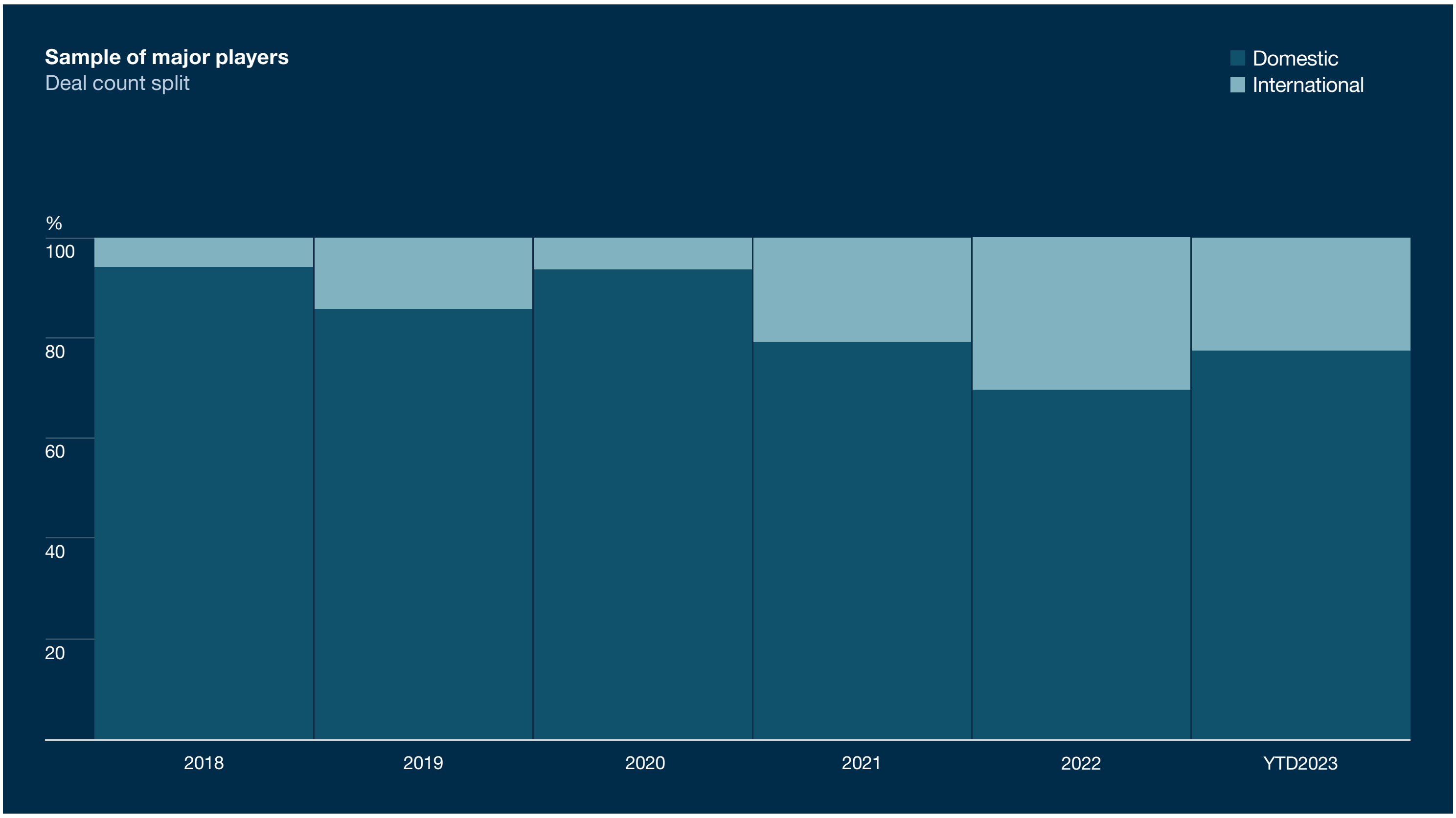
This focus on localised consolidation is largely because U.S. players HUB, Risk Strategies, BroadStreet Partners and World Insurance, among others, remain very acquisitive in their home market. In addition, Acrisure and AJ Gallagher decreased M&A in the U.S. this year, albeit turned to international expansion.

In Europe, FY21 international consolidation really started to gather steam, with Howden, PIB and later Ardonagh starting to expand their networks across Europe. Markets that have seen a significant uptick of international transaction activity have been Ireland, Germany and Spain with Italy, Belgium and France being important markets as well, where more international activity can be expected.

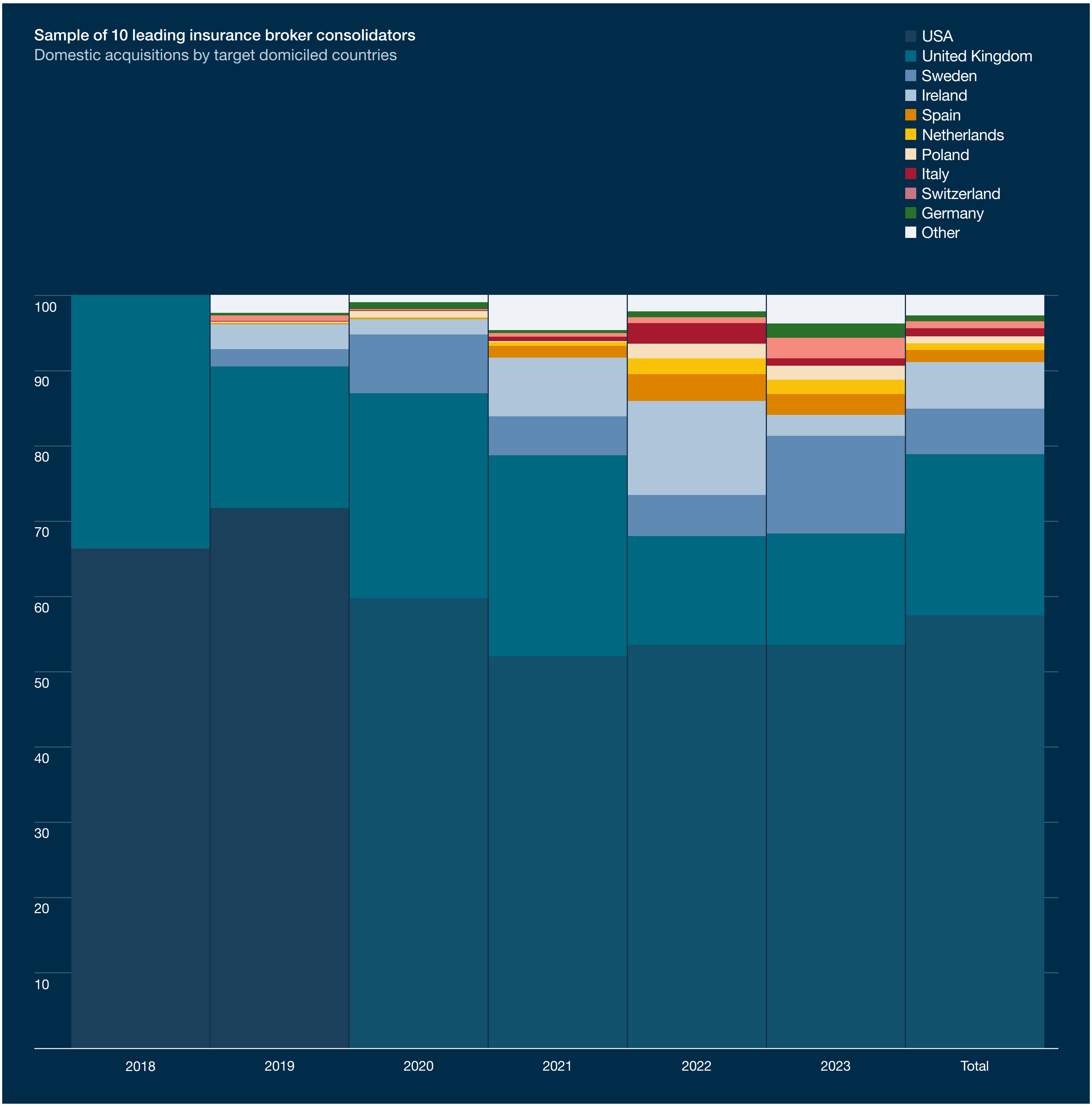
Industry players and their shift to an international focus

For our analysis of key trends, we selected 10 active consolidators accounting for 630 transactions in the past six years based on information from MergerMarket and Company websites. Our analysis shows there is no obvious common broad strategy between the main players. Each company is seeking to develop their platforms in different niches, geographies and markets. Their acquisition strategies are also highly dependent on fund size or capital available to deploy.

Overall, however, there is a general shift in European markets from a domestic to an international focus, gathering steam in 2021 and 2022:

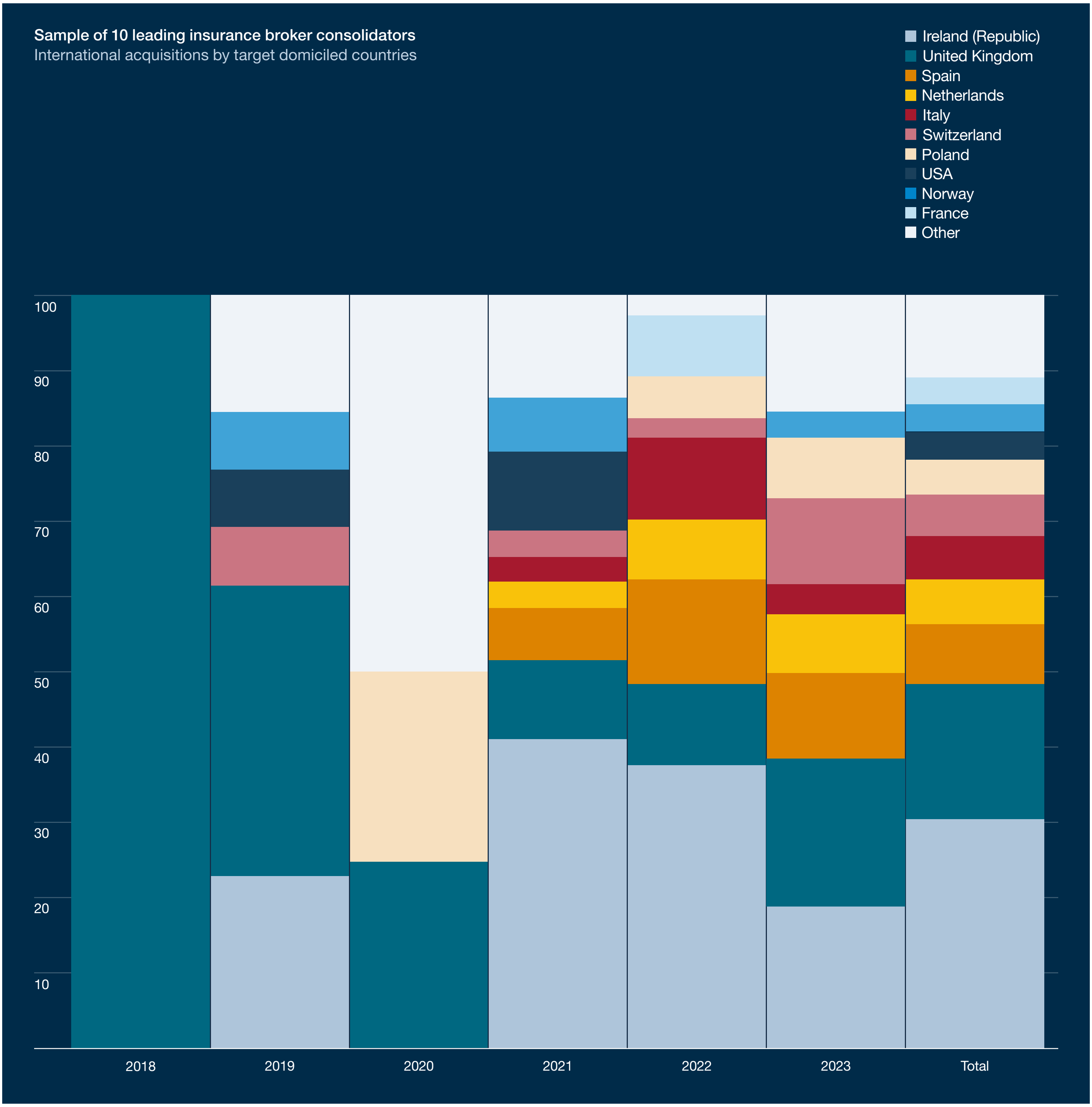


As shown in the graph below, the majority of targets (both by volume and size) are domiciled in the U.S. and U.K. A&M also sees that domestic-orientated, PE-backed consolidators will continue to make sizeable deal volumes of local acquisitions, such as MRH Trowe in Germany and Sakra in Sweden have done in their home markets.



However, international acquisitions geographically outside of where company headquarters are located tell a different story:

What can be observed from this data is that the U.K. and Ireland are hotspots for foreign investment, with the U.S. investing in the U.K. and the U.K. investing in Ireland, while inbound investing in the U.S. is negligible. Since 2021, broader European expansion has really taken off with Spain, The Netherlands, Italy, Switzerland and Poland all showing continuous in-bound investment.



Increased internal consolidation brings opportunity for new players

For larger PE funds that are seeking to deploy larger individual equity tickets, the current consolidation offers an interesting landscape to follow: consolidators with €70 million to €120 million in EBITDA are emerging on a national level, and the pan-European consolidation also offers new scale benefits meriting further consolidation.

The current wave of consolidation also triggers the interest of corporates. There are also examples of large, listed corporates such as Brown & Brown, via overseas holdings Global Risk Partners, making sizeable deal volumes in the already consolidated U.K. and Irish markets. This has resulted in approximately 90 acquisitions since 2018. For some larger U.S. players acquiring a pan-European consolidation platform offers the opportunity to swiftly create a global business. For corporates that have an international presence, acquiring a local leading consolidator may provide the opportunity to complement an already existing European platform.

The M&A activity trends in the brokerage sector can be summed up by these statements:

- **Investment by mid-market PE is generally the strategy to build in-country consolidators.**

- **We're seeing investment by consolidators in individual targets, which is happening primarily in Spain and Germany right now. Groups in The Netherlands are preparing for another round of further consolidation, whether that be in-market or as part of a pan-European consolidator or corporate.**

- **Exit-to-large PE houses and corporates are starting to happen in Europe with the key purpose by investors to create a pan-European platform. For corporates, the objective is to add a European franchise to their existing platform or as a tuck-in to complete their existing European footprint.**

WHAT'S ON THE HORIZON FOR THE BROKERAGE INDUSTRY?

Based on A&M's market observations and data, industry watchers can expect several developments in the coming months and years. There will continue to be in-country consolidation and an accelerating pace of consolidation across European countries.

Look for U.S. players to make the initial steps toward building global franchises through the acquisition of U.K. targets.

PE will continue to have a large hand in the sector. As these brokerage platforms reach such large sizes, they're becoming increasingly attractive to large PE players and to large corporates who want to broaden their client profiles. The key challenges for consolidators going forward will be to find the right operating model to grow at an international level. Most have come from a local — largely U.K. — background, and transforming into a European player requires a more balanced structure than they often have. The key will be finding the right structure that offers the benefits of scale without killing entrepreneurism.

Another key to success in the future is finding ways to implement scalable IT solutions since products and commission structures are still very much defined on a local basis.

The level to which this consolidation can be fuelled by PE funding is very much dependent on the pricing of consolidation platforms as well as the visibility on the creation of tangible value accretion.

VALUE WIN OPPORTUNITIES

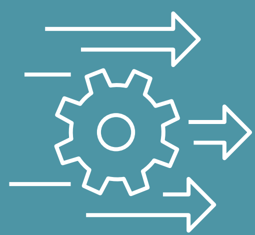
A key area where investors can create value is to formulate and execute a clear integration programme. Many companies are laser focused on acquiring companies and neglect to realise efficiencies through integrating financial, tax and operational functions. They also need to find a new approach to drive revenue in mature markets where growth may not be as explosive as in the past, such as insurance.

For example, in mature markets such as insurance, growth is not as explosive as in the past. A new approach is needed to drive new revenue. As in many regions, companies are finding success in acquiring services and companies with new products and bundling products to differentiate themselves.

Several approaches can uncover value for investors, including:

Strategic Initiatives
A more international platform can attract larger clients with an international footprint. Current clients of local brokers tend to be local SMEs. Establishing an international platform allows firms to cater to larger clients with an international footprint. A large European platform can become part of a global business and becomes attractive to U.S. platforms and provides access to different pools of capital.

Business Model Synergies
Broadening the set of insurance products and service offerings to different clients increases client connectivity and diminishes churn. It also creates more buying power vis-à-vis insurance cover providers by driving consolidation of carrier relationships in scaled markets, and potentially across markets. In addition, for brokerage services with underwriting capabilities, cross-selling is a powerful way to complement their offering. A better understanding of how to implement different strategies can optimise pricing and differentiate between product categories that are nice to have and those deemed critical can improve profitability and enhance client relationships.



Operating Model Synergies
Companies can enhance their operating models by assessing the scalability of the business, optimising cost to serve, simplifying associated processes, developing a clear path to deliver a set of tasks and roles across the wider operating model and identifying and addressing areas of underinvestment in such areas as data, Capex and more. Companies in acquisition mode can also optimise the deal factory by testing deal strategies according to transaction type. Quality analysis of offerings can determine where future investments and divestitures are required to fully realise the commercial value of the business.

HEADWINDS THAT CHALLENGE OPPORTUNITY AND VALUE CREATION

Some of the biggest challenges facing investors in this sector are in the post-merger integration phase:

Rapid consecutive acquisitions rarely give businesses the chance to level set their operating models in an efficient manner. Often the initial plan for integration does not encompass all the complexities of the growing business. Therefore, it becomes necessary to design a clear target operating model for new markets and segments and set a blueprint for consolidated businesses.

Scaling businesses require certain inflection points during which assessment of the appropriateness of underlying systems and processes is crucial. Some investment will be needed to scale up in a sustainable way, as will determining which areas need to be prioritised to best position the platform for growth.

IN SUMMARY:

FINDING THE BEST OPPORTUNITIES THAT FIT YOUR STRATEGY

As discussed, consolidation is accelerating in the insurance brokerage sector. In some markets this means there is already a scarcity of supply businesses to acquire. The price points for deals are extraordinarily high, with multiples in some cases reaching 15 times EBITDA and the definition of EBITDA being broadened at the same time.

With known players ahead of the curve on consolidations, it will not be easy to make money as an interested investor in this sector, but there are opportunities to win by choosing the right operating models.

Companies need to make strategic choices on how they want to invest while understanding that the future for insurance brokerage consolidation is large PE involvement, which will rachet up the competition even more but also leads to exit opportunities.

For other investors to be successful, it will require a focus on capitalizing on the right value levers that will give consolidators a better chance.

Companies should therefore:

- **Be able to clearly articulate their acquisition strategy. To be cognisant of the benefits and complexities of an international expansion strategy and the opportunity that still exists in rolling out local consolidation strategies (which differs by market) will help clarify the path to success.**
- **Be laser focused on the identification of the right target but also be committed to pay competitive prices.**
- **Have a very clear strategy and tested methodology to integrate these businesses and capitalise on potential synergies. The methodology should comprise a clear roadmap to implement the consolidators' operating model swiftly post-transaction. System and data complexities must also be addressed from the start of the integration process whilst allocating time and attention to clients and employees to explain the benefits of the transaction.**

The bottom line: Although the competitive landscape is becoming fierce, there are real opportunities in all the major regions for investors that have a well thought out, bespoke vision for their platforms and are willing to approach deals with a bit of counterintuitive thinking.

HOW CAN A&M HELP?

A&M can help companies identify the levers needed to assess markets, optimise models and select targets. We can partner with investors at every step of the journey, including:

Performing a rapid diagnostic assessment to understand areas of focus to create value;

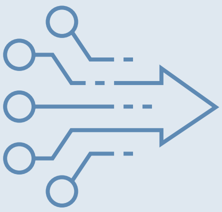
Designing operating models to support further growth; and

Driving well-stablished integration processes to manage business at scale and developing key data analytics to track progress and inform decisions.

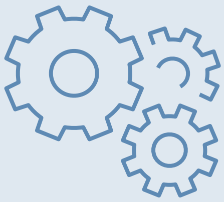
There is always a lot going on during and after an M&A transaction. Creating and realising value through an M&A strategy requires dedication as well as rigorous implementation not only before closing but also very much after completing a transaction. A&M can partner with you at every step of the road, be it in Europe, the U.S. or other continents across the globe.

WE CREATE VALUE THROUGH DEALS, DISRUPTION AND DISTRESS

Deals
End-to-end M&A and portfolio advisory services for financial services clients and private equity firms investing in the industry



Disruption
Driving innovation, revenue growth and efficiency to transform businesses while managing risk and regulatory change



Distress
Rapid and executable solutions to drastically turnaround businesses in distress or requiring regulatory remediation

DELIVERED THE A&M WAY

Leadership
Deliver with very senior and experienced resources

Action
Involved in decision making – Interim managers more than advisors

Results
Focused on results and delivering client goals

A&M. Leadership. Action. Results.
A&M's Global Transaction Advisory Group provides investors and lenders the answers needed to get the deal done. We combine our firm's deep operational, industry and functional resources with Big Four-quality financial accounting and tax expertise to assess key deal drivers and focus on the root cause of any critical deal issues. As the largest transaction advisory practice outside the Big Four, our global integrated teams help private equity, sovereign wealth funds, family offices and hedge funds as well as corporate acquirers unlock value across the investment lifecycle.

The firm's Global Transaction Advisory Group includes over 900+ in 36 offices throughout the U.S., Latin America, Europe, Middle East, India, and Asia. Our global team has extensive industry knowledge across multiple sectors including, but not limited to, dedicated industry verticals in healthcare, software & technology, energy and financial services.

KEY CONTACTS

AGE LINDENBERGH
TRANSACTION ADVISORY GROUP, EUROPE

alindenbergh@alvarezandmarsal.com

CHRIS GOODGAME
TRANSACTION ADVISORY GROUP, UK

cgoodgame@alvarezandmarsal.com

YSABEL GASPAR ZAYCO
PERFORMANCE IMPROVEMENT, UK

ygaspar@alvarezandmarsal.com

LUKAS JAKUBAUSKAS
TRANSACTION ADVISORY GROUP, UK

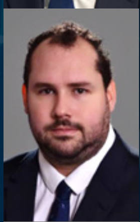
ljakubauskas@alvarezandmarsal.com

STUART HERRON
PERFORMANCE IMPROVEMENT, UK

sherron@alvarezandmarsal.com

WILLIAM CONNER
FINANCIAL SERVICES INDUSTRY, UK

wconner@alvarezandmarsal.com

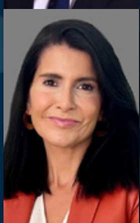


LOUIS DARRIEUS
TRANSACTION ADVISORY GROUP, FRANCE

ldarrieus@alvarezandmarsal.com

GIUSEPPE DI RISO
FINANCIAL SERVICES INDUSTRY, SWITZERLAND

gdiriso@alvarezandmarsal.com



CRISTINA ALMEIDA
TRANSACTION ADVISORY GROUP, SPAIN

calmeida@alvarezandmarsal.com

ALEJANDRO NORNIELLA
TRANSACTION ADVISORY GROUP, SPAIN

anorniella@alvarezandmarsal.com

STACY KIRSHNER
TRANSACTION ADVISORY GROUP, US

skirshner@alvarezandmarsal.com

JESSICA MCCAFFREY
TRANSACTION ADVISORY GROUP, US

jmccaffrey@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 8,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

Follow A&M on:

To learn more, visit: **AlvarezandMarsal.com**

ALVAREZ & MARSAL

LEADERSHIP. **ACTION. RESULTS.**℠