LEADER'S edge
EXECUTIVE REPORT ON BROKER M&A
APRIL 2018

Going My Way?

New relationships, same old economy...for now.

New PE Players

Private capital is more diverse, more long-term and more interested in the insurance industry than ever before.

BY PHIL TREM

For those of you who have not been paying attention, private-equity backed brokerages have taken over the M&A world. They completed 316 announced transactions in 2017, which represented 57% of the total announced deal activity for the year. The demand that continues to drive activity within the industry seems to be endless. And it has led to more investor diversification, creating a new category of investor—private capital.

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Cover illustration by Dan Page

The typical private equity structure includes funds that deploy capital raised from multiple sources. The PE firms focus on a strong return that is created through earnings growth and an exit strategy typically three to seven years long. Private capital includes traditional PE players, and it extends to other sources, including family offices, pension plans, sovereign wealth funds and independent capital. These investors, who typically are investing directly into PE funds, are recognizing the value of buying into the insurance brokerage space: recurring revenue, stable performance, a must-buy product, relatively low risk. They are making the decision to bypass the PE fund and are investing directly. Additionally, many of these private capital investors bring a long-term perspective to the table. For example, when BroadStreet Partners aligned with the Ontario Teachers' Pension Plan, it was told an average hold was 18 years.

These investors...are making the decision to bypass the PE fund and are investing directly. Additionally, many of these private capital investors bring a long-term perspective to the table.

How are these new private capital players partnering with insurance firms? What opportunities are they providing in the industry, and how do they complement private equity as we know it? The deals that follow showcase the different types of private capital.

THE LONG VIEW

USI Insurance Services

"We wanted to get off the treadmill of trades that happened every three to five years," says Ed Bowler, chief financial officer at USI, an insurance industry leader that started in 1994 as a single office of $6.5 million in revenue and 40 associates and today is approaching $2 billion in revenue with more than 7,000 associates in 150-plus offices.

While the ongoing buy/sell cycle with PE meant a "mark on the equity," Bowler explains that it also can be distracting, time-consuming and expensive. "We had been hearing about more permanent capital, or evergreen capital, coming in, so we took it upon ourselves to reach out in the marketplace."

USI interviewed pension plans and long-term equity funds that put capital out over a 10-year period—double or more what USI had been experiencing with traditional private equity.

Then, the KKR/CDPQ proposal came forward. KKR had accumulated a healthy sum on its publicly traded balance sheet that it wanted to invest long-term. It created a joint venture with Caisse de dépôt et placement du Québec (CDPQ), and their core private equity partnership (including KKR's funds and CDPQ's pool of capital) allows for attracting investment opportunities with a longer duration and lower-risk profile.

This was exactly what USI was seeking—a partner that could support strong management and long-term strategic business building. And for KKR/CDPQ, the insurance industry and USI were enticing because of the stability of the industry and USI's history of high performance. "We reached out to them and had the discussion and really liked what they had to say," Bowler says.

In March 2017, KKR/CDPQ acquired USI from Onex Corporation. "This is the final owner of USI, as far as I'm concerned—and we're real excited about that," says Bowler, who has been with the firm through seven owners.

The long-term investment means internal rates of return (IRRs) are not as important, Bowler says—it's more about "money on money." Bowler points out, "I can't spend IRR; I can spend money on money, so I'm happy with that focus and growing that capital." While IRRs are critical to traditional PE funds for raising capital for the next fund, "they are less important to pension plans," Bowler says. "And with what KKR has on its balance sheet, they were looking more for multiples of money over time."

What will change at USI with a longer-term owner? With new acquisitions, will those owners have equity in the deal, and what does liquidity look like for management and future leaders in the firm?

After five years, there will be a potential for internal trades. But, Bowler says, "most of our people aren't selling their shares, and we don't have the cry for liquidity now. We will likely have an internal process not dissimilar to what an employee stock ownership plan does if people do want to cash in and gain liquidity."

If USI meets its goals, it will begin paying out dividends five to six years out from the time of the trade. "Assuming we achieve our plan, this will be a dividend-performing stock because of the cash flow," he says. "So, if you hold your shares, you are going to start getting chunky dividends in years five, six, seven and so on."

The business will prosper as it continues strategically growing without being on the "PE toll road," which results in costly trades every few years, Bowler says, noting that he envisions more pension plan and long-term equity opportunities for the insurance industry. "They like the insurance brokerage world for all the reasons we know—the recurring revenues, it's a product that needs to be bought and there isn't the obsolescent risk."

OWNING IT

Acrisure

Greg Williams believes Acrisure is unique. And as co-founder and CEO, he wanted to keep it that way. But the rolling ownership of PE made that difficult. In early 2016, when the company's private equity partner Genstar Capital had decided to exit, Williams began discussing ownership options with his operating partners. The company had acquired 150 agencies over a three-year period, so a prosperous and meaningful exit was contemplated by all parties.

"I asked two simple questions," Williams says of his conversation with his agency partners: "Are you interested in rolling equity assuming we secure a new capital partner that supports our objectives? And if so, how much equity would you be interested in rolling?"

Williams was pleasantly surprised when 99% of his agency partners said yes—they were in. And he was thrilled their aggregate equity roll was approximately 60%. So Williams did the math and figured that, with a slightly higher equity roll, he could present to a new investor a capital structure that would result in Acrisure's management team and its operating partners becoming the majority shareholder of the business, including governance control.

"I felt strongly if we had majority interest and board control, it would help us grow from an M&A perspective, given there would be permanence in our capital structure. This permanence would ensure our unique and highly appealing operating model would not change, and our agency partners would not have to concern themselves with another sale of the business. We would be officially off the private equity train," Williams says.

The value proposition was important, as Williams later had to go back to his operating partners with a specific request—he needed 75% of equity. For two and a half weeks, Williams and Acrisure's chief acquisitions officer, Matt Schweinzger, did a "road show" for the company's top 60 shareholders individually. They hit four or five cities a day, holding personal meetings. "We laid out a proposed capital structure if we rolled 75% of our equity," he says.

It was a highly attractive scenario with a very positive reaction. "It gave me the opportunity to then go to potential investors in the market and say, 'Look, we are more of a buyer than a seller. We are rolling approximately $700 million in equity.'" Williams offered a preferred equity position in exchange for governance control. "I received a number of interested parties," he said of third-party investors. What resulted was a $2.9 billion management-led buyout. Today, the management team and its operating partners own 82% of the common equity, with outside investors owning 18%. Further, "we control the governance of the company, which is translating to comfort internally and externally because current and prospective partners don't have to worry about that flip in three years," Williams says.

The ultimate objective: "We want to own 100% of the business—and we are well on our way to achieving that." Ownership and governance control is a competitive advantage in the marketplace, Williams says. "It makes us unique—it's the private equity model turned upside down," he says. "Value creation benefits owners, so our operating partners benefit from our growth at a disproportionate rate as compared to our competitors," Williams says. "And, given our international expansion, our story is now being told in different parts of the world," he adds.

Acrisure will continue to build the business both organically and through M&A, driven by a great deal of enthusiasm with its operating partners. Williams added "the excitement for being part of Acrisure is very high, evidenced by the number of employees that desire to become shareholders. We have an internal market that allows employees, based on certain criteria, to register to buy shares. Currently, the number of registered buyers to sellers is 10 to 1," Williams says.

Looking at the value of the Acrisure stock today compared to 2013 when Genstar acquired the firm, the operating partners have realized over 11 times multiple on their equity, Williams says. "This has created wealth beyond their wildest dreams." And, because of that dynamic, there is "extreme enthusiasm to continue growing the business both organically and inorganically," Williams says.

HEAD OF THE CLASS

BroadStreet Partners

For more than five years, BroadStreet has been aligned with the Ontario Teachers' Pension Plan (Teachers), the largest of its kind in Canada, with more than $200 billion in assets. As an investor, Teachers provides BroadStreet with a long-term capital base that has helped drive consistent, high growth for the company.

It all started in 2012 when BroadStreet began exploring alternatives to support its growth plan, says Rick Miley, who founded the business in 2001. At that time, State Automobile Mutual Insurance Company (State Auto) was BroadStreet's primary partner, and its funding appetite was not as strong as BroadStreet's desire to grow. Both agreed that a change was necessary in order for BroadStreet's model to flourish.

With State Auto's support, BroadStreet began to explore a number of options, which included meeting with several private equity firms. "We had upwards of 10 individual PE companies come visit with us and discovered that they weren't a good fit," Miley says. The three- to five-year investment time frame was not appealing to BroadStreet, which was looking for a more stable capital base. "We needed a financial partner, not an investor with a pending flip date. Our business is based on a co-ownership model, which gives our core agency partners the freedom to run their businesses independently. In order to do this effectively, we needed a financial sponsor with a long-term outlook."

Then, Teachers approached Miley. "They said they wanted to get involved in the insurance distribution business, and we connected—and that connection developed into them buying out State Auto's interest," Miley says. As for taking on a pension plan as a financial sponsor, "they think in decades rather than years," Miley says. "We found out that their average hold time for a direct investment far exceeded the typical private equity time frame, and that was music to our ears."

Teachers' long-term investment horizon has made all the difference. "Alongside our core agency partners, we are developing this business knowing that Teachers has a desire to hold it a long time," Miley says. "They encourage our core agency partners to bring on new producers, and they support capital expenditures in technology and scalable resources. They are averse to high amounts of debt and leverage, so we have a lower leverage ratio than most of our peers. In turn, our core agency partners generate significant free cash flow, and we use this cash to fund acquisitions, distribute dividends to our core agency co-owners and reinvest in the business."

BroadStreet's co-ownership approach is an important distinguishing feature of its model that aligns interests and pairs well with a long-term view of the business. Importantly, BroadStreet creates and encourages liquidity for co-owners. "Our business thrives when ownership transitions among core agency leaders. Having an available market for our core agency partners to enter and exit equity holdings is critical for succession planning and reinforces the culture of ownership at our core partners," Miley says.

Looking toward the future, BroadStreet anticipates a continued long-term relationship with Teachers and continued growth, which includes supporting its core agency leadership teams and creating opportunities to develop the insurance brokerage industry's next generation of talent.

ALL IN THE FAMILY

Baldwin Risk Partners

Aligning with a family office to provide long-term capital has given Baldwin Risk Partners a "forever partner" with multi-generational investors and complete control over their business. "We are insurance entrepreneurs and want that freedom and flexibility," says Trevor Baldwin, president.

The model is a significant differentiator in the marketplace, according to Baldwin. "We want to build an organization that is a true partnership," Baldwin says. "So what we have created is the best of both worlds: we have the operating environment and flexibility of a boutique privately held firm with the economic engine of a PE-backed business that allows us to create liquidity for partners and supercharge returns on the business."

Baldwin Risk Partners' share price has increased 450% during the last five years. "That doesn't include the dividends we paid, which were substantial," Baldwin says. "Factor that in, and you're looking at close to a 700% return in five years, which you're pressed to find anywhere. We expect that in the long term, over the next five to 10 years, we can continue to generate annual returns in the 30% to 50% range for our shareholders."

Baldwin says the ultimate goal is to be recognized by clients as a firm that delivers industry-leading innovative advice, ideas and solutions. When the time came in 2015 to bring in additional capital, they had to think outside of the box. Baldwin joined the organization in 2010, when the business was about four years old. He led a restructuring, the formation of the Baldwin Risk Partners holding company and the plans for strategic growth. "We were at a point of raising third-party capital, and we spent the next few years preparing for larger-scale growth—building out infrastructure, recruiting the right talent."

Baldwin Risk Partners' capital-raising efforts were not at all focused on liquidity, Baldwin says. "In fact, no shareholders of the business received any liquidity when we raised capital—it was all about growth, expansion and the creation of scale," he says. The company recognized it was at a point where it needed to sell into the wave of consolidation happening in the industry or consolidate itself, "because scale was, and is, increasingly important," Baldwin says. "We needed the ability to invest in and afford the type of resources necessary to remain relevant and impactful to our clients, and we needed the scale to access capital markets in a manner where we could leverage our balance sheet to create value for current and future shareholders." What Baldwin did not want was a five-year turn.

They approached a number of capital providers—pension funds, sovereign wealth funds, family offices and money center banks. The firm ultimately chose to partner with a family office for a couple of reasons: (1) it had an ability to provide continued capital; and (2) Baldwin Risk Partners could maintain control over the business. "The family office investor is essentially a passive investor," Baldwin says.

The company accomplished its partnership with the family office in 2016 in the form of a preferred equity security that offers a fixed-rate return investment for the family office investors as well as some minority equity that vests over time. "It looks and feels a lot like debt but is structured like preferred equity as far as how it sits in our capital stack," he says.

MEET TOM.

Tom was a successful, 40-year-old entrepreneur looking for an opportunity to significantly grow his business. In 2012 he decided to sell.

WHY DID TOM SELL TO BROWN & BROWN?

Since joining the Brown & Brown team, Tom has picked up new markets, completed acquisitions, and doubled his business and his team. His team is also building their own success and growing their wealth as Brown & Brown shareholders.

WHO IS TOM TODAY?

Tom is still that successful entrepreneur, and leads his team day-in and day-out, even when fishing at his Texas ranch.

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Tom Contreras
President, Texas Security General Insurance

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This tool gives Baldwin Risk Partners the flexibility to use leverage in a way that provides economic parity to its private-equity backed peers and the freedom to operate the business as a long-term independent brokerage firm, Baldwin says. "It's the best of both worlds."

Unlike private-equity peers, Baldwin distributes annual dividends. "Our capital is such that we don't need to reinvest that into M&A, so our partners continue to get dividends on the equity they roll into the business, which is a nice way to access continued cash flow and makes the experience of ownership feel like what they're used to as a sole proprietor or closely held private agency," Baldwin says.

Last year, Baldwin Risk Partners' organic growth was approximately 25%. It's expecting similar growth this year. Baldwin says, "By being insurance-entrepreneur owned and controlled, we can generate great returns and create terrific results and outcomes for our clients."

It continues to be an exciting time in M&A, and we expect momentum to continue in 2018 and beyond with a range of private capital getting involved in the insurance industry.

A TRUE PE PARTNERSHIP

NFP Corp.

In 2013, NFP embarked upon a pivotal $1.4 billion go-private transaction with Madison Dearborn Partners (MDP), a leading PE firm. This provided NFP with significant opportunities for future growth. In 2016, just three short years later, NFP had been so successful in executing on its five-year plan that a second PE firm decided to invest. The interest from a second PE sponsor was a gratifying validation of NFP's strategic approach. "We were extremely proud of what we had accomplished. In particular, the real proof of our success occurred when other PE suitors came knocking at our door so soon after the initial go-private transaction," says Adam Favale, senior vice president of M&A at NFP.

The company was prepared for the quick turn typical of PE investors when it entered into an agreement with HPS Investment Partners, a global investment firm, in which HPS assumed a substantial minority investment in NFP. MDP maintained a controlling stake in NFP alongside its management and employees.

Rather than the traditional PE-backed arrangement with one investment firm in the picture, NFP has two PE players at the table, and each brings valuable perspectives, says Carl Nelson, executive vice president of M&A at NFP. "They really act collaboratively," Nelson says of MDP and HPS. "We feel fortunate to have two exceptional sponsors that are constructive, thoughtful and supportive partners," he adds.

At NFP, employees and management, including the entrepreneurs that sold their businesses to NFP, own approximately 20% of the equity. "So we have a pretty big stake," Favale says, noting that the remaining PE partners own the rest of the shares.

What about entrepreneurs who sell to NFP in the future? Many of them will become equity owners of NFP in connection with the sale of their businesses, and the equity is all one class of stock. This means it's the same for all investors, employees and executives. "The single class of stock is important," Nelson says. "It's the same valuation, same terms."

Nelson relates how NFP has built the business for the long term and maintains that point of view with liquidity. "We don't have a view on the timeline of a future liquidity event," he says. "If you build the business for the long term, liquidity will come at the right time and place.

Favale adds, "We have enjoyed partnering with like-minded investors. MDP and HPS have fully embraced our vision on how to grow the company, which allows us to execute on the strategic business decisions that not only align our employee and client interests but also reinforce the values that are core to our company philosophy."

THE NEW FACES OF PRIVATE CAPITAL

Whether an agency is planning to sell or perpetuate, these new private capital players are making a marked impact on the industry, and we believe they're here to stay. They provide more options to sellers, and they will challenge firms that are perpetuating to constantly raise the bar, evolve and build value. It continues to be an exciting time in M&A, and we expect the momentum to continue in 2018 and beyond with a range of private capital getting involved in the insurance industry. As you consider your new partner, make sure you understand the capital structure and what type of reinvestment opportunity is available to you. More importantly, understand how you can monetize the asset. There are pros and cons in each structure. It is becoming increasingly more important for you to understand not just the business plan your future partner has developed but also how that ties into their long-term capital structure and your liquidity options. edge

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'Same Old' Economy?

M&A continues to heat up, but the long-term outlook throws some headwinds in the face of this continued pace.

Whether we are headed into a hardening market in 2018 remains an open question for a number of reasons. Overall, the p-c insurance industry remains very strong on a relative basis, with all-time highs for policyholder surplus, which stands at $719.4 billion, and ratio of net premiums written to surplus, which was 0.76 as of September 2017. The industry appears to be well capitalized and able to withstand large payouts. The headwinds and potential trends toward a hardening market include: (1) a significant increase in catastrophic claims, (2) larger underwriting losses, and (3) a rise in premium rates, especially for personal lines and commercial auto.

Catastrophe Although it is too soon to finalize full-year 2017 U.S. catastrophe claims, the impact of hurricanes and California wildfires and mudslides is expected to lead to insured losses in excess of $90 billion. This would represent the highest level in the past 25-year period.

Underwriting The combined ratio jumped to 104.1 for the first nine months of 2017, up from 100.7 at year-end 2016, according to the Insurance Information Institute. The significant increase in the industry's underwriting loss is due to high claims and claim-adjustment expenses as a percent of earned premiums. This is not a surprise given the year's catastrophe claims.

Premium Rates Compared to prior years, we saw in 2017 a decrease in the positive development of loss and loss-adjustment-expense reserves among U.S. p-c insurers. Higher premium rates and pricing looking forward is supported by a combination of lower reserve levels and higher reinsurance rates based on U.S. natural catastrophes. This is especially the case in certain lines of business such as personal lines and commercial auto, as carriers might be compelled to readjust pricing for risk and exercise greater underwriting discipline.

PE CONTINUES TO DRIVE M&A

The merger and acquisition space continued to see high levels of deal activity in 2017, resulting in a record year. We recorded 557 announced brokerage transactions, up 26% year over year and up 22% from the prior record-breaking count in 2015 of 456 deals.

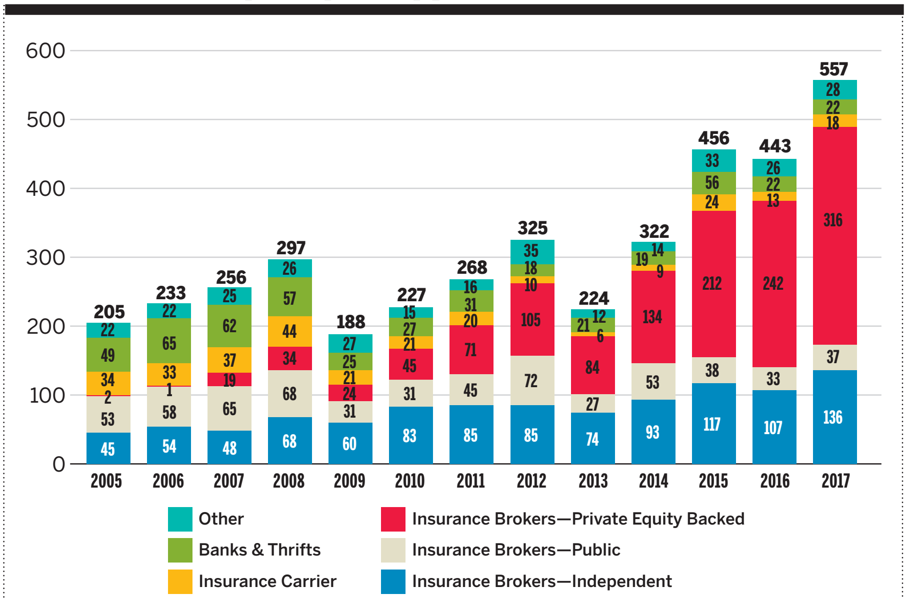
Private-equity backed buyers—including those with private capital backing—continue to be the main driver of deal activity and value, representing 57% of all deals (316 deals) in 2017. Out of the top 21 most active buyers (defined as those completing five or more deals in the year), which represented more than 61% of total deal activity, only six do not have PE or private capital backing.

Higher premium rates and pricing looking forward is supported by a combination of lower reserve levels and higher reinsurance rates based on U.S. natural catastrophes.

In fact, again in 2017, nine of the top 10 buyers were PE-backed, including those with private capital backing (read more on that in the "New PE Players" story). There has been a significant increase in PE-backed buyer activity during the past 10-plus years. Private equity represented just 7% of deal activity in 2007.

Interestingly, the number of PE-backed buyers in the marketplace in 2017 was similar to that of 2016, with 26 in 2017 compared to 27 the previous year. However, these buyers were more active in 2017 and completed 316 total deals, up from 242 in 2016—an average of almost one per buyer, per month.

Deal Count by Buyer Type



All transactions in this presentation are announced deals involving public company acquirers, banks, and private equity groups as well as private company acquirers. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that only 15%-30% of all transactions are actually made public. Past performance is not necessarily indicative of future results.
Source: S&P Global Market Intelligence, *Insurance Journal*, and other publicly available sources

The top 11 PE-backed buyers (including a tie for 10th place) represented 48% of the total 2017 deal activity in the industry and 85% of the total private-equity backed deals. Although there are indications that interest rates are on the rise, the availability and relatively low cost of capital continued to help drive PE-backed buyers to target brokerages at an accelerating rate, driving activity within the industry overall. With investors searching for higher yields in a low interest rate environment, we are seeing that there continues to be heightened interest and demand among private equity in the insurance brokerage space.

> Although there are indications that interest rates are on the rise, the availability and relatively low cost of capital continued to help drive PE-backed buyers to target brokerages at an accelerating rate.

LEADING ACQUIRERS

The top five buyers in 2017 included four of the top buyers in the prior year. Of the five top buyers, one does not have private equity backing. The top three buyers are identical to 2016.

The top five most active buyers accounted for 35% of all transactions in 2017 (195 of 557).

Acrisure was the top buyer for the third year in a row with 72 announced deals. Acrisure typically does not announce the target name of any acquisitions, and 2017 was no exception—only a handful of targets were named. It is likely that Acrisure successfully completed more than 72 transactions during the year.

Hub announced 42 U.S. deals and five deals in Canada, bringing its total North American deal count to 47. Its U.S. deal count was up more than 30% from last year's 31 deals. Almost 17% (7) of its 42 U.S. transactions were managing general agents or non-traditional brokerages. Nearly 25% of its announced U.S. transactions were California-based agencies (10 of 42), but interestingly, the next two most active states were Alaska and Maryland, where Hub completed four acquisitions each.

BroadStreet Partners has been consistent the past few years, with 26 deals announced in 2015, 28 in 2016, and 32 in 2017. BroadStreet has a somewhat unique capital structure with the Ontario Teachers' Pension Plan as its main source of private equity funding (among other minority investors), although these medium- to long-term investors are becoming more prevalent within the space. The firm has completed approximately 286 transactions, including core agencies and tuck-ins since 2001, with a compound annual growth rate since 2010 of 23%.

Gallagher reported 25 U.S. deals during 2017, tying for the fourth most active buyer in the U.S. market and earning it a place back among the top five most active buyers for the first time since 2014. The agency indicated on earnings calls throughout the year that competition remains high for deals and, through the third quarter 2017, it had paid a blended rate of about 8x EBITDA.

AssuredPartners also announced 25 U.S. transactions. Completing a reported 190-plus acquisitions since its founding in 2011, AssuredPartners has grown annualized revenue to more than $940 million. The company has 200 offices in 30 states and London.

FIRST-TIME ACQUISITIONS

We also saw continued interest from PE firms entering or expanding their portfolios within the insurance distribution space with first-time acquisitions made by the following private-equity backed buyers:

Baldwin Risk Partners (four deals) was founded in 2012 as a holding company above Baldwin Krystyn Sherman Partners, a middle-market multi-line insurance brokerage and consulting firm that was founded in

2006. See "New PE Players" for more on Baldwin Risk Partners and its funding structure.

U.S. Retirement Partners (two deals) is a national financial services company that specializes in employer-sponsored retirement and financial planning needs. It entered into the brokerage acquisition marketplace in 2017. Its private equity sponsor is Centre Partners, which invested in the firm in 2008.

AIMC (one deal) serves the senior market as a national developer and distributor of Medicare Supplement products. It merged with Integrity Group, a broker of L&H insurance products with financial backing from middle-market PE firm HGGC.

DOXA Insurance Holdings (one deal) is entirely focused on acquiring MGAs with less than $75 million in annual premiums. DOXA Insurance Holdings is backed by private funds and investors.

Gravie (one deal) entered the brokerage M&A market with its acquisition of Breitenfeldt Group in 2017. It received private funding from several sponsors during the year.

Top Buyers

RANK	BUYER	BUYER TYPE	2017	% OF TOTAL
1	Acrisure, LLC	Insurance Broker - Private Equity Backed	72	12.9%
2	Hub International Limited	Insurance Broker - Private Equity Backed	42	7.5%
3	BroadStreet Partners, Inc.	Insurance Broker - Private Equity Backed	32	5.6%
4	Arthur J. Gallagher & Co.	Insurance Broker - Public	25	4.5%
5	AssuredPartners, Inc.	Insurance Broker - Private Equity Backed	25	4.5%
6	Seeman Holtz Property and Casualty, Inc.	Insurance Broker - Private Equity Backed	24	4.3%
7	NFP Corp.	Insurance Broker - Private Equity Backed	20	3.6%
8	Alera Group, Inc.	Insurance Broker - Private Equity Backed	15	2.7%
9	Hilb Group, LLC	Insurance Broker - Private Equity Backed	14	2.3%
10	Risk Strategies Company, Inc	Insurance Broker - Private Equity Backed	11	2.0%
11	OneDigital Health and Benefits	Insurance Broker - Private Equity Backed	8	1.4%
12	USI Holdings Corporation	Insurance Broker - Private Equity Backed	8	1.4%
13	Brown & Brown, Inc.	Insurance Broker - Public	7	1.3%
14	Confie Seguros	Insurance Broker - Private Equity Backed	6	1.1%
15	Prime Risk Partners, Inc.	Insurance Broker - Private Equity Backed	6	1.1%
16	Alliant Insurance Services, Inc.	Insurance Broker - Private Equity Backed	5	0.9%
17	Cross Insurance	Insurance Broker - Independent	5	0.9%
18	Higginbotham Insurance Agency, Inc.	Insurance Broker - Private Equity Backed	5	0.9%
19	Ryan Specialty Group, LLC	Insurance Broker - Independent	5	0.9%
20	World Insurance Associates, LLC	Insurance Broker - Independent	5	0.9%
21	Leavitt Group Enterprises, Inc.	Insurance Broker - Independent	5	0.9%
	Subtotal (top 21)		**345**	**61.9%**
	Total Deals		**557**	**100.0%**

All transactions in this presentation are announced deals completed by agencies/brokers with external sources of funding. Deals completed prior to private equity investment are not included. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that only 15%-30% of all transactions are actually made public. Past performance is not necessarily indicative of future results.
Source: SNL Financial, *Insurance Journal*, and other publicly available sources

NEW SPONSORS

The following firms changed or added new private equity sponsors during 2017:

USI Holdings was backed by PE firm Onex Corp., which announced in January 2017 it was exploring the sale of USI. It hoped the deal would value the firm at $4 billion—nearly a 12x multiple based on reported EBITDA of $347 million in the 12 months leading up to the end of the third quarter of 2016.

In May 2017, KKR and Caisse de dépôt et placement du Québec (CDPQ) announced they would acquire USI from Onex, as equal partners, at a $4.3 billion valuation. CDPQ is a long-term institutional investor that manages funds primarily for public pension plans, which indicates there is not likely to be a quick flip of the investment as we typically see with more traditional private equity sponsors. We believe that this may signal an emerging trend of buyers with longer investment time horizons entering the insurance brokerage market. See "New PE Players" for more.

OneDigital Health and Benefits entered into a new sponsorship with New Mountain Capital, which purchased a majority ownership from Fidelity National Financial Ventures in mid-2017. OneDigital is exclusively focused on employee benefits and support, with more than 9,000 employees and more than 35,000 companies as clients.

NFP Corp. entered a definitive agreement with HPS Investment Partners to make a substantial minority investment in NFP. Announced in 2016, the deal successfully closed in February 2017. HPS invested $750 million in NFP. Madison Dearborn Partners, NFP's previous sponsor, maintained its controlling stake in the company.

INDEPENDENTS EDGE UP SLIGHTLY

Independent agencies and brokerages completed 136 deals, or 24% of all activity, in 2017. It was proportionately the same

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rate of acquisition as in 2016 (24%) but slightly higher in absolute terms from the 107 deals completed the prior year. There were 106 buyers (up from 83 in 2016), approximately 14% of which completed multiple transactions and 67 that announced their first acquisitions in 2017.

Cross Insurance, based in Maine, announced five deals in 2017 (one fewer than the previous year)—three located in Massachusetts and one each in Maine and New Hampshire. Cross is family owned and operated and has historically focused on the New England area. Cross has "absorbed" over 120 operations since its founding in 1954.

World Insurance Associates, based in New Jersey, announced five transactions in 2017 (in line with its five announcements in 2016), continuing its expansion of retail agencies in New Jersey and New York. Four of the five agencies acquired in 2017 were multi-line agencies. World Insurance Associates specializes in transportation, hospitality, coastal properties and high-net-worth individuals.

Ryan Specialty Group, based in Illinois, also announced five acquisitions during 2017, up from two in 2016. RSG is a specialty distributor, focused on the wholesale and MGA space. All five of its acquisitions during the year fell into these categories (four MGAs and one wholesaler).

Leavitt Group Enterprises, based in Utah, announced five acquisitions during the year, which varied across the western states of Washington, Colorado, Texas and California and included p-c firms, employee benefit firms and multi-line agencies. Leavitt is a top 100 p-c agency, with p-c revenues of almost $150 million in 2016.

These independent agencies each announced three transactions in 2017:

- Florida-based **Acentria Insurance** completed three deals in Florida.
- New York-based **Evergreen P&C Insurance Agency** completed one deal in Florida and two in Nevada.
- Arizona-based **RightSure Insurance Group** completed one deal in California and two in Arizona.

Seven other buyers reported two acquisitions each in 2017, with newcomers including **Linnett Group** and **Hanson Insurance Group**, which both announced acquisitions for the first time in 2017. We believe the increase in the number of buyers in this category indicates that, despite the stiff competition in terms of agency valuations from the private-equity backed buyers, independent agencies are continuing to find ways to convince sellers there is more to life after the deal than purchase price.

Private-Equity Backed Deal Count

RANK	BUYER	2012	2013	2014	2015	2016	2017	TOTAL	% OF TOTAL
1	Acrisure, LLC	2	3	16	39	38	72	**170**	**7.3%**
2	Hub International Limited	22	15	21	30	31	42	**161**	**6.9%**
3	AssuredPartners, Inc.	25	20	25	34	26	25	**155**	**6.7%**
4	Confie Seguros	18	14	13	20	17	6	**88**	**3.8%**
5	BroadStreet Partners, Inc.	0	0	2	26	28	32	**87**	**3.7%**
6	NFP Corp.	0	3	7	16	7	20	**53**	**2.3%**
7	USI Holdings Corporation	13	5	10	6	10	8	**52**	**2.2%**
8	Hilb Group, LLC	3	2	4	8	15	14	**45**	**1.9%**
9	Alera Group, Inc.	0	0	0	0	24	15	**39**	**1.7%**
10	OneDigital Health and Benefits	8	9	6	0	6	8	**37**	**1.6%**
11	Risk Strategies Company, Inc	0	1	5	5	9	11	**31**	**1.3%**
12	Alliant Insurance Services, Inc.	1	2	4	6	6	5	**24**	**1.0%**
13	Seeman Holtz Property and Casualty, Inc.	0	0	0	0	0	24	**24**	**1.0%**
14	Other Private Equity Backed Buyers	13	10	21	22	25	36	**127**	**5.5%**
	Subtotal	**105**	**84**	**134**	**212**	**242**	**316**	**1,093**	**47.0%**
	Total Deals	**325**	**224**	**322**	**456**	**443**	**557**	**2,327**	**100.0%**

All transactions in this presentation are announced deals completed by agencies/brokers with external sources of funding. Deals completed prior to private equity investment are not included. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that only 15%-30% of all transactions are actually made public. Past performance is not necessarily indicative of future results.
Source: SNL Financial, *Insurance Journal*, and other publicly available sources

PUBLIC SHARE REMAINS THE SAME

Public brokerage activity was up 12% in total deal count during 2017 (37 announcements versus 33 in the prior year). However, the overall proportion of deals represented by public brokerages did not change from 7% in 2016. There were four public brokerages in the market during 2017 (unchanged from 2016 and 2015), compared to nine public brokerage buyers in 2005, and more than 100 independent buyers in the marketplace in 2017.

Gallagher announced 25 U.S.-based transactions, up from 23 in 2016. Last year was its most active acquisition year since 2014 and earned it a place among the top five most active buyers during 2017. Gallagher also announced eight international brokerage acquisitions, bringing the total count to 33 brokerage acquisition announcements.

Brown & Brown announced seven transactions during the year, a step higher than the four announcements from 2016.

...independent agencies are continuing to find ways to convince sellers there is more to life after the deal than purchase price.

Marsh & McLennan Companies completed four U.S.-based transactions in 2017, compared to five reported deals in 2016. All four were completed by subsidiary Marsh & McLennan Agency, which is focused on the middle market.

The fourth public brokerage, **CBIZ**, completed only one deal in 2017, the same number as in 2016.

While activity was suppressed for some buyers, we expect public brokerages to continue seeking external growth opportunities to supplement their organic growth rates and meet investor expectations. The newly minted tax law has brought lower corporate tax rates that should have a positive impact on the after-tax cash flow of the public companies. Thus, we expect them to be more competitive in the market.

ROUNDING OUT THE FIELD

The buyer segment of Insurance Carrier & Other includes PE firms (direct investments from private equity firms themselves and not the previously described acquisitions through PE-funded insurance brokerage aggregators), underwriters, financial technology firms, specialty lenders and other unclassified buyers. Activity within this buyer group increased to 46 deals in 2017, up from 39 in 2016; however, proportionately, buyers in this group did not change much, representing 8% of deals in 2017 compared to 9% in 2016.

- PE companies accounted for 15 deals within this category, including some PE firms acquiring their second or third insurance brokerage business.
- Insurance carrier buyers completed 18 deals, compared to 13 in the prior year.
- Non-PE, non-insurance companies (mostly credit unions, private investors and other undisclosed buyers) represented 13 deals within this category.

Banks and thrifts completed 22 acquisitions in 2017, largely unchanged from the 22 announcements in 2016, but represented only 4% of the total deal count, down from 5% in 2016. Acquisition activity in this segment has steadily declined over the past decade, as banks have either typically divested themselves of insurance operations or stopped acquiring at the same pace.

- There were 19 bank acquirers in the market in 2017 (seven of which announced their first transaction), with only three completing multiple transactions.
- Fifth Third Bancorp, Cashmere Valley Bank and OneGroup NY announced two acquisitions each in 2017.

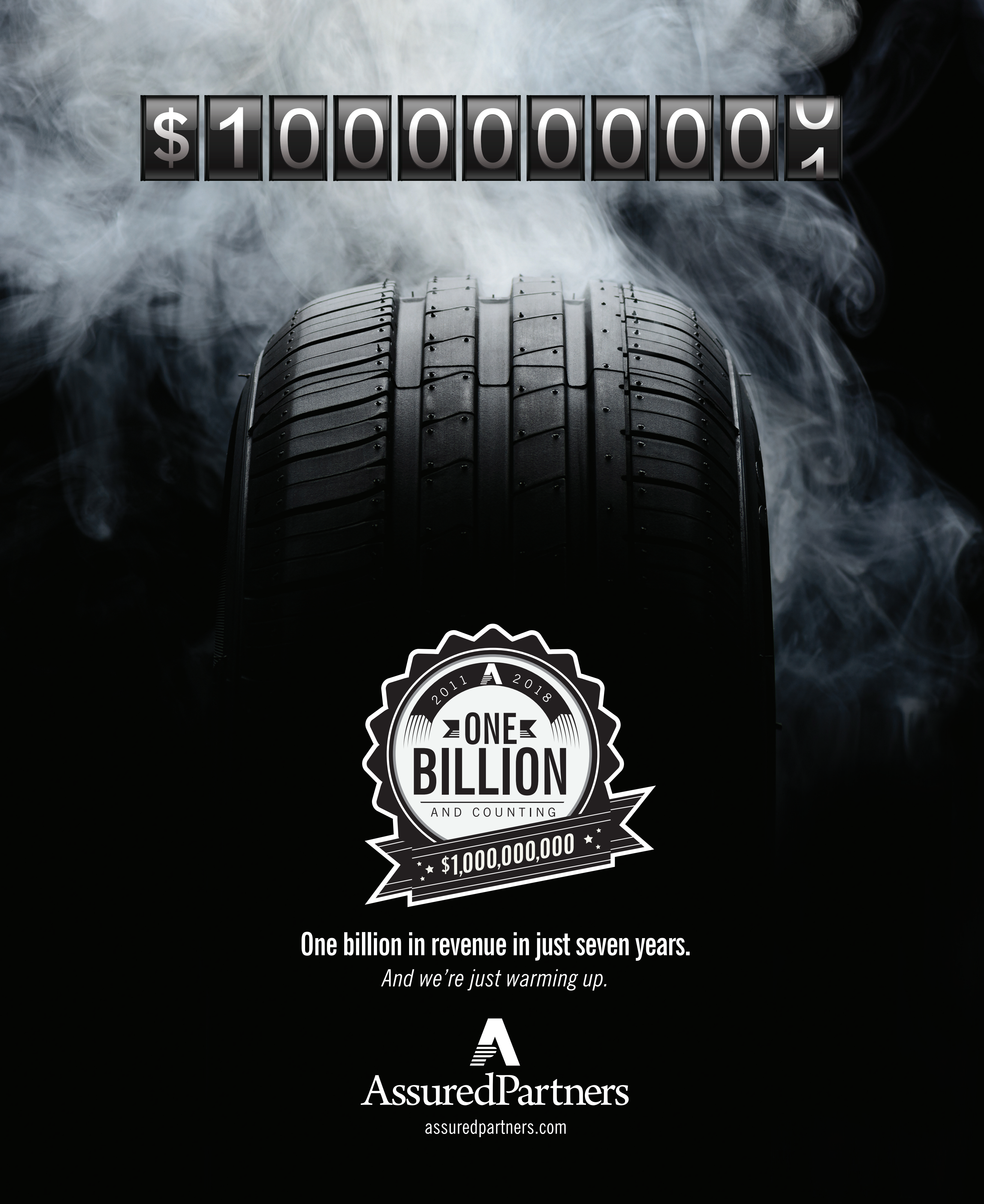
INTERNATIONAL ACTIVITY DOWN

International M&A activity was not as robust as the domestic market during 2017. The total number of recorded announced international transactions, completed by both domestic and foreign buyers, during the year was 80, down from 98 in the prior year. There were 44 unique buyers internationally in 2017, down from 63 in 2016.

- Fifteen buyers were based in either the United Kingdom or the United States, representing nearly 70% of the international deal activity.

Rapid Ramp-up in 2017

Seeman Holtz Property & Casualty was missing from the top five most active buyers by one deal. The firm had a very strong acquisition appetite compared to the prior year. Seeman Holtz announced 24 deals during 2017, up from two deals in 2016. These acquisitions were largely tuck-in, or roll-in, books of business or agencies. Seeman Holtz offers retirement planning products, such as banking services and other alternative investments, in addition to p-c and life and health insurance. Seeman Holtz is 100% owned by National Senior Insurance and backed by Hudson Structured Capital Management, a private equity backer. Seeman Holtz has locations predominantly in the Southeast (Florida); however, it did expand into markets such as New England, Texas, Illinois (Chicago) and California throughout 2017.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BILLION
AND COUNTING
$1,000,000,000
One billion in revenue in just seven years.
And we're just warming up.
AssuredPartners
assuredpartners.com

In 2017, employee benefits and consulting firms were involved in more M&A transactions than in any of the prior five years.

- Of the 80 deals announced internationally, 37 were independent agency/brokerage acquirers, 29 of which were PE-backed. In all, PE-backed brokerages represented 36% of the international deals in 2017, far less proportionately than the domestic market.
- Public brokerages had a larger share of the market, making up 24 of the acquirers, or 30% of all deal activity.

Aon and Gallagher were the most active acquirers internationally, with nine and eight announcements respectively. One of the larger transactions announced during the year was Aon's purchase of Netherlands-based Unirobe Meeùs Groep. Announced in August and completed in November, the acquisition was valued at €295 million, or roughly $350 million. Aon noted that the acquisition would help strengthen its small to midsize enterprise and consumer capacities within the geography.

The United Kingdom was the most active M&A market outside the United States and was home to 41 of the 80 target companies, or just more than half of all international deal activity. Several holdings of **Tosca Penta Endeavour Limited Partnership**, a PE-backed firm, completed six of the 41 U.K. acquisitions, making it the most acquisitive in the geography. **Nevada Investments Topco Limited** (under the Finch Commercial Insurance Brokers Limited name) and **Aon** rounded out the top three buyers in the United Kingdom, with four and three acquisitions during the year, respectively.

Canada was the second most active venue during the year, though a distant second to the United Kingdom, with nine deals. **Hub** acquired five of the nine targets in Canada. Founded by the merging of 11 brokerages in 1998, Hub has its original roots in the Ontario and Quebec provinces of Canada.

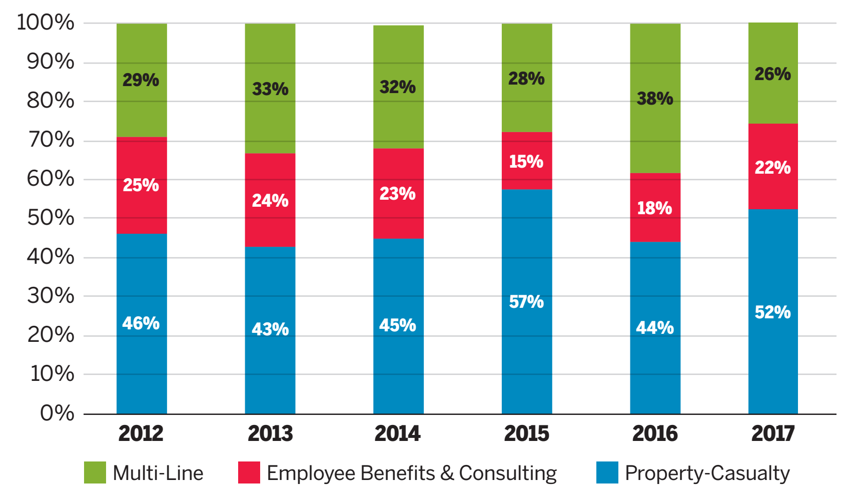
COSTS DRIVE EB ACQUISITIONS

In 2017, employee benefits and consulting (EB) firms were involved in more M&A transactions than in any of the prior five years, at 123 deals (with another 144 deals involving multi-line firms). Ten acquirers completed two thirds of the announced EB transactions in 2017, with the five most active acquirers closing more than half of the announced transactions.

The top buyers of EB firms in 2017 included Acrisure, Hub, OneDigital Health and Benefits, Alera Group, and NFP and Gallagher (tied for the 5th most active acquirer). The next five most active buyers represented roughly another 15% of the transactions.

Employee-benefits firm owners who consider selling may be motivated by a number of things, including:

Lines of Business



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Source: SNL Financial, *Insurance Journal*, and other publicly available sources

▸ **Continued Market Uncertainty.** The Affordable Care Act did not put EB firms out of business, but the key problems related to the cost of healthcare have not been addressed, and that leaves the industry vulnerable to continued politicking. As a result, while the EB market continues to evolve, it is considered less stable by some, as compared to property-casualty, and that continues to drive many owners of well run, high-quality EB firms to consider a sale of their firm. That sale brings diversification and, frequently, access to p-c markets and the ability to cross-sell, as well as access to additional EB resources.

▸ **Lack of Investment in New, Competitive Resources.** The vast majority of employers with more than 50 workers continue to offer health benefits (90% of firms of 50-99 workers and 96% of firms with 100 or more workers), according to a survey conducted by the Kaiser Family Foundation in 2017. As health insurance costs continue to rise and premiums continue to increase, EB advisory firms are looking for ways to help employers keep costs in check and still provide a competitive benefit plan to their employees. This has led advisors to move from recommending fully insured medical plans as the bedrock of the benefit plan to offering more creative solutions, often involving self-funded plans, partially self-funded plans and captives, and tailored offerings of ancillary benefits and voluntary benefits.

As a trend, employee benefit plans are becoming more comprehensive of employee well-being and may include employee financial wellness, personal information protection and identity theft protection, and flexible work arrangements, in addition to the traditional medical coverage, employer-paid ancillary coverages, and voluntary benefits.

▸ **New Buyers with a Compelling Story.** The number of buyers of EB firms has held consistent over the last few years, with Hub and Gallagher repeatedly in the top five. In December 2016, PE-backed **Alera Group** emerged on the scene by bringing together 24 independent agencies. Alera completed eight EB deals (of 15 total deals) in its first 12 months of operations, which is no small feat. This past year brought an additional uptick in activity in the employee benefits space from **Acrisure**,with 24 employee benefits deals (of 72 total deals) compared to three EB deals in the prior year, and from newly recapped EB firm **OneDigital,** with eight deals compared to three employee benefits deals in the prior year.

The Affordable Care Act did not put EB firms out of business, but the key problems related to the cost of healthcare...leave the industry vulnerable..as a result...it is considered less stable by some...

The most active buyers, which generally have large EB practices, have developed solutions and resources for their broker base nationwide, making them attractive to smaller firms struggling to finance and develop the resources required in the current competitive landscape. Buying firms continue to look for high-quality EB firms to join their organizations. High-quality firms typically have consistent organic growth, a youthful ownership group, strong operating profit, a sophisticated client service model, and/or some unique attribute to add to a larger organization, such as geographical presence, specialty expertise or programs, an innovative leadership team, or a unique approach to the market. These types of firms typically command higher valuations.

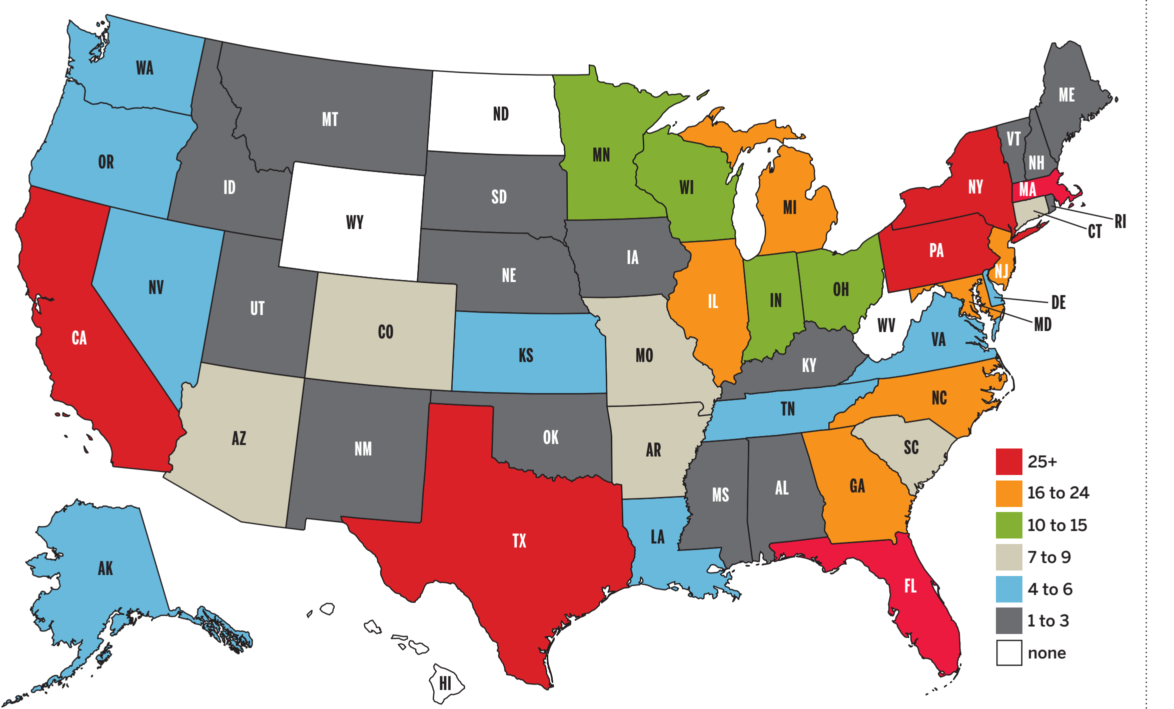
SPECIALTY DISTRIBUTORS REMAIN ATTRACTIVE

Entering 2017, the environment for specialty distributor M&A was muted due to concerns about, among other things, the economy, political and regulatory uncertainty, market volatility and valuations. Those concerns waned as the year progressed due to the increasing prospects of significant pro-business

Number of Announced Deals (U.S. Transactions)

The top 10 most active states represented 58% of the total deal volume in 2017.

- California remained the most active state, with 69 deals announced during the year.
- Texas (42), Florida (41), Pennsylvania (36) and New York (33) rounded out the top five target states in 2017, the same states as in 2016 in a slightly different order.



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Source: SNL Financial, *Insurance Journal,* and other publicly available sources

legislation, including tax reform, which materialized at the end of the year.

As a result, deal flow in 2017 went gangbusters. Of the 557 announced transactions in 2017, specialty distributor deals represented approximately 13% of this total, or 74 deals. In absolute terms, the *number* of specialty distributor deals in 2017 (74) was up 7% year over year; however, on a *percentage* basis, 2017 continued a decreasing trend of specialty distributor deals as a percentage of total announced transactions.

Specialty Distributor Transactions (% of Total)

- Year-end 2017: 13%
- Year-end 2016: 16%
- Year-end 2015: 18%
- Year-end 2014: 20%

Notwithstanding this trend, we are seeing that specialty distributors continue to rank high on acquirers' depth charts for a multitude of reasons, including:

- **Inventory.** Inventory of sellers remains high, particularly property and casualty sellers.
- **Age.** The average age of owners exceeds 54 years, and many baby boomers lack functional perpetuation plans.
- **Valuation.** The delta between internal and external valuations is significant.
- **External factors.** The economy is robust, and interest rates remain relatively low.
- **Demand.** Investors are plentiful and capital abundant.
- **Cost of capital.** Debt capital remains cheap and access thereto easy.

Consistent with recent years past, private equity represented the largest buyer group of specialty distributors in 2017. Of the 74 deals, PE and/or PE-backed brokerages represented 37, or 50%. Private equity is now a household name with potential sellers.

Furthermore, many established consolidators are now pursuing investments in the specialty distribution sector. Traditionally, only a few consolidators—namely Gallagher (via Risk Placement Services), Brown & Brown, and Ryan Specialty Group—put their proverbial money where their mouths were in terms of specialty distribution platforms. Their consolidator competitors seemingly kept to the retail sector. However, this trend is noticeably transitioning. For example, last year we saw the following consolidators (all PE backed) acquire specialty distributor operations:

- Acrisure
- Alliant Insurance Services
- AssuredPartners
- Hub (via Program Specialty Group)
- NFP
- Risk Strategies Company.

SPECIALTY DISTRIBUTOR TOP BUYERS

The top five buyers of specialty distributor operations accounted for 23 (of 74) deals, representing 31% of the total specialty distributor deals consummated in 2017.

OneDigital Making Waves

Formerly known as Digital Insurance and Digital Benefit Advisors, OneDigital, one of the nation's largest companies focused exclusively on employee benefits, recapitalized in 2017 in an all-cash transaction worth $560 million to Fidelity National Financial Ventures, which acquired OneDigital in 2012. New Mountain Capital acquired the majority stake and will provide strategic guidance and industry expertise to help drive OneDigital's continued growth.

In the latter half of 2017, OneDigital announced it was collaborating with Zenefits' People Platform, whose applications like HR, benefits, time, payroll and compliance combine with partner applications such as email, collaborations, expense management and employee engagement to create a comprehensive, mobile HR experience. According to OneDigital, it expects to triple its $5 billion premium base in the next five years. And Zenefits will expand its market to serve companies of all sizes.

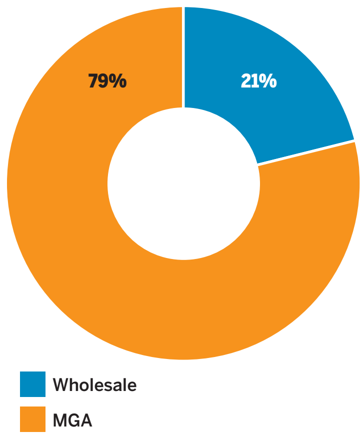
Retail vs. Specialty Breakdown

TYPE	2012	2013	2014	2015	2016	2017
Specialty Distributors	36	36	63	83	70	74
Retail	289	188	259	373	373	483
Total	**325**	**224**	**322**	**456**	**443**	**557**

TYPE	2012	2013	2014	2015	2016	2017
Specialty Distributors	11%	16%	20%	18%	16%	13%
Retail	89%	84%	80%	82%	84%	87%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Specialty Distributors include wholesale brokers, program managers, managing general agents, managing general underwriters and general agents. All transactions in this presentation are announced deals involving public company acquirers, banks, and private equity groups as well as private company acquirers. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that only 15%-30% of all transactions are actually made public. Past performance is not necessarily indicative of future results.
Source: SNL Financial, *Insurance Journal*, and other publicly available sources

Specialty Breakdown



Specialty distributors include wholesale brokerages, program managers, MGAs, MGUs and general agents. Specialty distributors was broken down further to distinguish between wholesalers and program administrators. Classifications are based on public information, and opinions may vary. All transactions are announced deals involving public companies, banks and private equity groups as well as private company acquirers. All targets are U.S. only. This is a snapshot at a particular point in time and has not been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that only 15%-30% of all transactions are actually made public. Past performance is not necessarily indicative of future results. Source: S&P Global Market Intelligence, and other publicly available sources

Leading the charge on the buy side was **Hub's Specialty Program Group**, the specialty distribution arm of Hub, with six deals. Next in line was **Ryan Specialty Group** with five deals, followed by **NFP**, **Assured Partners**, and **US Risk**, each with four deals.

1. Hub SPG = 6 deals
2. Ryan Specialty Group = 5 deals
3. NFP = 4 deals
4. AssuredPartners = 4 deals
5. US Risk = 4 deals

PROGRAM ADMINISTRATOR TOP BUYERS

All six of **Hub's** specialty distributor deals last year represented program administrators with significant contract-binding authority commission revenues. In other words, it took a pass on the traditional wholesale brokerage model, thereby ameliorating channel conflict with its large retail operations. Hub was consistent throughout 2017, closing one or more transaction(s) each quarter end. Hub's acquisitions included a diverse mix of industries, p-c lines of coverages, and geographies, including:

- Transportation commercial lines via the acquisition of Paul Hanson Partners Specialty Insurance Solutions, based in California
- Financial and professional liability covers via the acquisition of Capitol Special Risks, based in Georgia.

Sharing the silver medal in terms of program administrator deals was the traditionally retail-focused consolidator **Assured Partners**, which made a large splash in the program administrator space with four acquisitions, and serial acquirer **Ryan Specialty Group**, also with four deals. Rounding out the top five were retail consolidators **Acrisure** and **NFP**, each with three deals.

1. Hub SPG = 6 deals (2 in Q4)
2. AssuredPartners = 4 deals (3 in Q4)
3. Ryan Specialty Group = 4 deals (3 in Q1)
4. Acrisure = 3 deals
5. NFP = 3 deals

WHOLESALER TOP BUYERS

On the wholesale side of the equation, **AmWINS Group, Gallagher,** and **US Risk** each consummated two wholesale brokerage acquisitions.

TRANSACTION PRICING AND STRUCTURE

2017 wrapped up another seller's market. High values remain prevalent, and the leveling of prices we saw in 2016 gained further momentum with platform, stand-alone and roll-in transitions all showing an increase in average total realistic purchase price multiples. However, in conjunction with the increase in purchase price multiples was an increase in the required growth rates to achieve the earnouts seen across most platform and stand-alone acquisitions.

PRICING STRUCTURE BREAKDOWN

Two forms of purchase price are generally referenced in the industry: multiples of EBITDA and multiples of revenue. Here, we refer to multiples of EBITDA. To analyze transaction pricing, we'll break the price down into three key components:

On the Lookout

We are keeping a close eye on the types of specialty distributor companies being targeted for acquisition by consolidators. To be sure, consolidators are acquiring not only contract-binding authority MGA, MGU and program administrators operations but also wholesale brokerage operations.

However, the traditional wholesale brokerage model has experienced significant consolidation in recent years. We believe there is a structural shift occurring in the specialty distribution segment, whereby larger, well capitalized and better-differentiated wholesale operations are buying smaller, less differentiated wholesale operations. Here is the breakdown of specialty distributor deals by type.

- Program Administrators = 58 deals
- Wholesale Brokerages = 16 deals
- Total = 74 deals

1. Base Purchase Price: The dollar amount paid at close plus the live-out the seller is expected to receive.

Paid at Close: The amount of proceeds paid at closing, including any escrow for potential indemnification items.

Live-out: The amount a buyer may initially hold back but which is paid as long as the seller's performance does not materially decline. This may also be paid at closing but could be subject to a potential adjustment. If the live-out is not paid at closing, this payment is usually paid within one to three years, contingent upon delivering on the seller's pro forma revenue or EBITDA.

2. Realistic Earnout: The anticipated purchase price to be achieved in the future based on a number of factors including seller historical and expected performance, buyer and seller realistic discussion of earnout metrics, etc.

Realistic Purchase Price = Base Purchase Price + Realistic Earnout

...in conjunction with the increase in purchase price multiples was an increase in the required growth rates to achieve the earnouts seen across most platform and stand-alone acquisitions.

3. Maximum Earnout: The additional earnout above the realistic earnout that, if achieved, would generate the maximum possible earnout payment.

Maximum Purchase Price = Base Purchase Price + Realistic Earnout + Maximum Earnout

PURCHASE PRICE TRENDS

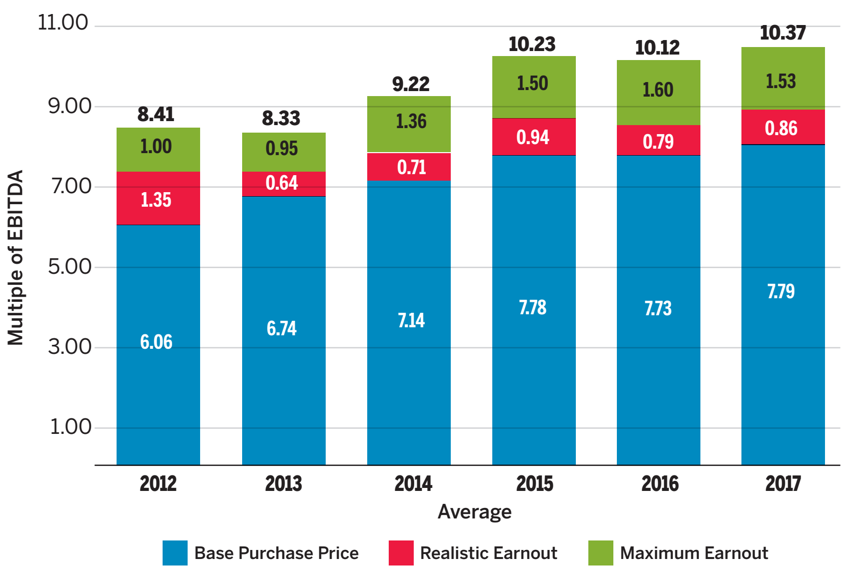
For sellers, a key goal is to maximize the purchase price paid up front, or base purchase price. Buyers realize that how a company performs after the transaction is critical. The earnout, or "at risk" component, should fairly reflect the risk profile the buyer supposes that, for the seller, will ultimately help drive shared risks and rewards.

- **Earnout:** A provision of the purchase agreement that states the seller is entitled to future compensation if it achieves certain goals, typically related to growth of revenue or EBITDA. In past years, stemming from the overall market- and industry-specific conditions, buyers sometimes reduced the base purchase price and shifted a larger portion of the total purchase price to the earnout. We saw this shift most recently in 2012.

However, up until last year, we saw continued increases in the amount sellers were paid up front, with gradual increases in the earnout potential as well. This past year showed a renewed increase in both the base purchase price and the earnout, with a more notable shift seen in the platform and roll-in acquisitions. However, buyers are also expecting greater growth hurdles for sellers to achieve earnouts due to the increase in base valuation.

- **Pricing Ups and Downs:** In 2017, the average base purchase price increased nearly 0.24 times EBITDA (or 3%) to 7.97 times EBITDA. The average realistic purchase price was 8.84 times EBITDA in 2017, up 0.31 times EBITDA (or 4%) from 8.53 times in 2016. The additional maximum earnout potential in 2017 was slightly lower than last year (0.07 times, or 4%), resulting in an average maximum purchase price of 10.37 times EBITDA in 2017, which in total is up 0.25 times (or 2%) compared to 2016.

Average Purchase Price 2012-2017



Multiples are calculated based on deals closed in calendar year. Numbers may not add up due to rounding. Past performance is not necessarily indicative of future results.
Source: MarshBerry proprietary database. Data compiled from transactions in which we were directly involved, those from which we have detailed information, and transactions in the public record.

PARTNERSHIP *redefined*

BALDWIN RISK PARTNERS

Jody Harter
The Villages Insurance Partners
Partners since 2012

Jim Maher
FMO
Partners since 2016

Dennis Gagnon
Affordable Home Insurance
Partners since 2017

Sean Ryan
Ryan Insurance & Financial
Partners since 2017

Robert and Bob Wentzell
Bradenton Insurance
Partners since 2017

TYPICAL **ACQUISITION** VS A BALDWIN RISK **PARTNERSHIP**

noun [akwəˈziSH(ə)n]
the acquiring company buys the acquired firm, then seeks to change the culture, ownership and people

verb [pahrt-ner-ship]
where like-minded firms come together to innovate, gain efficiencies, achieve industry leading growth, increase profits and remain entrepreneurial

CONTACT US IF YOU ARE INTERESTED IN:

- Taking advantage of the current valuations, but are not ready to retire
- Collaboration and growth
- Keeping your focus on your clients, not the daily operations of technology, marketing, accounting and human resources
- Investing in new technologies and innovations to evolve with consumer demands
- Partnering with a privately held firm with insurance industry veterans
- Remaining a local, independent agent with a continued stake in the business

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IIABA Best Practices 2017 Best Practices Agency

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This past year showed a renewed increase in both the base purchase price and the earnout, with a more notable shift seen in the platform and roll-in acquisitions.

INDUSTRY CLOSE-UP: A LOOK AT PURCHASE TRANSACTIONS

Agency and brokerage transactions are classified into three major categories: platform, stand-alone and roll-in.

Platform

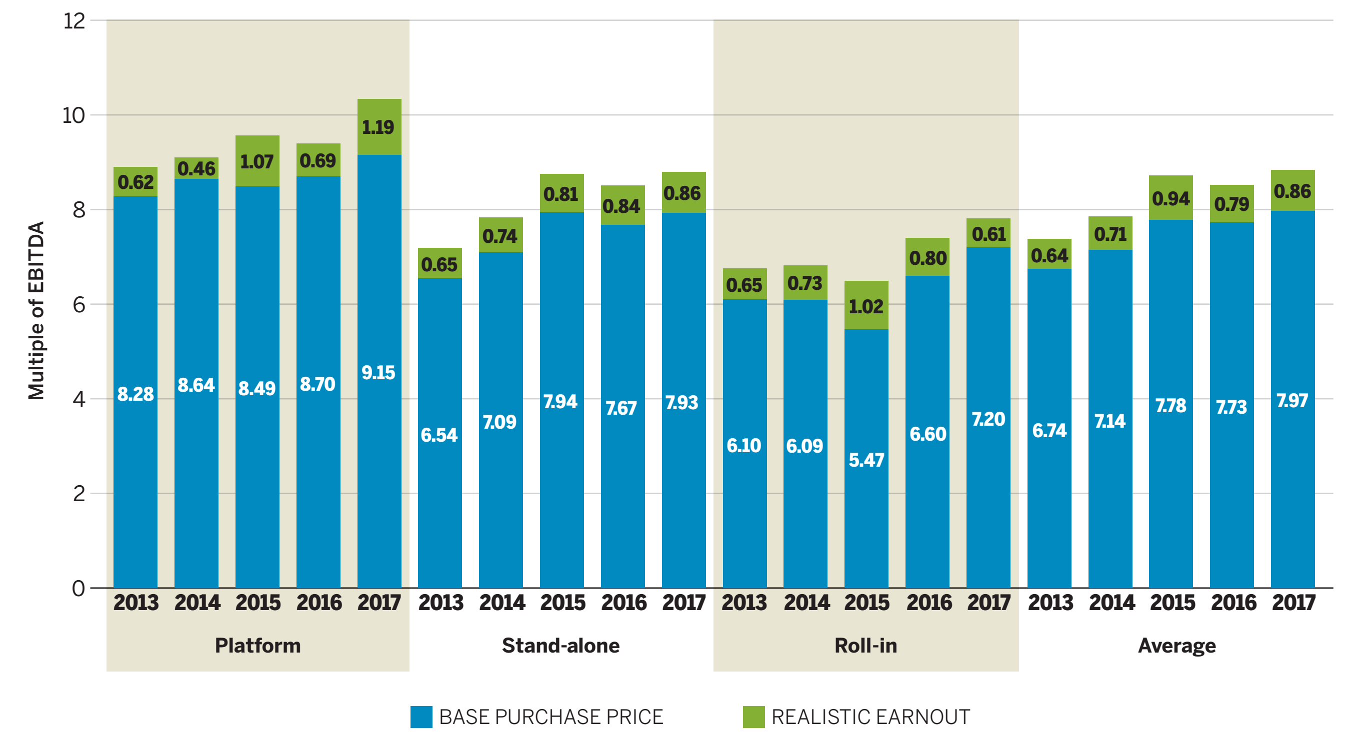
A platform agency is typically a larger agency that has a well-established territory, brand recognition, seasoned professionals and scalable infrastructure, among other attributes. The buyer of a platform agency is typically looking to establish a presence in a specific region or niche.

These firms continue to command premium pricing. The realistic purchase price for a platform agency includes a 5% increase in the amount paid up front or the base purchase price. Whereas last year this increase to the base purchase price came with a slight decrease to the realistic earnout achievable, 2017 reflected a 10% increase (nearly one times EBITDA) in the realistic purchase price of 10.35 times EBITDA.

Stand-alone

A stand-alone entity may be based on size or geographic location. The firm is large enough to maintain its physical presence

Realistic Purchase Price (Platform, Stand-alone, Roll-in)



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Source: MarshBerry proprietary database. Data compiled from transactions in which we were directly involved, those from which we have detailed information, and transactions in the public record.

but likely reports into a larger platform within the given region.

Whereas multiples for these firms dropped in 2016, we saw in 2017 an increase back up to levels consistent with those of 2015. Both the average base purchase price and realistic purchase price increased 3% over the prior year to 7.93 times EBITDA and 8.79 times EBITDA, respectively.

Roll-in

A roll-in transaction typically involves the sale of a small, privately held agency or book of business, which gets physically rolled into the buyer's existing operations, either at closing or within a reasonably short period of time.

In 2016, we saw a shift in focus for many buyers who acquired smaller roll-in firms with one assumption: that buyers were looking to complement their network of platforms. Another assumption made was that, due to the high valuations that have continued to increase over the last five years, buyers were looking to blend the average multiple paid across their acquisitions. We believe this trend continued through 2017. The average base purchase price increased 9% in 2017 to 7.20 times EBITDA, and the realistic purchase price increased 6% to 7.81 times EBITDA.

While purchase prices remained relatively flat in 2016, we saw a renewed increase in valuations in 2017, climbing to an all-time high despite rising interest rates and an uncertain tax environment. If early 2018 transactions are any indication, we believe the valuation environment will continue to blaze despite the continued economic uncertainty.

Integration: A ‘Dirty’ Word?

The many ways buyers approach integration can make the process feel like a great unknown to sellers.

BY COURTNEY FERRARA

Integration—what does it really mean? This critical merger and acquisition transition process can feel like diving into murky waters for sellers, who often aren’t sure what to expect. What will happen with the brand, technology and human resource functions? How will the coming together of two organizations impact the culture? What does it mean for the people?

Without thoughtful consideration of the following different integration items and approaches, sellers may face challenges preserving their culture during the transition from independent agency to third-party ownership. If expectations are not clearly set or communicated in an effective way, changes in staffing, policies and procedures may negatively impact the culture an owner has worked so hard to build. It can be very easy to create a perception of secrecy and exclusion if a sale's impact on employees’ roles, responsibilities and compensation is not clearly communicated in a timely manner.

To be sure, integration means different things to many buyers and sellers, and that's because there are several different approaches to the process. We generally categorize buyers in three integration buckets: centralized, decentralized or somewhere in between. (See what we mean by murky waters?)

- **Centralized:** Buyers operating under a more centralized structure integrate acquired companies into a larger corporate infrastructure in all functions, including IT, accounting, HR, claims and licensing.
- **Decentralized:** Buyers in a decentralized structure absorb few, if any, duties on the local level. Usually after the deal closes, day-to-day operations do not change.
- **Somewhere in Between:** Not all buyers fall into the completely centralized or hands-off categories. Plenty of buyers take a hybrid approach and will roll in certain operations (accounting and HR, for example) while leaving other areas up to local offices.

The reality is sellers typically do not know what to expect when it comes to integration, even though they often have goals they want to achieve. Some sellers relish the idea of getting rid of all things accounting/finance, while others have a strong, strategic accounting/finance function and want to maintain that at a local level. And sellers can mistakenly assume that, by "giving up" functions to corporate, they're eliminating a cost. However, responsibilities that the buyer decides to centralize often come at a cost to the seller's income statement, affecting the earnings before interest, tax, depreciation, and amortization (EBITDA) at closing and during an earnout period. So while a seller might think an operating expense is eliminated, the buyer is actually replacing that with some type of cost allocation. For this reason, among others, it's important for buyers and sellers to come to the table with a clear understanding of each other's integration expectations and goals.

> **There are plenty in the marketplace who view integration as a dirty word, and they're reluctant to discuss it in detail early on in the transaction.**

FOUR KEY INTEGRATION AREAS

We believe branding, IT, HR and accounting/finance are key to integration. Here's how different acquirers treat those operations based on their approach.

Branding: Branding integration can take on many different forms. Some buyers are quick to transition letterhead, logos and websites—they want to maintain brand continuity and leverage a strong national reputation in the marketplace. Others make little to no changes to marketing or branding. Buyers might allow acquired businesses to maintain their logos, websites and trade names in the marketplace. These buyers might even forgo a public announcement of the transaction or reference to the change in ownership. Finally, there are acquired agencies that carry two sets of business cards—depending on the client or prospect they are visiting, they may use whichever one they feel gives them an advantage at the table.

When there is a transition, we often see the buyer and seller work together to gradually implement branding initiatives. An acquired business might use its own brand and/or co-brand as a "division" or "partner" of the acquiring agency. The co-branding phase can last months to a couple of years, depending on the circumstances.

Information Technology: There are several phases of IT integration. First come simpler tasks that are tackled soon after a transaction—like creating new email addresses or redirecting website traffic to a new landing page. Other IT-related issues, such as getting the seller under the

Not having a clear understanding of where a buyer may fall on the spectrum could lead to either a deal that does not close or disappointment and resentment after the fact...

same contract for duplicative software and systems (e.g., agency management systems, ratings software, subscriptions), may not be so easy. The acquirer might have to let the current vendor contract run out before consolidating onto one master agreement. Other applications may be so unique to a seller's niche the buyer doesn't currently utilize anything substitutable, so nothing changes. Hardware like phones, printers and computers tend to be handled case by case, with some larger national buyers utilizing national contracts but many leaving these to be managed locally. Some buyers do not even require a common agency management or accounting system if monthly reporting can be completed in an acceptable format.

Human Resources: Some buyers synchronize timing of raises and reviews and standardize titles and paid time-off allowances, while others allow acquired agencies to keep their own schedules and policies. Nearly every buyer in the marketplace will require a seller and its employees to terminate their benefit and 401(k) plans and join the parent company's plan. Often, there are concerns about employment discrimination or fairness that could be raised if different benefits are being offered to different employees of a parent company. Recruiting and onboarding are also handled differently by different buyers, with some opting to use national/corporate resources to potentially draw a larger pool of candidates and others leaving these tasks up to local offices, where there is a greater knowledge of the community and available talent.

Accounting and Finance: This area tends to be the area most integrated by buyers, regardless of size. There are often meaningful efficiencies to be gained by consolidating functions like accounts receivable, accounts payable and direct bill reconciliations. Most buyers have a corporate CFO who will either manage a corporate team of accountants or the agency's local staff. Accounting policies and procedures are often standardized to ensure consistent reporting across agencies.

IS INTEGRATION REALLY A DIRTY WORD?

Integration can be the elephant in the room during an M&A transaction. There are plenty in the marketplace who view integration as a dirty word, and they're reluctant to discuss it in detail early on in the transaction. Many integration details do not emerge until after a letter of intent has been signed. But having the talk sooner and maintaining open communications is key. Sellers should know how and in what ways their organizations will be integrated after the deal is done. How will the transaction affect the operations and culture? Do the buyer's goals and objectives align with their own?

Some sellers are eager to release certain corporate responsibilities and decisions, while others are interested in maintaining complete autonomy after a sale. Not having a clear understanding of where a buyer may fall on the spectrum could lead to either a deal that does not close or disappointment and resentment after the fact when expectations fall short of reality. So talk about integration early and often. Make this discussion a part of the M&A transaction process so there are no surprises after the ink dries. edge

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Decent Fighting Form

P-C and health insurers were tested in 2017 but remain strong.

BY DAVID PAUL

There was no shortage of excitement in the U.S. property-casualty and health insurance markets in 2017. Like seasoned boxers, the p-c markets were tested by several roundhouse punches in the form of large catastrophes in the third and fourth quarters, while health insurance markets continue to weave and bob with every new jab at the Affordable Care Act. Both markets, however, benefitted from underlying improvement in the U.S. economy and relatively strong capital markets. In short, both are in decent fighting form entering 2018.

P-C REMAINS DISCIPLINED

The U.S. p-c industry has been in an above-average financial position for most of the past 20 years, with the exception of the late 1990s to early 2000s. During this time, rates dropped considerably, and the United States entered a recession, causing financial distress at a number of large p-c organizations. The hard market pricing that ensued from 2000 to 2004 resulted in strong earnings and larger net capital gains, both of which helped repair balance sheets.

ALIRT has developed an industry composite score derived from 45 financial metrics that measure individual insurers on a holistic basis. These composite scores mark the financial pulse of the entire industry over time. Since the global financial crisis of 2008-2009, the industry has bumped along the long-term industry average score of 50, except for the period of 2013-2014, which benefitted from both low catastrophe losses and a "mini" price firming cycle. Gradual improvement in the U.S. economy has also helped boost exposure units.

As of nine-month 2017 financials, despite the large catastrophe losses, personal lines saw a higher ALIRT score than commercial, reflecting stronger net capital gains and improved parent company growth and earnings. The commercial lines score, however, saw a seven-point decrease due to weaker underwriting and operating profitability.

In 2018, aggregate industry rates should trend up slightly for commercial lines and somewhat higher for personal lines (largely in auto) while prior-year reserve releases remain positive.

In a "normal" catastrophe environment, look for near break-even underwriting results for commercial lines, with the personal lines industry perhaps a bit worse than break-even. While the relationship of rate versus loss-cost trend is important, much will also hinge on expense control and the quality of selected risks.

The contribution from investment income may continue to wane as current money yields catch up to portfolio yields. However, higher interest rates should ultimately boost operating profitability. Equity markets remain a wildcard.

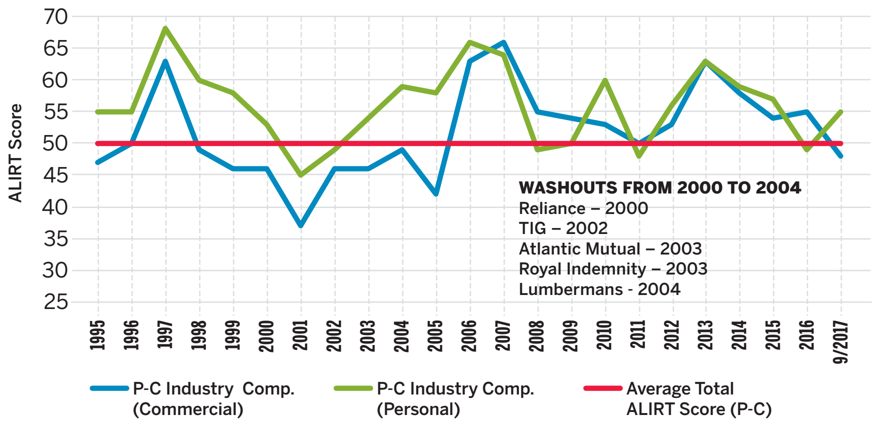
Financial performance differs across the board in the commercial lines arena, with subsidiaries of Chubb, The Hartford and Travelers tending to outperform, while those owned by Liberty Mutual and AIG currently exhibit weaker financial profiles. Absent any extreme loss event, capacity remains ample for commercial and personal p-c sectors, dampening upward pressure on pricing; however, overall, the U.S. p-c market seems disciplined.

LARGER HEALTH INSURERS STABLE

The health insurers tracked by ALIRT have shown more stable scores than their p-c counterparts, reflecting relatively narrow swings in underwriting and operating profitability and a stable surplus/capital base. These scores have also trended above the long-term average health insurer score in each of the past 12 years, indicating that the 100 companies

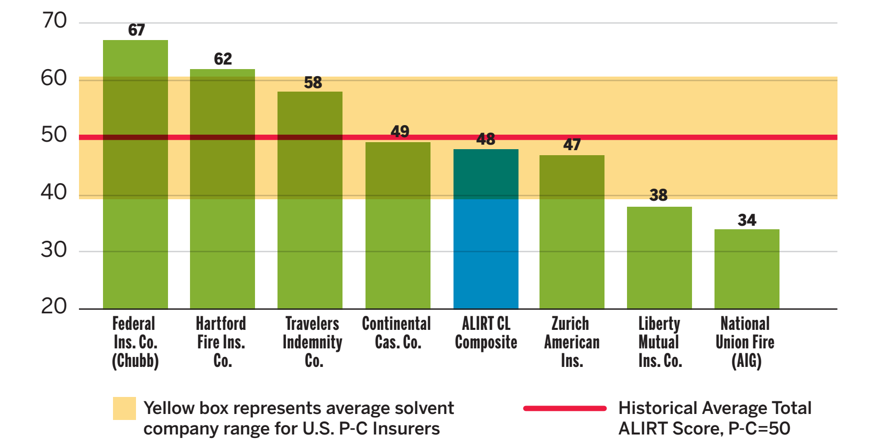
Absent any extreme loss event, capacity remains ample for commercial and personal p-c sectors, dampening upward pressure on pricing; however, overall, the U.S. p-c market seems disciplined.

ALIRT Industry Composite Index—Property-Casualty



Past performance is not indicative of future results.

Current ALIRT Scores for Leading U.S. Commercial Lines P-C Insurers



Past performance is not indicative of future results.

comprising the composite tend to be larger and more stable than the many small health insurers tracked by ALIRT.

Membership and premium growth have trailed off for the composite since 2012, with the exception of 2015, when both metrics rose due to higher enrollment in public exchanges. Premium growth, however, has consistently exceeded membership growth, given the impact of steady rate increases. The industry's risk-adjusted capitalization has deteriorated somewhat over time, and insurers report more aggressive net premium leverage and large dividends paid out to parent companies.

The uptick in the composite's score in the third quarter of 2017 largely reflects a sharp improvement in underwriting and operating profitability, as both medical loss and expense ratios improved (the latter helped by a one-year suspension of the Affordable Care Act's health insurance tax).

In 2018, aggregate industry premium growth remains in the mid-single digit range while plan membership lags. The industry will continue to report a larger mix of government-sourced business while traditional commercial and individual health enrollment flatlines or declines.

Outsized underwriting profitability may fall back to longer-term averages, in part due to the return of the ACA fee, which will put upward pressure on expense ratios. That said, incremental improvement in the medical loss ratio over the past several years could well persist.

The industry will remain adequately capitalized despite the likely continuation of sizable shareholder dividends paid to large publicly traded parents.

Scale remains important, benefitting the large national health organizations. Almost all of the large national carriers tracked by ALIRT exhibit financial profiles substantially stronger than that of the industry average. Smaller health insurers, which lack the necessary scale, often exhibit much weaker financial profiles, resulting in scores well below composite average. Large groups should continue to make investments in technology/data mining as well as pursue additional strategic acquisitions, including provider groups. edge

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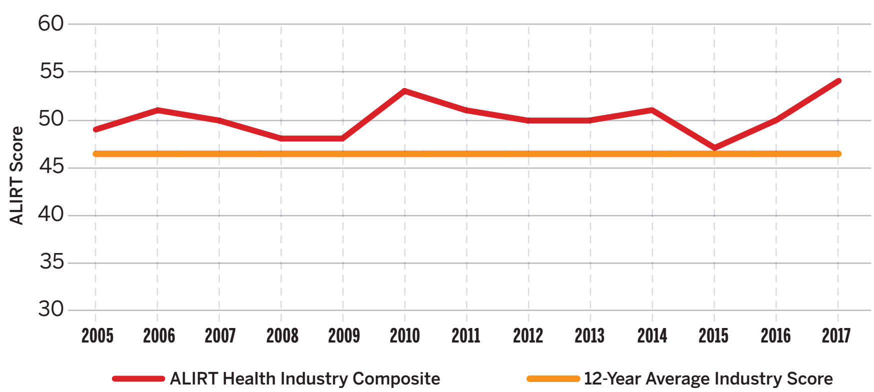
ALIRT Health Industry Composite



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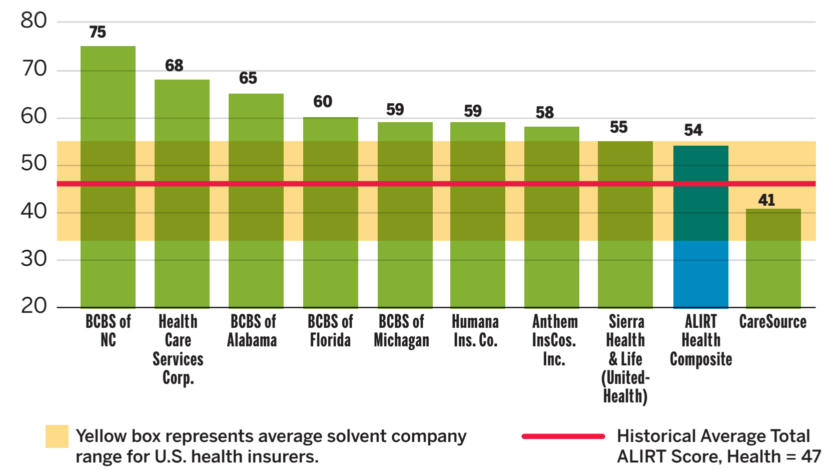
ALIRT Scores for U.S. Health Insurers



Past performance is not indicative of future results.

TOP 10 BUYERS

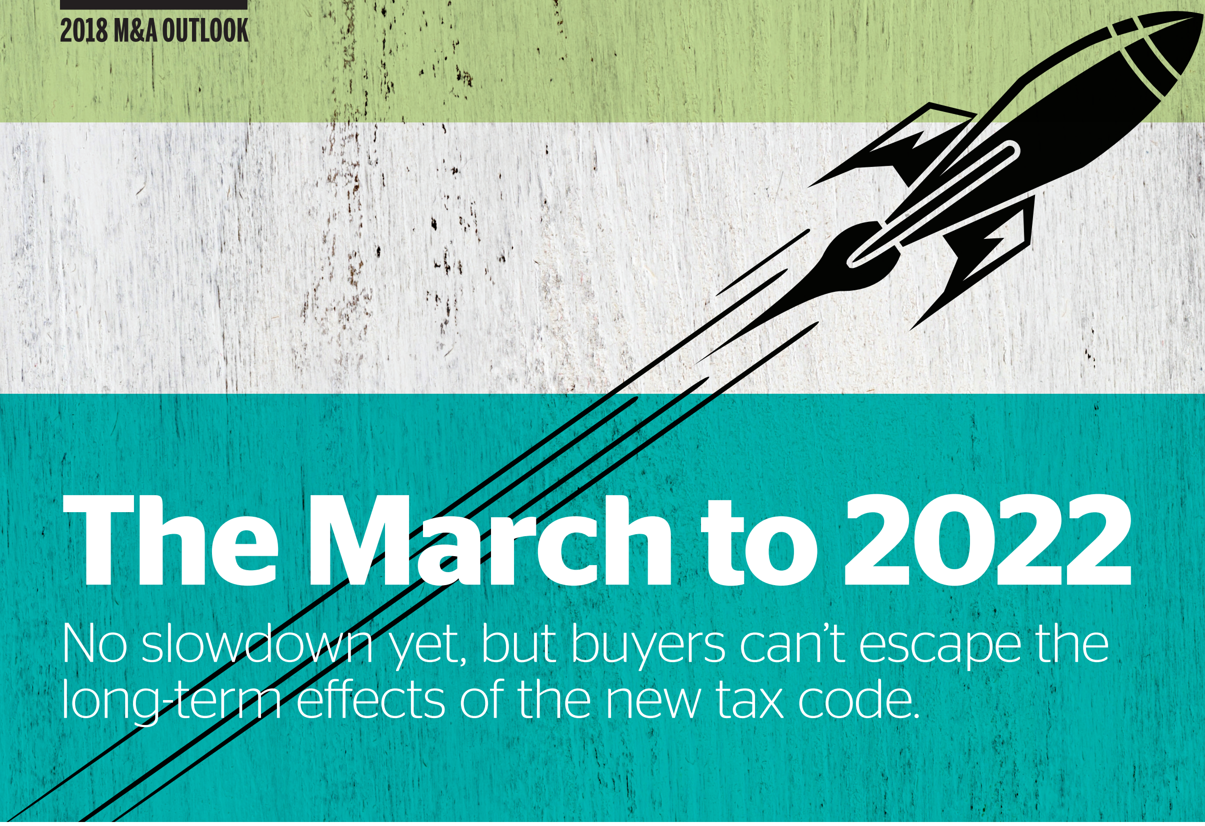
Behind the Curtain

The top 10 buyers offer a peek into their strategies.

RANK	BUYER	2017 DOMESTIC COUNT	2017 INTERNATIONAL COUNT	ACQUIRED REVENUE 2017 RUN RATE	TARGETED ACQUIRED REVENUE 2018 RUN RATE
1	Acrisure	91	1	$364M	n/a
2	Hub International	52	8	$174M	Hub does not set an annual target; it searches for merger partners that are looking for growth opportunities.
3	BroadStreet Partners	32	0	$59.9M	$65M-$85M
4	Arthur J. Gallagher	28	11	$172.3M	n/a
5	AssuredPartners	28	0	$275M	n/a
6	Seeman Holtz Property and Casualty	24	0	$30M	$125M
7	NFP	29	4	$120M	Strategic acquisitions across all disciplines with a focus on continuing to build its p-c operations.
8	Alera Group	15	0	n/a	n/a
9	Hilb Group	14	0	$31M	$50M
10	Risk Strategies Company	11	0	$42M	$70M

Just like in 2016, nine of the top 10 buyers in 2017 were backed by private equity—with one public brokerage rounding out the group. There has been a significant increase in private-equity backed buyer activity during the past 10-plus years—PE represented just 7% of deal activity in 2007. Each buyer has a unique approach to acquisitions. We asked them to share a bit of their strategy. edge

POINTS OF INTEREST
In 2017, Acrisure completed its first International acquisition, and the company expects that trend to continue in 2018.
Hub continues to partner with firms that align with it both strategically and culturally. It specifically targets merger partners that are looking for access to best-in-class sales tools and resources that will allow them to continue to grow, provide better carrier opportunities for their employees, and result in better risk mitigation and service for their clients. One specific area of focus is Hub's Specialty Practice Group, led by Chris Treanor, which looks to identify tier one MGA/MGU specialty program businesses. Another area of focus is Hub's retirement services practices, led by David Reich, which focuses on 401(k) and retirement services.
Twelve of BroadStreet Partners' 21 core agency partners are among the top 100 property-casualty agencies based on revenue.
n/a
In 2017, AssuredPartners completed its largest acquisition to date, Keenan and Associates. AssuredPartners recently crossed over the $1 billion threshold of acquired revenue, doing so in six years.
Seeman Holtz continues to focus on agencies with entrepreneurs who are looking to grow with the company. It is looking for niche markets that can be leveraged across entire organizations.
In 2017, NFP acquired Dalton Timmis, a premier Canadian p-c brokerage, to operate as NFP's p-c platform in Canada and greatly enhance offerings for NFP's existing clients in the Canadian market.
Alera Group will continue its acquisition strategy of partnering with like-minded agency owners. It believes it will continue to attract those owners who share a vision of building a great company through a culture of collaboration.
Hilb's focus is to continue to expand its East Coast to Midwest footprint with leaders who want to create value and maintain equity ownership.
All of the acquisitions completed in 2017 aided RSC's efforts to differentiate itself from the market by deepening its specialties. The acquisition of Brightstone Insurance Services marked RSC's entrance into a new specialty, serving the needs of same-day transportation and logistics companies, and Delmarva Surety gave RSC a deep expertise in surety, one it had lacked. Of RSC's 2017 transactions, 41% were sourced in a proprietary fashion through its employee network.



The March to 2022

No slowdown yet, but buyers can't escape the long-term effects of the new tax code.

When will the merger and acquisition bubble burst? This question has been looming over the rush of activity for the past couple of years. And 2017 showed no slowdown after a record number of deals and growing interest from new private capital investors who are entering the insurance brokerage space. Last year, an uncertain political climate and concern over how tax reform would affect valuations led many to believe those factors would be the needle that popped the so-called bubble. But in fact, valuations are holding their ground for now.

We expect the total number of deals in 2018 to still be strong. And we anticipate seeing a fair number of larger firms potentially selling this year, with rumors of these significant deals supporting an outlook that 2018 will be a dynamic, exciting year for M&A.

What will continue driving M&A in 2018? Aside from attractive multiples and valuations, we are seeing a diversification of buyers. New private capital, which includes family offices, pension plans, sovereign wealth funds and long-term equity, is giving agencies an opportunity to focus on strategic growth. And it's putting more players at the table along with traditional private equity, which we expect will continue its assertive role in insurance brokerage M&A.

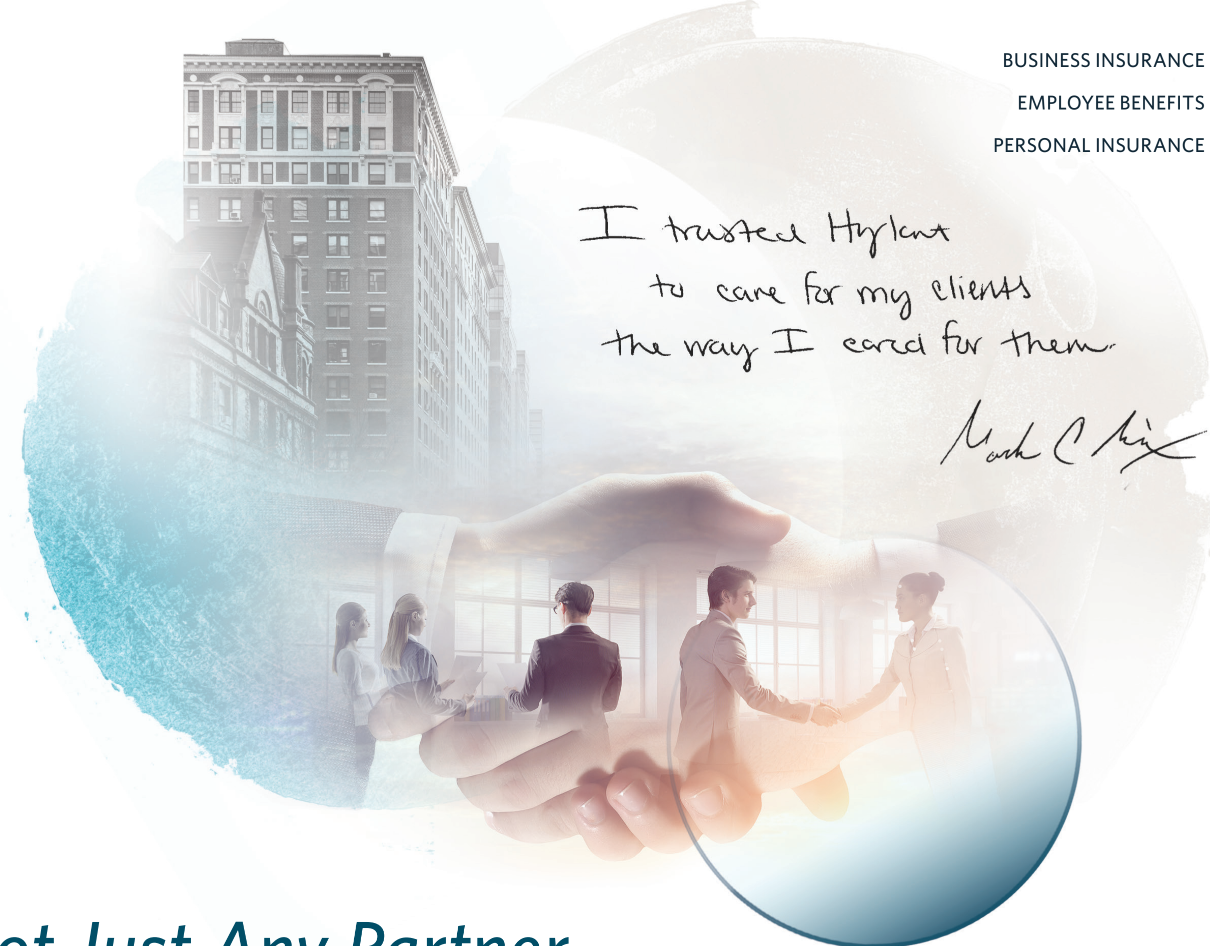
As the U.S. economy stays on a path of moderate growth—with positives like consumer and business spending and tax cuts freeing up disposable income—we do expect some higher interest rates in 2018. That said, any increase would bring rates to more "normal" levels. We believe the moderately growing economy along with a potential hardening rate environment should result in more organic growth for agencies.

There is an undeniable uncertainty related to U.S. trade and other regulations, the stock market, and government spending. No one is sure of the timing of changes—but what we can say with confidence is the factors we thought would potentially put a dent in M&A activity have not done so…yet.

BUSINESS INSURANCE

EMPLOYEE BENEFITS

PERSONAL INSURANCE



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Quote from:

MARK NIXON
President,
Hylant-Jacksonville, FL

(Formerly President,
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The biggest concern is the long-term effect of the new tax code. While it may not have an immediate impact on 2018, it is our opinion that valuations are going to take a hit leading up to 2022.

We are beginning to see growing concern that the slow, steady fire that was burning in the economy may be flashed out by a number of different accelerants. The biggest concern is the long-term effect of the new tax code. While it may not have an immediate impact on 2018, it is our opinion that valuations are going to take a hit leading up to 2022.

The new tax code created lower corporate tax rates but also put a limitation on the deduction companies can use for their interest expense. Currently, they can deduct interest expense equal to only 30% of the firm's earnings before interest, tax, depreciation and amortization (EBITDA). This is a significant change for firms that are heavily leveraged with debt. Some firms in the industry have debt equal to 6-7x their EBITDA on their balance sheet. This creates a lot of interest expense.

In today's marketplace, the reduced tax rates offset the impact this limited deduction has on buyers. However, in 2022, the 30% limit starts to measure off of earnings before interest and tax (EBIT), which is a much smaller number for acquirers in the marketplace because of the significant amount of amortization they have from all of their historic acquisitions.

So what does all of this mean to you? It means the cash flow of buyers is likely going to be significantly reduced in 2022 and beyond. Buyers are going to have a few options. They will likely either deleverage (which means reduce the amount of debt on their balance sheet) or be willing to take lower returns.

As we take a step back and look at this logically, the second option doesn't seem like a real option. Firms putting private capital into the insurance distribution market are in the business of making money. Hoping these financially oriented investors will make a lower return so that high valuations can continue is not the most prudent bet.

What is more likely to happen? Buyers are going to use less debt in their deals. This means they are also likely to reduce valuations because they are not going to want to put significantly more equity into their investments.

Additionally, the Fed intends to increase interest rates, which will likely exacerbate the problem. You can expect PE-backed firms to trade out of their sponsors or to combine with one another in the next couple of years because, if they wait and increased interest rates coincide with lower leverage, the larger firms are not going to get the valuations they counted on when they raised their capital from their current sponsors.

The sky isn't falling yet. But we think you can expect changes in the market—and most likely very soon. We believe the volume of deals will continue at a record pace because supply and demand will remain strong—59% of ownership still sits in the hands of baby boomers, and more and more private capital thinks insurance is a solid investment. We are confident, as are many of the private-equity funded buyers, that valuations will decline rapidly as we march toward 2022. edge

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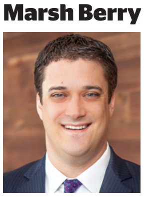
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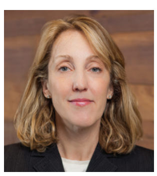
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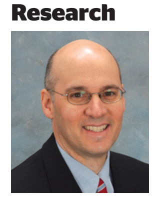
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The Buyers Club Major Players in M&A

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