

M&A TRENDS TO WATCH AS ACQUISITION COMPETITION AND AGENCY VALUATIONS GROW

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Insurance brokerages and agencies have emerged as prime acquisition targets for a multitude of different buyers. These agencies have experienced steady growth over the past several years thanks to a flurry of market tailwinds. Improving macroeconomic conditions and rising demand for insurance coverage in a hardening market has resulted in growing insurance premiums. Considering most brokerages make their revenue from commissions, these rising premiums have positively impacted brokers' bottom lines.

These dynamics have caught the attention of both strategic and financial buyers looking to acquire businesses with strong cash flows and solid fundamentals. Because of this, competition for deals is high, and agency valuations have also increased significantly.

A number of trends are likely to keep this M&A momentum going throughout 2020. Here are a few dynamics to look out for in the year ahead:

1 DEALS, DEALS, DEALS

The number of transactions taking place in the brokerage sector is charting an upward trajectory. In fact, the total number of deals in the insurance brokerage space hit an all-time high in 2019 with 649 total transactions, up from 643 in 2018, according to Optis Partners LLC. Given the growing profitability of the sector and the amount of capital available to pursue deals, this trend is showing no signs of slowing down.

Optis Partners also predicts that 2020 will be another huge year for M&A in the brokerage space.¹

2 PRIVATE EQUITY BUYERS EMERGE

One major driver of M&A activity in recent years has been the emergence of private equity buyers in the market. According to the Optis Partners report, brokers owned by private equity firms or with some other form of significant outside capital support were by far the most active buyers of insurance brokers in 2019. These companies represented roughly 66% of all buyers last year.

¹ <https://www.businessinsurance.com/article/20200121/NEWS06/912332665/Broker-M&As-hit-new-high-in-2019-Optis-Partners>



According to PwC, the robust M&A activity expected in 2020 will likely be driven by these private equity and corporate buyers.²

But sellers must take note -- private equity firms may have the capital needed to fund a transaction, they may not be able to provide the structure, resources, technology, industry relationships and expertise that a broker with decades of experience in the industry can.

3 OVERALL GROWING M&A ACTIVITY

The M&A trend is not limited to the insurance brokerage industry. According to Deloitte, more than \$10 trillion in transactions have been announced across all industries in the U.S. since 2013.³ Approximately 63% of executives Deloitte surveyed expect total deal volume to continue rising in 2020. This trend can present challenges to the insurance brokerage industry and business stability.

Organizations can lose customers when they merge with another organization that does business with a different broker.

Insurance brokers are also facing pressure in the fight for talent. As companies get larger and offer employees more resources, it makes it difficult for smaller, middle market brokers to retain the talent they've spent years training and developing.

BUILDING A PLAN FOR THE FUTURE

As the amount of M&A activity continues to rise, brokers of all sizes must begin to think about formalizing their strategy. With agency valuations and competition for deals increasing, many business owners considering a sale find themselves in a favorable position. However, these conditions will not last forever, and brokers do not want to miss their chance on an attractive opportunity.

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² <https://www.pwc.com/us/en/industries/insurance/library/quarterly-deals-insights.html>

³ <https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/m-a-trends-report.html>