



Annual General Meeting - AESIS Network

Insurance brokerage space overview

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Important note

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Market backdrop

Market backdrop

Trends within the insurance distribution market (I/II)



Record year for insurance distribution M&A

- **Record number of exits from private sellers**
- **Material amounts of unutilised private equity dry powder** (see point 2 below)
- **Diversification and expansion of M&A strategies** (see point 4 next page)
- **International expansion** (see points 5 and 6 next page)



Private equity remains at the forefront of the market

- After a year of lower activity levels in 2020, **private equity has sought to deploy record levels of dry power across both new platform assets and via bolt-on M&A activity**
- **Increasing interest from overseas buyers** (notably US private equity) **has driven multiples on recent transactions to historical highs** (e.g. Cinven acquiring Sakra, Aquiline acquiring Ripe and Quintes)



Quality platforms of scale remain scarce

- **An imbalance in the supply and demand for quality commercial brokers has driven consistent valuation increases** within the sector over the past five years
- **M&A activity largely dominated by a handful of well funded consolidators** (e.g. Ardonagh, Aston Lark, Howden, GRP, PIB)

Market backdrop

Trends within the insurance distribution market (II/II)



Development in M&A strategies

- **Traditional commercial insurance buy-and-build strategies are developing**, as the larger, more established PE-backed consolidators seek to emulate the large diversified listed US-brokers
- **Acquisition targets now extending beyond traditional commercial broking into health and protection, personal lines and provision of MGA capability**



UK consolidators expanding overseas

- **Overseas deals increasingly common** with Ardonagh, Aston Lark and PIB all participating in cross-border M&A during 2021
- **Increasing levels of consolidation activity in the Benelux region** (e.g. Ardonagh acquiring Leons and PIB acquiring Light), **Germany** (e.g. PIB acquiring Marx) **and Iberia** (e.g. Ardonagh acquiring MDS and PIB acquiring Cicor, Tractio, Confide) **with other UK consolidators starting to ramp up activity**



Surge in demand from US private equity for FS distribution platforms

- **Continued and increasing appetite and levels of activity coming from the US, via both PE and US PE-backed trade, looking to quickly establish a European presence and are competing with aggressive multiples across numerous processes over the past 18-24 months**

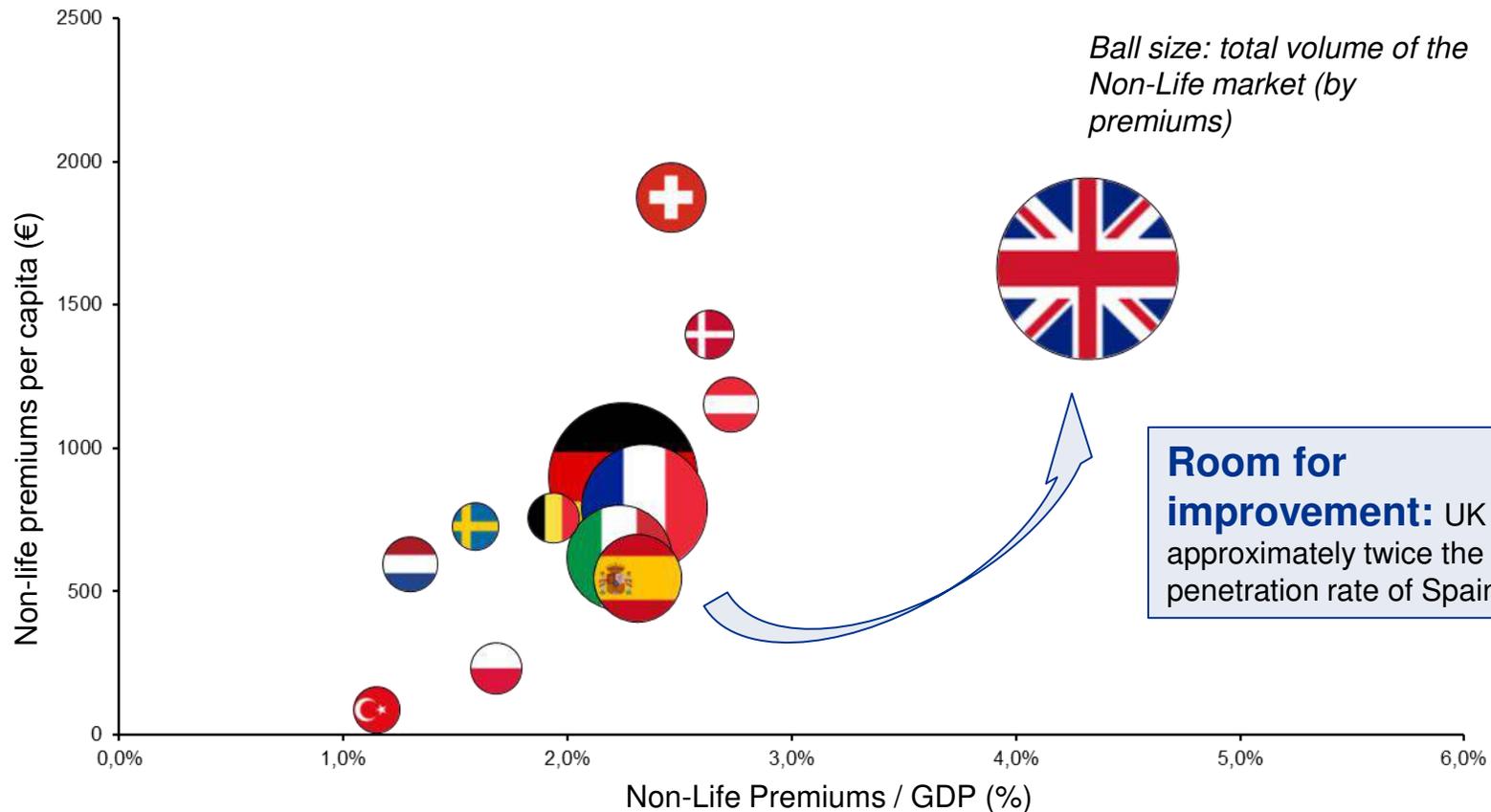
Market backdrop

Key trends that have dynamized the insurance brokerage M&A industry (I/III)

The insurance market still has still room for further growth

Non-Life insurance penetration in Europe at 2020

Majority of EU players still remains as an underpenetrated markets in Non-Life insurance and with potential for development



Source: Insurance Europe



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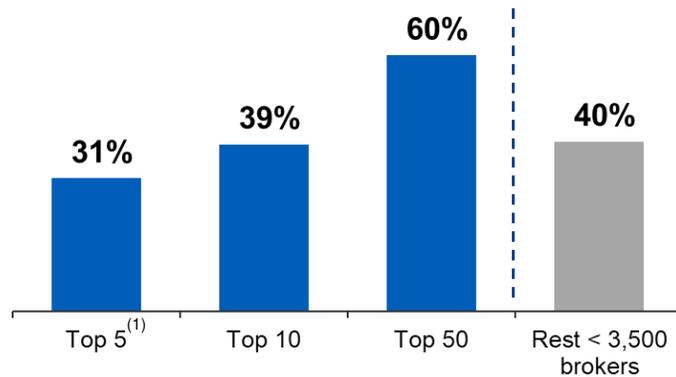
Market backdrop

Key trends that have dynamized the insurance brokerage M&A industry (II/III)

High level of fragmentation and path to consolidation

Concentration in the Spanish brokerage industry

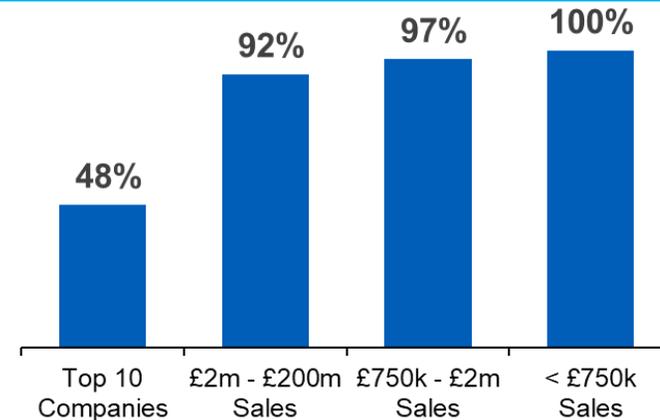
Incumbent markets starting consolidation



- **Approximately 30% of the Spanish sector's turnover corresponds to the Top 5 companies**
- **The insurance brokerage market, despite the consolidation process it is going through, is still highly fragmented: 3,625 insurance brokers at the end of 2020, of which 1,008 are individuals**

Concentration in the UK brokerage industry

Markets with more developed consolidation processes



- **The UK market is highly concentrated:**
 - **The biggest 10 brokers in the UK represent 48% of the market** versus 39% in the Spanish market
 - Moreover, **the small brokers** –less than £2m of revenues– **concentrate only c. 8% of the total market**

Some European markets (like Spain) are following the trend of consolidation that is already well-advanced in markets like UK

Note (1): Ranking of insurance brokers by revenue, INESE 2020

Source: ICEA Ranking 2019; Annual Statistical Report on Brokerage, 2020, DGSFP; Key insights into the insurance brokers industry in 2022, Plimsoll



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Market backdrop

Key trends that have dynamized the insurance brokerage M&A industry (III/III)

The impact of new trends in insurance distribution can boost concentration

New distribution trends will require a higher CAPEX that will be easier to undertake for larger players

	Implications	What is necessary to achieve this?
Development of digital capabilities	Improved user experience	<ol style="list-style-type: none"> Investment in IT functionalities Experience in the development and use of tools Experience in data analysis and application of models to the insurance industry.
	Improved sales systematics: hyper-personalized	
	Data analysis	
	Artificial intelligence models	
Develop new disruptive proposals	Hedging of new risks arising from changes in customer preferences	<ol style="list-style-type: none"> Experience in sectors such as new mobility solutions and pay-per-use Ability to create products jointly with insurance companies
	Integration of insurance into customer loyalty propositions	

Source: How insurance can prepare for the next distribution model, McKinsey 2020; B2B2C insurance 2.0 success models for digital world, Oliver Wyman 2020; KPMG analysis

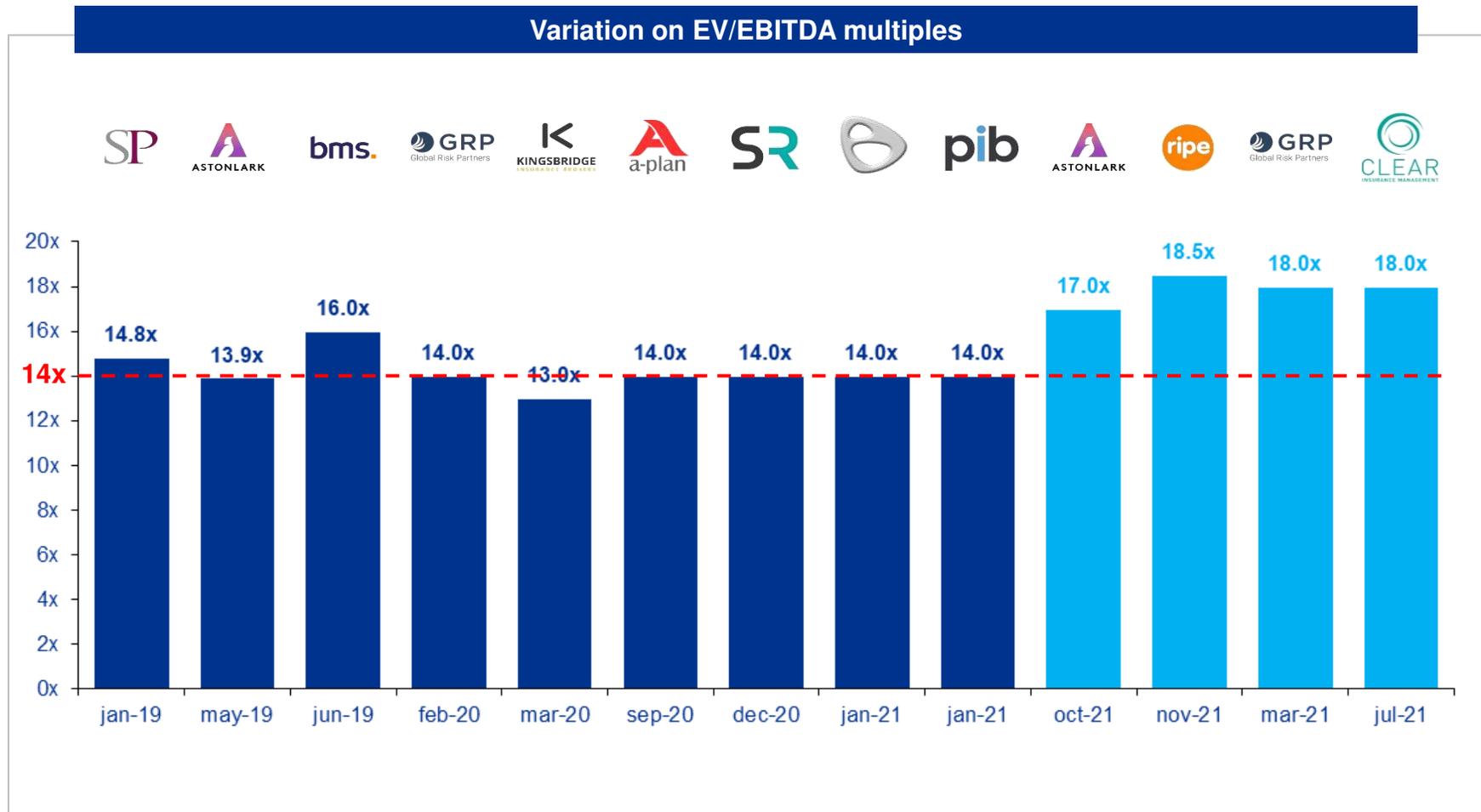


Pricing trends and considerations on valuation

Pricing trends and considerations on valuation

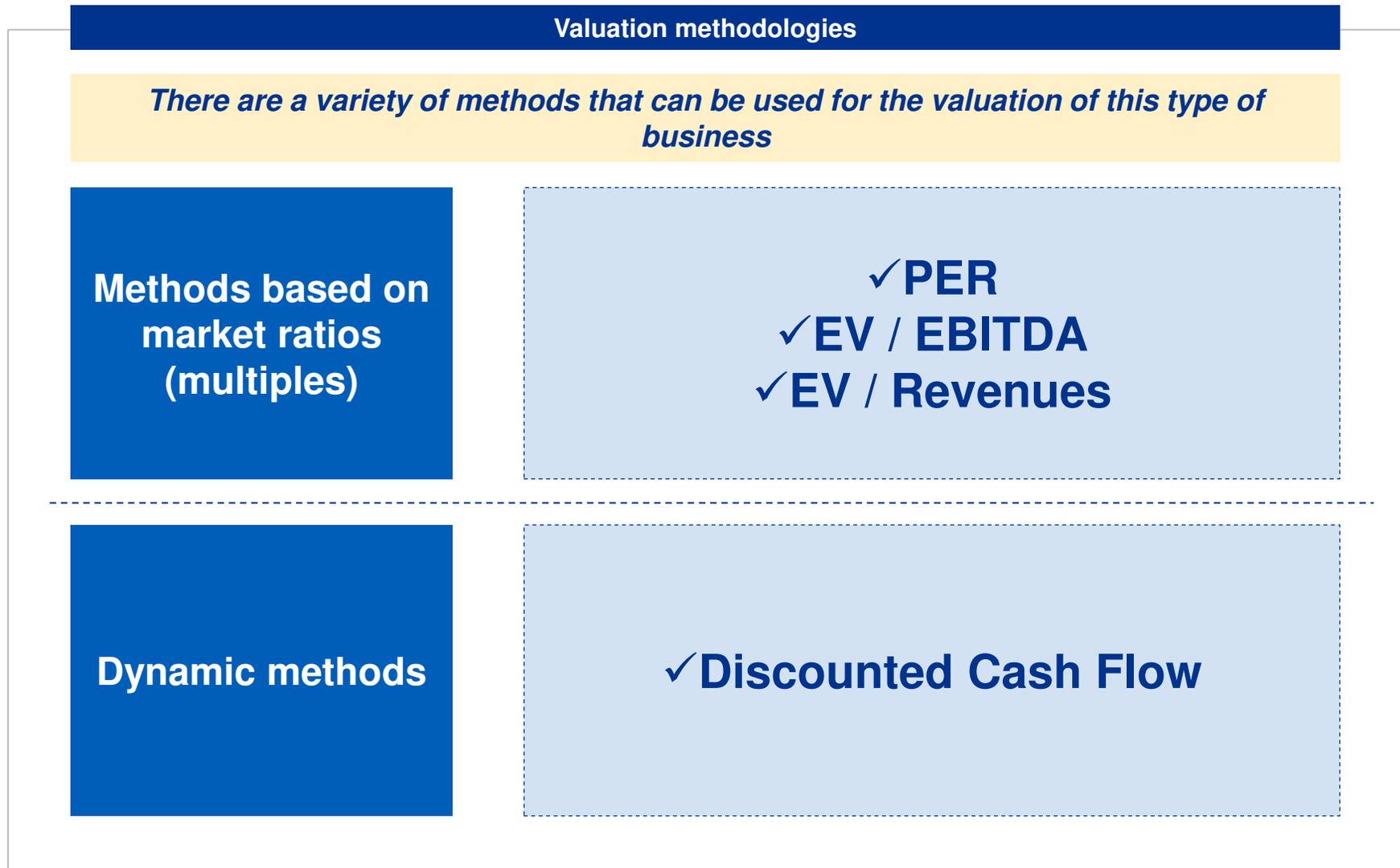
Increasingly scale appears to be driving higher market pricing

Multiples for platforms of scale (in excess of £15 million EBITDA) have consistently delivered 14x for the last few years, but prices have notably risen within the last 12 months



Pricing trends and considerations on valuation

What methodologies are the optimal for insurance brokerage valuation?



Pricing trends and considerations on valuation

What methodologies are the optimal for insurance brokerage valuation?

The discounted cash flow method

DCF is an advantageous and key methodology to defend the value to a potential buyer, but it requires the definition of a business plan adequately supported to give comfort to the buyer

Discounted cash flows

Operating income



Amortization



Corporate income tax (operating)



Investments



Investments in working capital



Free Cash Flow (FCF)

Advantages:

- ✓ Takes into account **the company's profit generating capacity**
- ✓ Considers **expectations for the future of the business**
- ✓ It is a **generally accepted valuation method**
- ✓ It is the method that **most effectively incorporates all factors affecting the value of a business into the valuation result, considering the company as a real investment project**
- ✓ It is a **rigorous** method

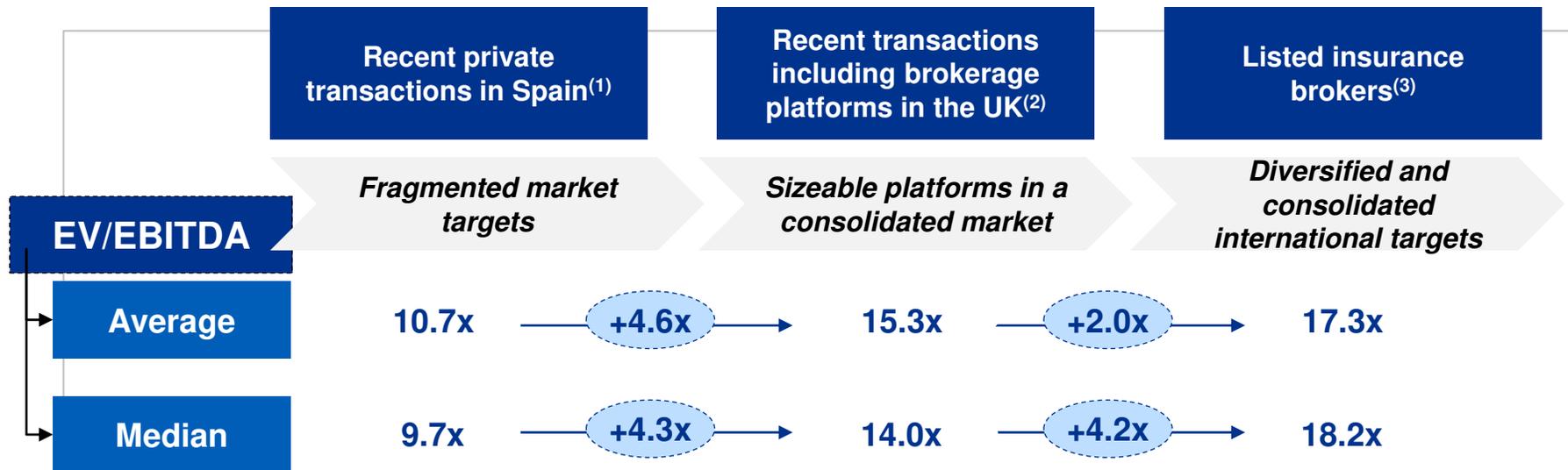
Disadvantages:

- ✗ **Complexity**
- ✗ A certain **degree of subjectivity**. Importance of **professional judgment**

Pricing trends and considerations on valuation

The arbitrage impact on valuation

Markets with further room for consolidation offer a number of opportunities for consolidators to arbitrage with the multiple



- While Spanish insurance brokerage market is starting to consolidate, **UK is ahead on the consolidation process and more diversified**
- **Listed companies trade at higher multiples** due to their size and portfolio diversification
- Thus, **there is an arbitrage possibility for potential buyers**, who would be interested in buying targets with less critical mass in unconsolidated (i.e. Spanish market) to create or integrate within a platform and **arbitrage with the multiple**

Notes: (1) Recent transactions of comparable Spanish insurance brokers that have occurred since 2017 until now; (2) Recent transactions of insurance broker platforms that have occurred in the UK since 2019 until now; (3) Average EV/EBITDA multiples of the 5 listed insurance brokers firms with the largest market capitalization (Aon, Willis Towers Watson, Marsh & McLennan, Arthur J. Gallagher, Brown & Brown, CBIZ) calculated with the latest EV data available and LTM EBITDA

Source: Capital IQ; MergerMarket; Public information

Pricing trends and considerations on valuation

Key impacts of business characteristics on value

The simplification of the multiples valuation and its dispersion depends on the characteristics of each company

Positive effects of business characteristics on + value +

- ✓ **Niche** business/ capabilities
- ✓ **Technological capabilities**
- ✓ **Diversified** Lines of Business
- ✓ **Quality of portfolio** (underwriting)
- ✓ **Diversified business in terms of insurance carriers**
- ✓ **Quality of Earnings**
- ✓ Customer segments with **less drop**
- ✓ Focus on **lines of business with growth prospects**

Negative effects of business characteristics on - value -

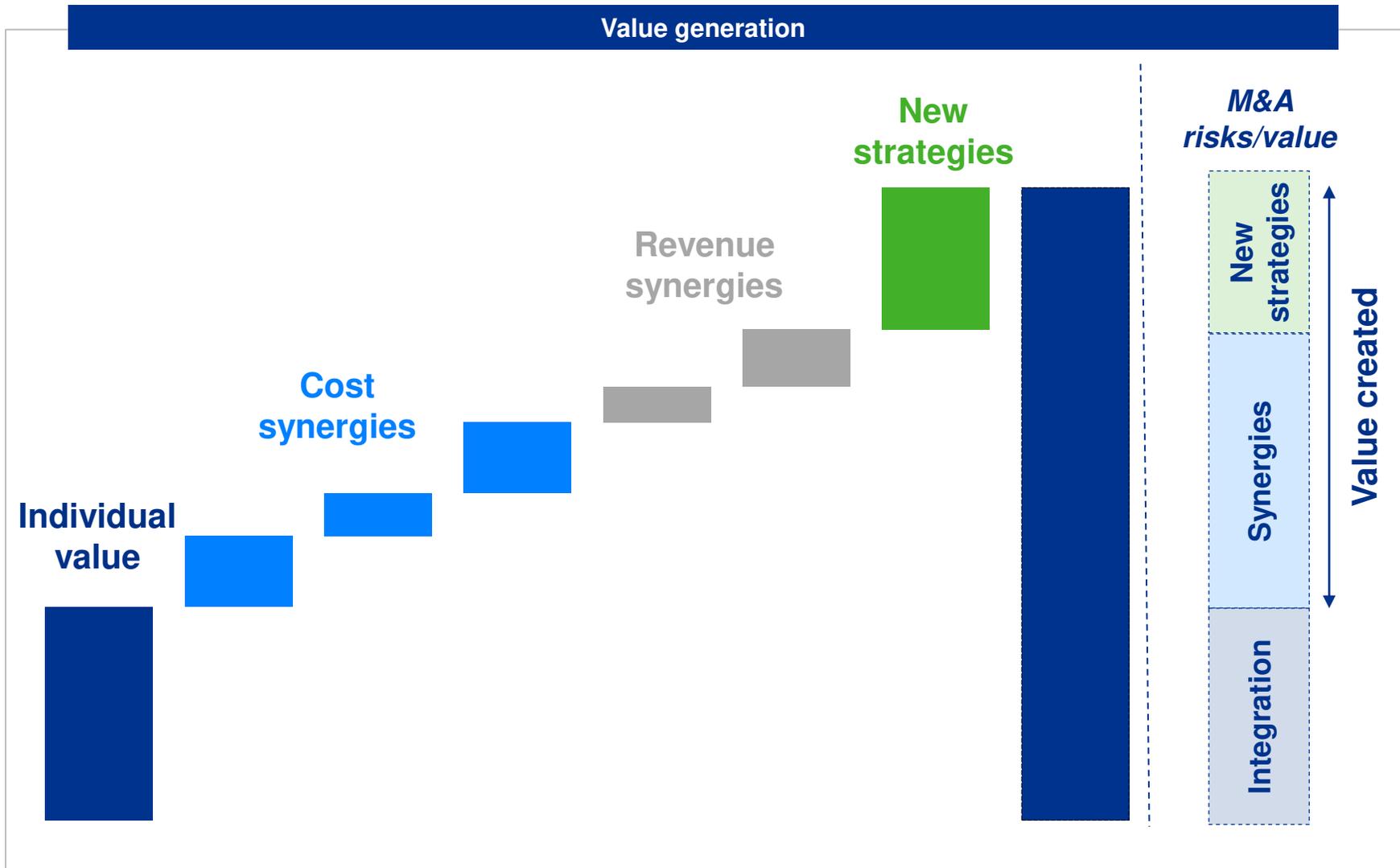
- x **Concentration risk**
- x **Unprofitable segments** for the insurance companies
- x Customer segments with **high churn rate**

There are variations in buyer preferences (some value some factors more than others) and therefore it is essential to have access to a broad knowledge of potential buyers in order to properly value the business for sale

Pricing trends and considerations on valuation

How does the potential buyer value the business?

The prospects for value creation involve the assumption of different risks, and the potential buyer may not include all of them in the price





Key considerations regarding a potential sale

Key considerations regarding a potential sale

Strategic challenges for the brokerage sector players



Continued Growth

- Demonstrating **strong revenue growth**
- Maintain **sustainable EBITDA margin**
- Continue to **expand product/sector specialisms** and regional coverage



Capacity

- Maintain **strong relationships with A rated capacity providers**



M&A

- **Target accretive M&A**
- Compete aggressively for off-market deals
- **Consider larger 'transformational' M&A opportunities** to accelerate growth
- Ensure proposition / acquisition model well articulated and understood by the vendor and advisor community



People

- **Demonstratable succession plans**
- **Strength and depth of second tier of management**
- **Alignment of management incentivisation**



Market Dynamics

- **Evolving regulatory environment**
- Understanding **potential impact of recession** on client base

Key considerations regarding a potential sale

Selecting the right partner and deal structure to deliver your objectives

Clearly understanding the shareholders' motivations and objectives will be key to delivering a successful transaction

Objectives and structures of the transaction

Finding the right home for the business

- Preserving the culture
- Respecting the brand
- Protecting interests of employees
- Career progression opportunities
- Looking after existing clients
- Investment to deliver growth ambitions of the go-forward business

Exit opportunity for shareholders

- Ensure that all shareholder aspirations are met
- Allow those that wish to exit an opportunity to do so on timescales that meet their requirements
- Enable those that want to continue with the business to have an opportunity to do so

Maximise value

- Ensure full consideration is given for all aspects of the business
- Recognising the benefit of investment made to date that will generate future value, e.g. acquisitions, new hires, investment in technology etc.
- Tailor messaging to respective buyer groups and signpost potential upsides / synergies

Potential transaction structures:

1 Private equity transaction

2 Sale to trade with cash earn-out

e.g. deferred/contingent consideration over 12 – 24 months

3 Sale to trade with reinvestment into group equity

e.g. management reinvest into Group TopCo and crystallise at time of next liquidity event

4 Sale to trade with put/call structure

e.g. management reinvest into NewCo with fixed put/call period (e.g. 3 years)

Key considerations regarding a potential sale

Key diligence considerations that a potential buyer will need to analyse

	Key diligence considerations		Commentary
Group	EBITDA margin	Understanding the drivers of EBITDA margin	➤ Demonstrate sustainable of EBITDA margin in the long run
	Permanence of capacity	Make up of client base (including detail behind renewals – Broker vs. MGA)	➤ Review demographic and geographical split
	Permanence of capacity	Understanding the proposed ongoing Management structure	➤ Who are the critical key shareholders that are required for ongoing operations? Who holds the key relationships (with insurers / brokers etc.)
MGA	Permanence of capacity	Understanding existing capacity relationships	➤ Detailed review of loss ratio performance and binder terms upfront (including Insurer referencing). Details of any loss corridors / clawback provisions
	Specialisms	Understanding the MGA business mix and sector specialisms	➤ What are they key product specialisms (including key competitors and market size)? How has this mix developed over time and how is this envisaged to change as the business continues to scale?
	Profit commission	Understanding any profit commission and overrider income	➤ Detailed analysis of historic profit commissions and / or detail of (potential) clawbacks
Broker	Insurer relationships	Review of the key insurer relationships and underlying commission structures	➤ Understanding the key insurers, changes in premium/commission/volume over time, and tenure by insurer
Risk	Risk and regulatory	Review of regulatory and compliance function	➤ Demonstrate robust regulatory and compliance processes . Evidence clear plans around FCA's Consumer Duty

Key considerations regarding a potential sale

Some thoughts on a potential sales process

Key factors for a successful transaction

The 5 golden rules for a transaction

Relevant factors to consider

1

Prepare thoroughly before "going to market"

2

Identify partners who can generate the most value and keep the competition going all the way to the end

3

Coordination and more coordination. A single interlocutor with the Partner

4

Do not rush in the closing. Better a good closing than a quick one

5

Do not rely on the goodwill of the Partner. An agreement is only valid if it is in writing and can be fulfilled

Rely on specialists with experience in similar processes to assist during corporate operation



Potential buyer landscape

Potential buyer landscape

We are seeing continued appetite from a range of trade and PE buyers

<p>Private Equity</p>	<ul style="list-style-type: none"> Private equity continue to match and even exceed trade valuations in insurance distribution M&A processes Even with recent increases in valuation multiples, comparably higher pricing in the US market have driven a number of US PE firms to seek out platform assets in Europe 	
<p>PE-backed trade</p>	<ul style="list-style-type: none"> PE-backed trade buyers (and their investors) are highly acquisitive and can pay strong multiples for quality assets The larger 'consolidators' are increasingly competing aggressively for fewer targets of scale 	
<p>International trade</p>	<ul style="list-style-type: none"> Large trade / consolidators have a track record of paying premium multiples for quality assets given both their scale and ability to generate synergies 	

Note (1): Ability to fund / appetite to acquire will be dependent on change in ownership following incumbent PE firm's exit



Wrap-up and Q&A

Wrap-up and Q&A

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