Workplace Benefits
Renaissance

Employee Benefits Agency Consolidation and Valuation

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Agenda

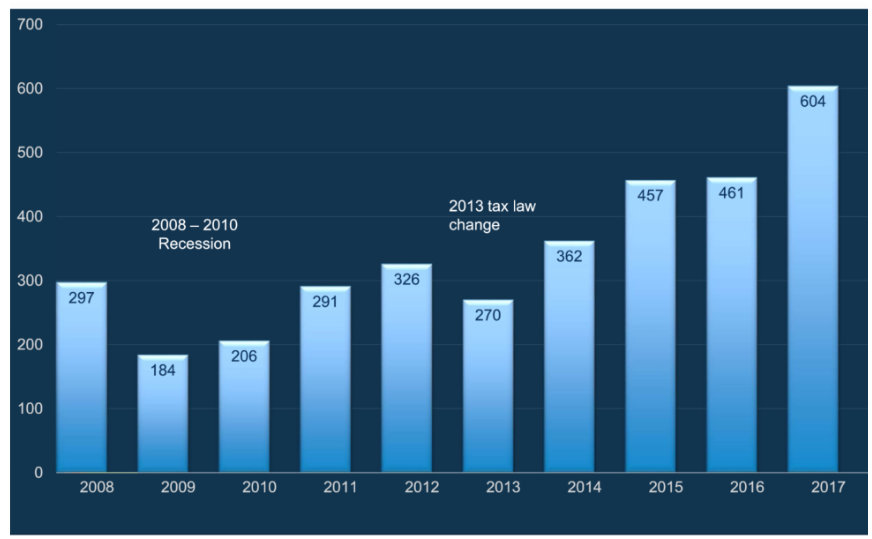
- M&A Trends for Employee Benefit Agencies
- Who’s Buying/Who’s Selling
- What Drives Agency Value
- Agency Valuation Approaches
- Case Studies
- Closing Perspectives and Q&A

Insurance Agency Consolidation

Year-End 2017

- 2017 "announced" transactions: 604
- Information on "announced" transactions are made publicly available by public, large private, PE based entities
- Historic levels of M&A activity in each quarter in 2017

Summary Agency Acquisitions by Year



Source: 2017 Agent/Broker Merger & Acquisition Update - Optis Partners

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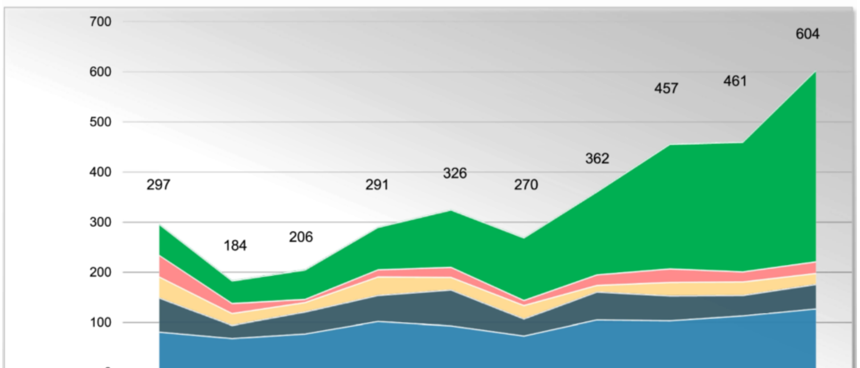
Insurance Agency Consolidation

Year-End 2017

Agency Acquisitions by Buyer Type



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PE / Hybrid	62	45	59	85	115	125	166	249	259	382
Other	43	20	6	14	20	10	21	27	20	23
Bank	42	24	19	37	25	27	13	27	27	22
Public	68	26	44	52	72	34	56	50	41	49
Private	82	69	78	103	94	74	106	104	114	128

Source: 2017 Agent/Broker Merger & Acquisition Update - Optis Partners

Buyer categories include:

- Publicly traded
- Privately owned
- Private-equity owned and very active privately owned, all with acquisition capital support from their PE sponsor, outside lenders and/or internal cash flow, will be referred to as "PE / Hybrid" buyers
- Banks and financial institutions
- Other (insurance companies, non-insurance industry)

Notables

- Acrisure 92
- HUB 49
- Alera 38
- Broadstreet 32
- Gallagher 30
- Assured Partners 26
- NFP 24
- Seeman Holtz 23

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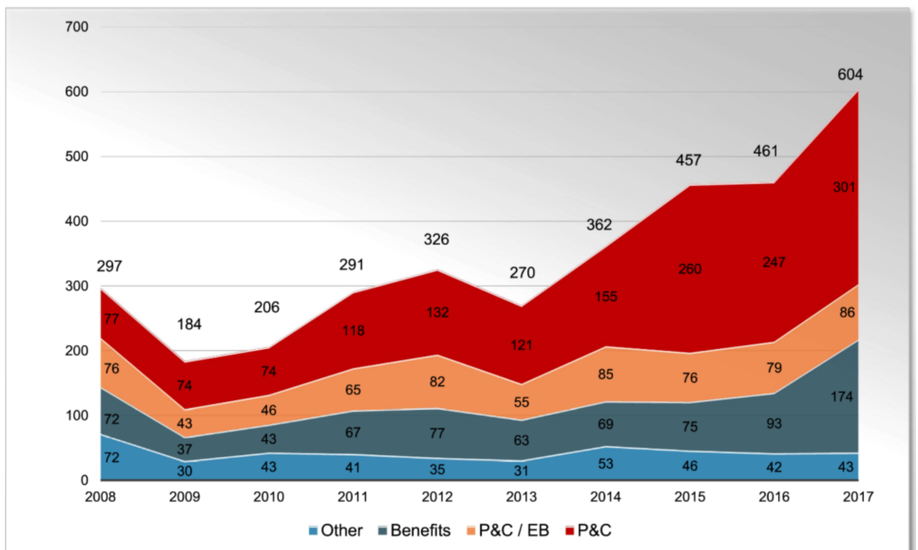
Insurance Agency Consolidation

Year-End 2017

Agency Acquisitions by Seller Type:



Source: 2017 Agent/Broker Merger & Acquisition Update - Optis Partners

Insurance Agency Consolidation

Through 3rd Quarter 2018

- On pace with the number of transactions in 2017

- More transactions in 2018 through 9 months than all of 2016

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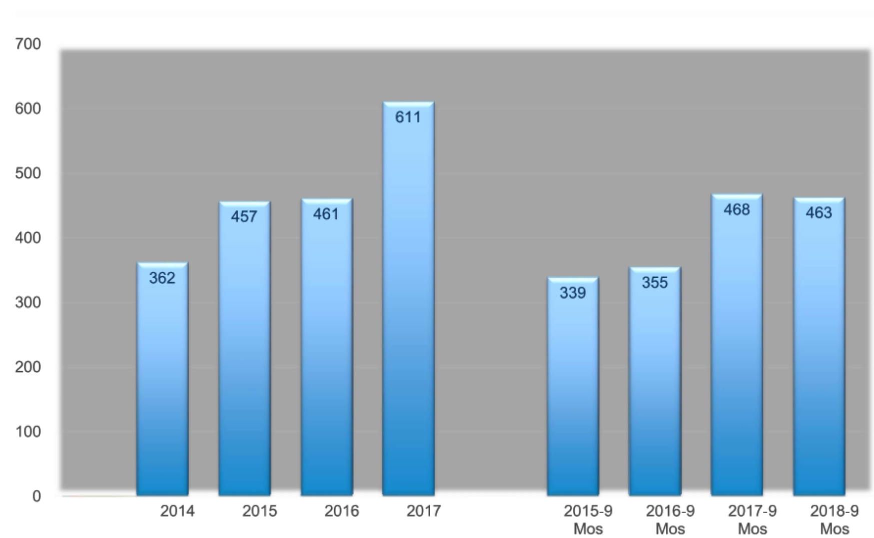

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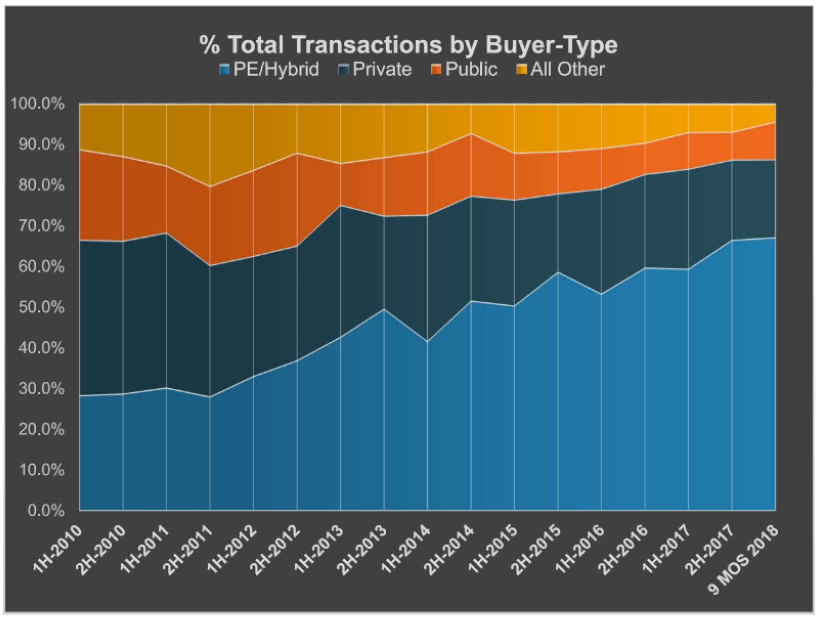
Insurance Agency Consolidation

Through 3rd Quarter 2018



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- Banks and financial institutions
- Other (insurance companies, non-insurance industry)

Notables

- Acrisure 70
- HUB 47
- Assured Partners 30
- Broadstreet 23
- Gallagher 23
- OneDigital 21
- Seeman Holtz 21
- Alera 20

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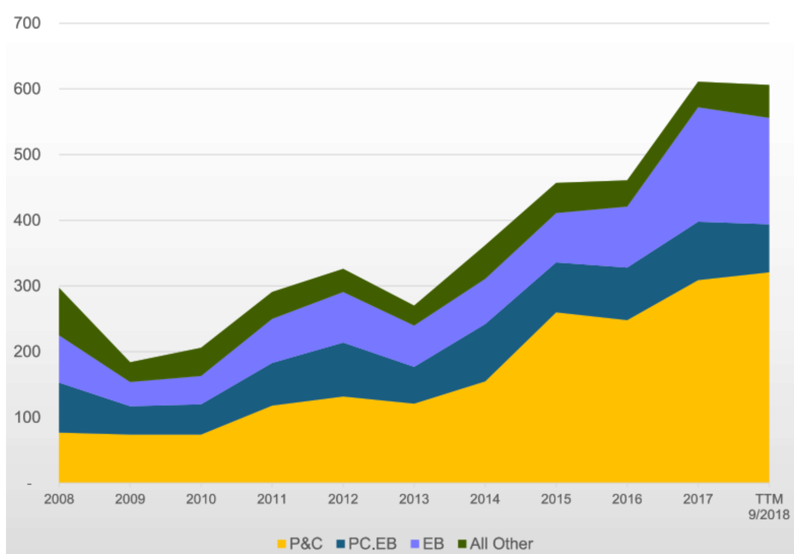
Insurance Agency Consolidation

Through 3rd Quarter 2018

Annual Activity by Seller-Type



Source: 2018 Agent/Broker Merger & Acquisition Update - Optis Partners

Insurance Agency Consolidation

Through 3rd Quarter 2018

Selected aggregators and public companies acquiring employee benefits brokers

Aggregator	Total Number of Announced Deals (2017)	Total Benefits Deals (2017)	Benefits Deals as a % of Total (2017)	Total Number of Announced Deals (YTD Sept'18)	Total Benefits Deals (YTD Sept'18)	Benefits Deals as a % of Total (YTD Sept'18)
One Digital	5	5	100%	7	7	100%
Alera Group	16	7	44%	20	12	60%
The Hilb Group, LLC	10	4	40%	3	1	33%
Marsh & McLennan	5	2	40%	5	0	0%
Risk Strategies Co., Inc.	8	3	38%	6	3	50%
USI Insurance Services	6	2	33%	5	1	20%
NFP Corp.	22	6	27%	15	4	27%
Brown & Brown	8	2	25%	10	0	0%
Hub International	41	10	24%	37	10	27%
Arthur J. Gallagher	32	5	16%	26	2	8%
Assured Partners	22	1	5%	19	5	26%
Totals	**175**	**47**	**27%**	**153**	**45**	**29%**

Source: Conning Research

What Drives Agency Value

External Factors
Consolidation (supply/demand)
Industry trends
Economic trends

Internal Factors
Quantitative factors
Qualitative factors

Industry Trends from a Valuation Perspective

- ACA Evolution – threat or opportunity?
- Benefit plan trends, rise of self-funding
- Demographic and workforce trends
- Distribution industry consolidation
- InsurTech impact on employee benefits agencies

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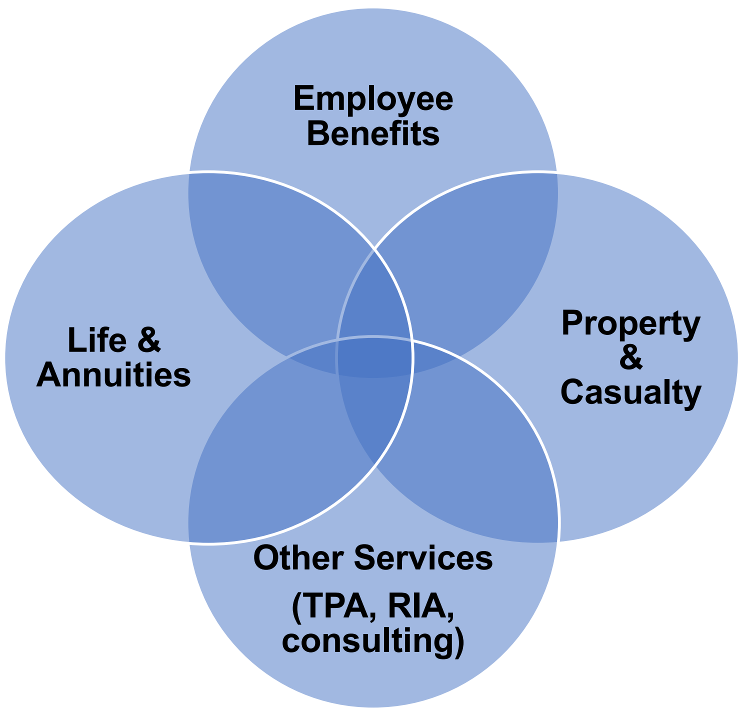
Specialty Focused or Diversified?

Impact on the valuation of an independent insurance agency



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Internal Agency Value Drivers

Quantitative	Qualitative
• Revenue	• Management experience & depth
• Expenses	• Succession planning
• Profitability	• Employee relationships
• Growth	• Agency culture
• Headcount	• Brand value
• Efficiency metrics	• History
• Concentrations	• Community involvement

Key Value Drivers – Pro Forma EBITDA

Agency Revenue
- Operating Expenses
= Pre-Tax Earnings
- Taxes
= Net Income
+ Interest Expense
+ Taxes
+ Depreciation & Amortization
= EBITDA (Earnings before Interest, Taxes, D&A)
+/- Normalizing or Pro Forma Adjustments
= Pro Forma EBITDA

Why Pro Forma EBITDA?

Ongoing revenue

Scrutinize expenses

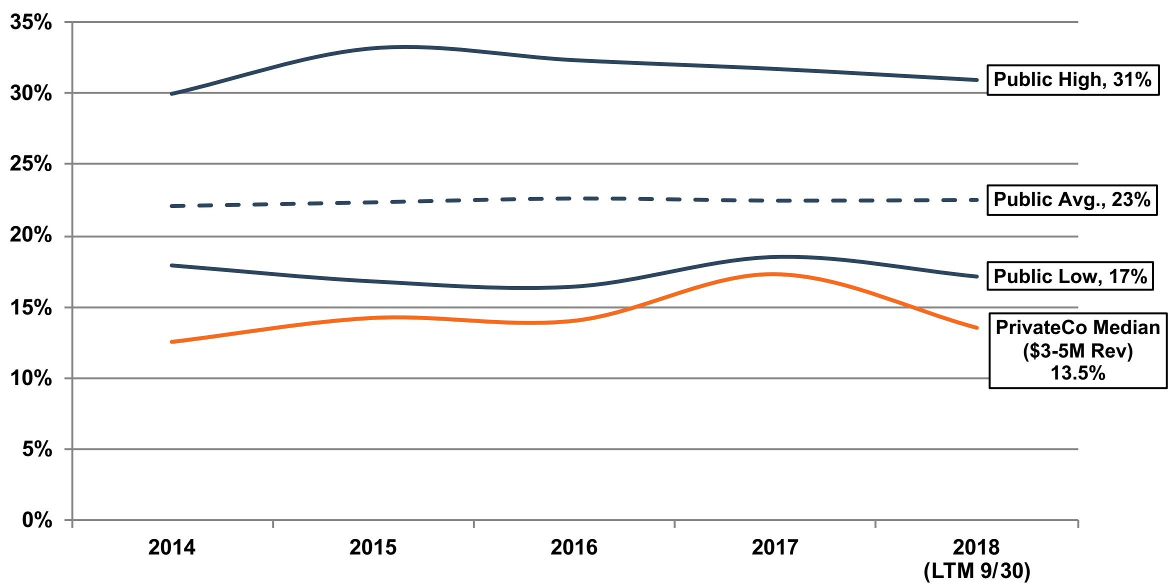
Compensation policies

Non-recurring items

Reinvestment

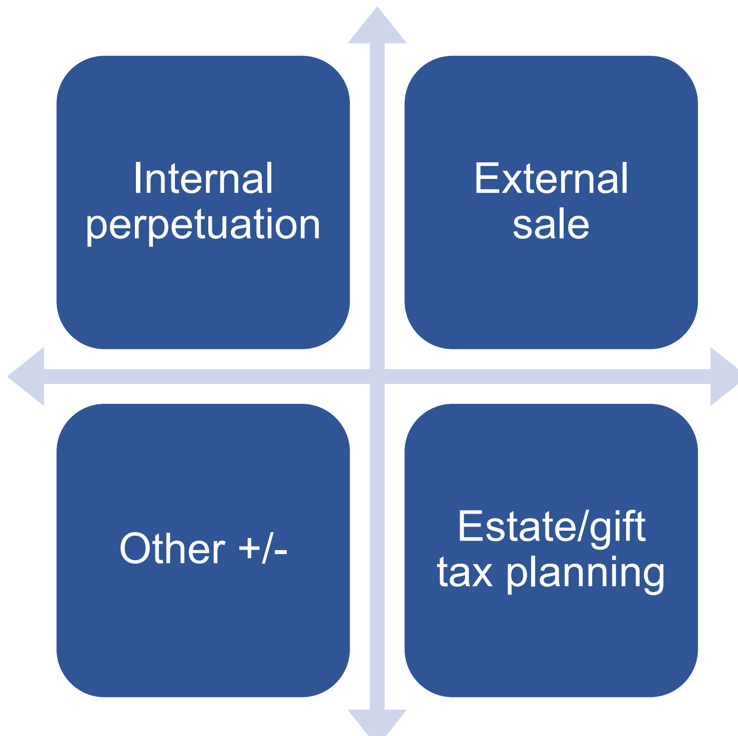
Agency Margins in Perspective

EBITDA Margin Comparison



Source: S&P Global Market Intelligence, RMA, Mercer Capital analysis. Public group includes AON, AJG, BRO, MMC, WLTW

Valuation is a Range Concept



Valuation Approaches

Asset-Based Approach

- Not applicable
- Minimal tangible assets on the balance sheet

Income Approach

- Single Period Capitalization
- Discounted cash flow analysis (DCF)

Market Approach

- Public company trading multiples
- M&A transaction multiples

Market Approach to Valuation

M&A Transactions

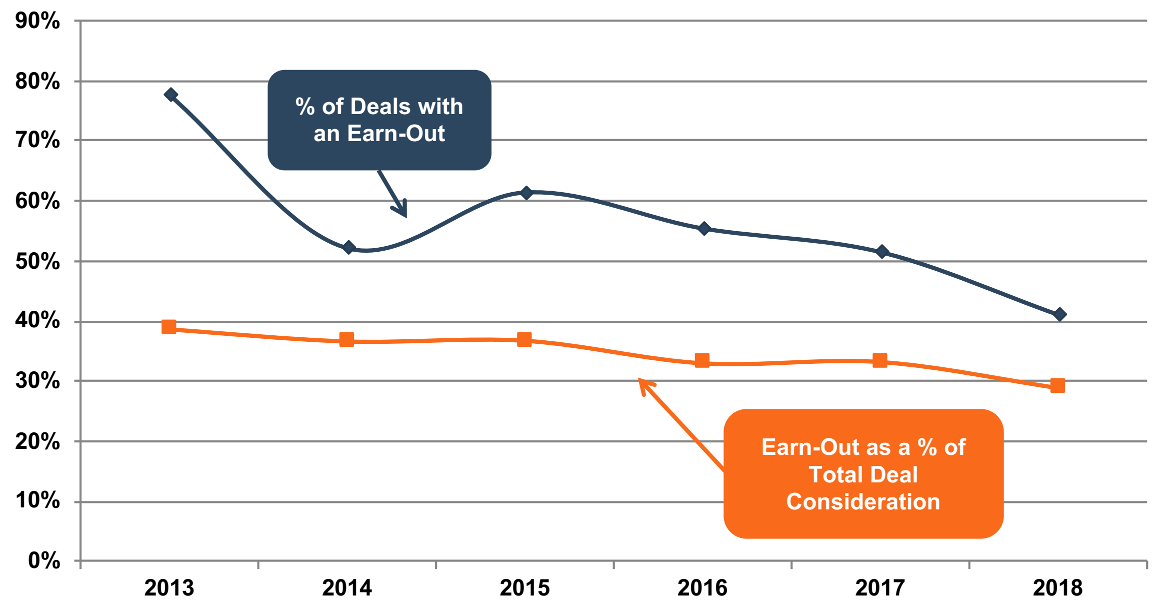
- Active M&A market
- Lots of activity but little transparency

Market Multiples (Public Companies)

- Few “pure-play” public brokers
- Comparability issues re: size, diversification, growth, other

M&A Transactions: Earn-Outs

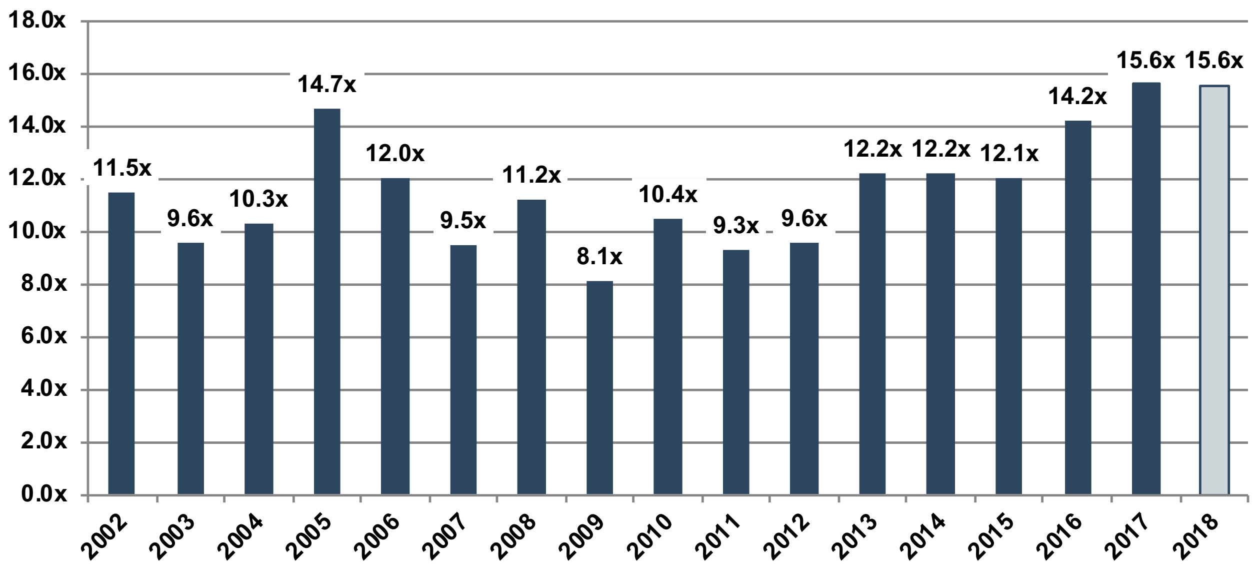
Agency Transaction Earn-Out Trends



Source: S&P Global Market Intelligence, Mercer Capital analysis. Includes only deals wth reported (and classified) deal consideration.

Public Broker Valuations

Enterprise Value / LTM EBITDA



Source: S&P Global Market Intelligence, Mercer Capital analysis. Includes AON, AJG, BRO, MMC, WLTW

Income Approach to Valuation

Single Period Capitalization

- Value = Earnings x Multiple
- Might be considered for a stable, profitable agency

Discounted Cash Flow

- Allows for specific assumptions about growth, pro forma margin, and length of forecast
- Considers business plan and industry trends

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Case Study #1

Agency A

- $5 million in revenue. 5% EBITDA margin. 3 principals.
- 50% Employee benefits, 50% individual life/annuity sales
- Appears only marginally profitable
- Digging deeper – Agency A pays out virtually all earnings as owner/manager compensation

Valuation Considerations

- Normalize owner compensation using peer benchmarks, public data, or other sources. Adj. margin of 20%
- Consider normalizing life/annuity revenue to average levels if lumpy
- Consider separating life/annuity business and valuing separately
- Risk should reflect stability of employee benefits side but also volatility of the life side

Case Study #2

Agency B

- $5 million in revenue. 50% EBITDA margin. 2 principals.
- 100% benefits revenue
- Agency B looks extremely profitable
- Digging deeper – Agency B compensates owners solely through distributions (not in operating expense)

Valuation Considerations

- Normalize owner compensation using peer benchmarks, public data, or other sources. Adj. margin of 40%
- Incentive/bonus income of $350k, $45k, and $110k in each of last 3 years. Consider normalizing?
- Risk considerations: agency is (still) highly profitable, solid retention characteristics. Arguably lower discount rate and higher valuation than Agency A

Closing Perspectives

Benefits Agency Opportunities

- Independent agency model remains key to insurance benefits distribution
- Regulatory changes/uncertainties create opportunities
- Continued interest from private equity affirms the attractiveness of agency economics
- Aging owner/producer demographics create opportunities for growth

Potential Headwinds

- Rising interest rates
- Economic slowdown, recession
- Political/regulatory changes
- Industry disruptors
- Cyclically high industry multiples

About the Presenters

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Mike Strakhov joined Live Oak Bank with more than 27 years in the Insurance industry. He has held positions as a claim adjuster, commercial producer, personal and commercial lines marketing manager, territory manager and the head of a large multi-state agency. Prior to Live Oak, Mike served as Branch Vice President of CNA Insurance Companies for the state of Ohio. His career also included tenure with Chubb Group of Insurance Companies where he was a Branch Manager responsible for all aspects of management for the states of Alabama and Mississippi. He then moved to First Niagara Risk Management (FNRM) in various roles including, Interim CEO and Managing Director of Field Operations of a $67M+ revenue insurance broker consisting of 90 producers across NY, PA and CT. As a member of the FNRM acquisition team, he participated in the review and analysis of a significant number of potential agency acquisitions. Mike has a Master in Insurance Management from Boston University and a CPCU designation.

Mike is the Executive Director of Insurance Lending at Live Oak Bank. He’s responsible for developing a profitable portfolio of insurance agency loans. He focuses on business development, individual loan structures and acts as a resource to the lending team to help evaluate loan opportunities.

About the Presenters

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Lucas Parris is a Vice President at Mercer Capital, a national business valuation and financial advisory firm. Lucas leads Mercer Capital's Insurance Industry Team, specializing in valuation and advisory services for insurance agencies, brokerages, underwriters, third-party administrators, and other industry service providers.

These services include independent agency valuations for corporate transactions, agency perpetuation, buy-sell agreements, employee benefits plans, financial reporting, tax compliance, and buy or sell side consulting services.

Over the last 15 years, Lucas has valued and consulted with agencies across the industry spectrum, including property & casualty, employee benefits, life and health, MGAs/MGUs, and specialty lines. During his career at Mercer Capital, Lucas has been a frequent speaker and writer on industry and valuation-related topics. He holds the Accredited Senior Appraiser designation from the American Society of Appraisers and the Chartered Financial Analyst designation from the CFA Institute.