

Industry Spotlight:

***Insurance
Brokerage M&A***

2022 Year in Review

Insurance Brokerage M&A Overview

Heading into 2022, the insurance brokerage sector continued to experience a high level of activity and consistent upward pressure on valuations. From a transaction volume perspective, 2022 began to taper down to pre-pandemic levels after an incredible year for the Canadian M&A market in 2021.

How does this compare to other industries? The decrease in Canadian insurance transactions in 2022 is consistent with the decrease in overall Canadian mid-market M&A activity. The general market had a 17% contraction in transaction volume – this is in line with the 18% decrease in the insurance industry from 72 deals in 2021 to 59 transactions in 2022.

Canadian Insurance Transaction Volume⁽¹⁾

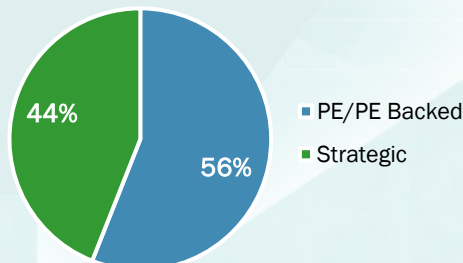


Insurance brokerage M&A has been dominated by two main purchaser groups:

- Public company strategic players
- Private equity backed strategic players

Traditional private equity that does not have an anchor investment in the sector has a difficult time competing with the multiples these two purchaser groups put forward.

Purchaser Universe



⁽¹⁾ Source: S&P Capital IQ – Includes announced & closed deals, Insurance transaction screening is based on the following sub-categories in the Canadian insurance industry: Insurance brokers for group, life & health insurance, and property & casualty insurance.

The Drivers for 2022 M&A Activity



Demand Drivers

What is driving the purchaser universe?



Private equity investment in the sector – Proven investment thesis provides a well-worn path for investors with clear exit opportunities. This encourages new entrants looking to consolidate the industry. Why?

- ✓ Stable cash-flow - The industry's strong performance through COVID demonstrated the necessity of insurance for individuals and corporations with its strong performance through COVID downturns.
- ✓ Diverse customer base with limited reliance on a single customer.
- ✓ Industry is still viewed as highly fragmented with opportunity for consolidation.



Acqui-hire Strategy – Customers are still demanding personalized and in-person connections with insurance brokers. As the insurance industry has grown, so has the demand and scarcity of talent for hire.



Ability to drive growth through cross-selling complementary products to existing clients.



Digitization in the industry is growing increasingly important as competitors are investing in technology to further develop data analysis and use of APIs (application program interface).

4.5%

Rising interest rates have yet to dampen activity – but parties are paying attention.



Supply Drivers

What is driving the seller market?



Succession planning for shareholder base – market valuations make it difficult for new shareholders to buy in and there is insufficient internal interest to invest at current valuation levels.

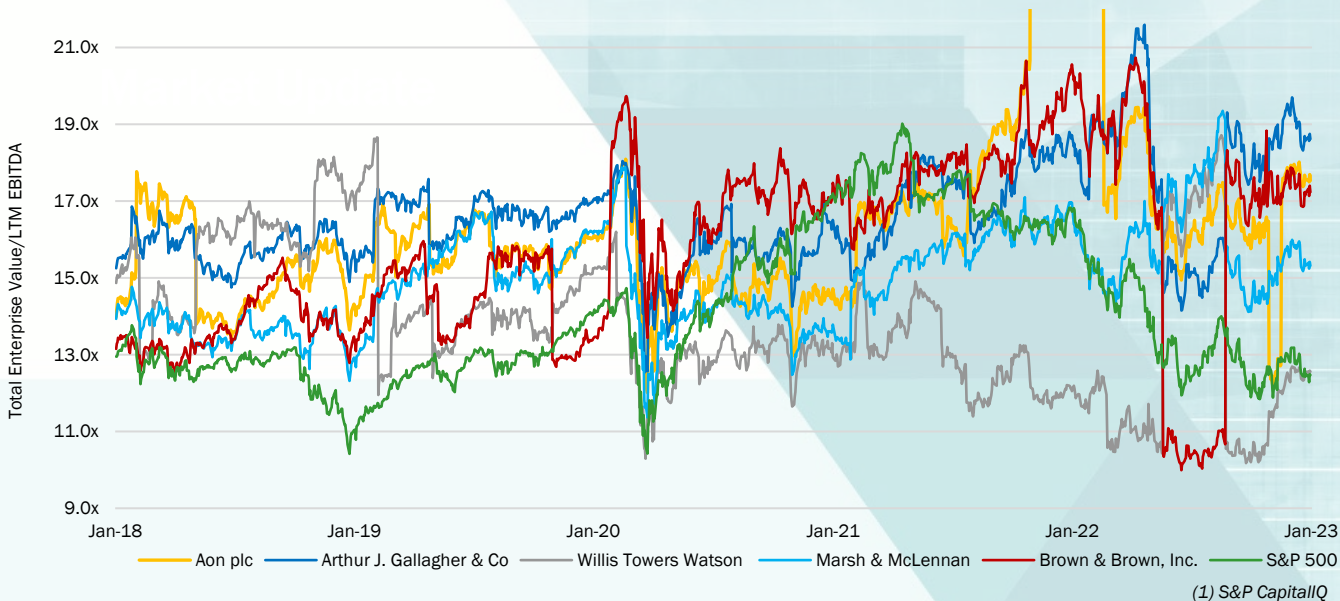


Broader access to markets and niche expertise.



Required investment in technology and other operational resources to scale efficiently.

Public Market Valuations⁽¹⁾



(1) S&P CapitalIQ

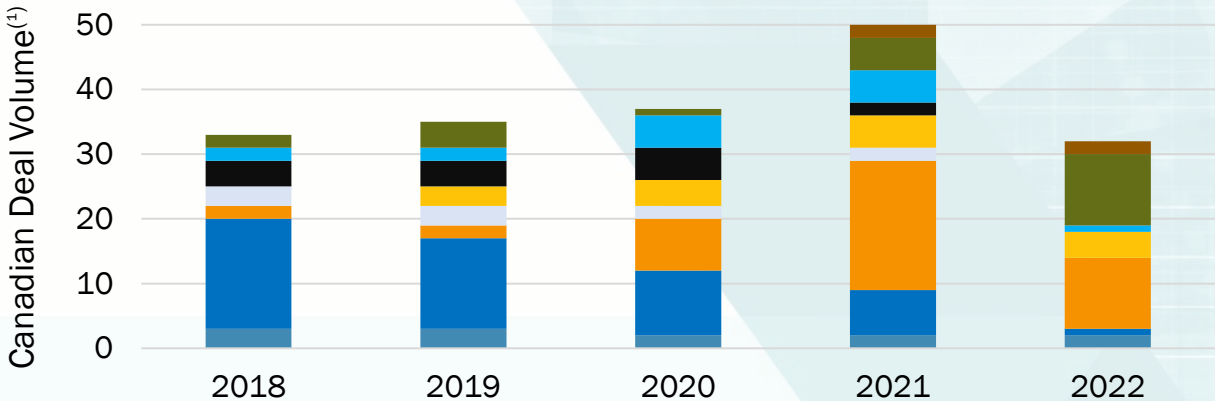
- Insurance public market equities have seen strong valuation growth over the past two years.
- The graph above demonstrates the resilience of insurance companies in the face of an uncertain economy. As multiples for companies on the S&P 500 have dropped from their high in April 2021, insurance company multiples have remained strong. This is encouraging for Canadian M&A, as it demonstrates the market supports higher valuations in public markets, which has a direct correlation to private market valuations.

	TEV/LTM EBITDA Multiple Expansion			Between 2015 - 2022	
	2015	Current	Growth	Low	High
Aon plc	13.2x	17.5x	4.3x	11.6x	30.3x
Arthur J. Gallagher & Co.	14.9x	18.6x	3.7x	10.7x	21.6x
Willis Towers Watson	11.6x	12.6x	1.0x	10.0x	24.1x
Marsh & McLennan	12.2x	15.3x	3.1x	10.8x	17.9x
Brown & Brown, Inc.	11.0x	17.2x	6.2x	8.6x	20.7x
Average	12.6x	16.3x	3.7x	10.3x	22.9x

- The chart above breaks down the graph in greater detail. Public insurance company multiples have seen an average increase on average of 3.7x or 30% over the past 8 years.
- While valuations remain relatively robust, multiples have contracted from the highs achieved during 2020, 2021, and 2022⁽²⁾.


(2) The high point multiple date varies per company with Aon being October 2021, Gallagher April 2022, Willis January 2016, Marsh February 2020, and Brown & Brown April 2020.

Established & Emerging Consolidators




Since 2018, there has been a shift in the purchaser landscape for insurance brokerages. While HUB Financial Inc. dominated the market in 2018 and 2019, there has been a shift to new entrants in 2021 and 2022.

In January 2021, Westland Insurance partnered with Blackstone Credit and had the capital backing to pursue acquisitions in a more meaningful way. And they are not the only ones – Synex Business Performance partnered with BBH Capital Partners in March 2022, and Sterling Capital Brokers Ltd. Partnered with True Wind Capital in February 2022.



Completed Deals
2018 - 2022

12

 Gallagher



Completed Deals
2018 - 2022

49

 HUB



Completed Deals
2018 - 2022

15

 people
CORPORATION®



Completed Deals
2018 - 2022

29

 BrokerLink 



Completed Deals
2018 - 2022

16

 NOVACAP 



Completed Deals
2018 - 2022

16

 NAVACORD®



Completed Deals
2018 - 2022

48


 Westland Insurance



Completed Deals
2018 - 2022


10

 NFP  Benefits Insurance Wealth Management



Completed Deals
2018 - 2022

9

 New Consolidators

 Synex
Business performance
 STERLING
CAPITAL BROKERS

⁽¹⁾ S&P CapitalIQ

Notable Canadian Transactions

Select 2022 Insurance Deals in Canada			
Date	Target	Target Prov.	Buyer
12/06/2022	Hyndman & Company Limited	PEI	Westland Insurance Group Ltd.
11/07/2022	SIAdvisers Consulting & Solutions Inc.	ON	Custard Insurance Adjusters, Inc.
11/03/2022	Palmer Salmon Insurance	AB	Westland Insurance Group Ltd.
10/03/2022	McDougall Insurance	ON	Definity Financial Corporation (TSX:DFY)
09/20/2022	CapriCMW Insurance Services Ltd.	BC	Rogers Insurance Ltd.
09/07/2022	Front Row Insurance Brokers LLC	BC	Westland Insurance Group Ltd.
8/25/2022	Ivari Holdings ULC	ON	Sagicor Financial Company Ltd (TSX:SFC)
07/13/2022	Crowsnest Insurance Agencies Ltd.	AB	Canada Brokerlink Inc.
6/22/2022	Newman, Oliver & McCarten Insurance Brokers Ltd.	ON	Navacord Inc.
6/02/2022	EckRim Agencies Ltd.	AB	Westland Insurance Group Ltd.
5/09/2022	Lyon & Butler Insurance Brokers Ltd.	ON	Navacord Inc.
4/11/2022	ZLC Employee Benefits Solutions	BC	Synex Business Performance
3/10/2022	The President's Group Insurance Agency Inc.	ON	HUB Financial Inc.
2/17/2022	Bow Valley Insurance Services (2004) Ltd.	AB	Canada Brokerlink Inc.
1/25/2022	Barclay Insurance Services Inc.	BC	Sterling Capital Brokers

2023 Outlook – Key Factors

✓ Buyer Appetite - STRONG

Demand remains strong, and we expect the current consolidators will continue their active approach to acquiring independent brokerages across Canada. We also expect insurers to seek out acquisition opportunities, as these parties are looking for new ways to expand access to distribution. For insurers, the easiest way to increase their access to distribution is through acquisition.

We also expect the purchaser landscape to continue to evolve with new market entrants from two main groups:

- US brokerages, such as EPIC Insurance Brokers & Consultants, Alliant Services, Inc., or Acrisure, LLC., expanding into Canada via acquisition; or
- Existing Canadian players accessing capital to pursue M&A activity – For example, Acera Insurance Services Ltd. (formerly known as Rogers Insurance Ltd.) received private equity funding from Clairvest Group Inc. in 2022 in order to complete the merger with CapriCMW Insurance Services Ltd.

⚡ Credit Markets & Macro-Economic Environment – CAUTION

The higher cost of capital and anticipated recession has put downward pressure on M&A valuations and volume. That being said, given the industry has a level of recession resistance built-in, we expect the purchaser demand to continue to drive activity despite the macro-economic environment.

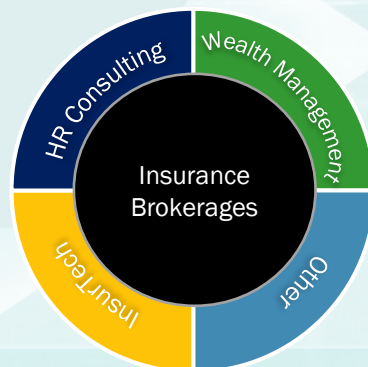
✓ Business Performance – STRONG (for now...)

Overall, brokerages experienced strong organic growth in 2022 and expect the positive momentum to continue into 2023. During recessions, businesses often downsize via layoffs or divesting of non-core operations. This will have an adverse impact on brokerage revenues, but likely will not be experienced until late 2023/early 2024.

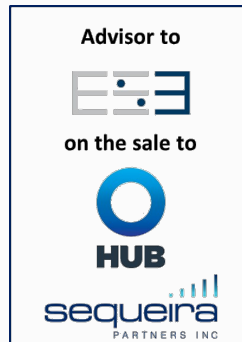
★ Trend to Watch – Acquisitions outside brokerage

Consolidators are turning to ancillary industries to continue to fuel growth and gain a broader service offering for their client base. Areas we expect to see activity include InsurTech, wealth management, and HR consulting firms. Notable examples include:

- November 2020 - Arthur J. Gallagher & Co. acquired Optimum Talent Inc., a Toronto based HR consulting firm with several locations across Canada.
- June 2022 - NFP Corp. acquired Newport Private Wealth Inc., a Toronto based wealth management firm.



Sequeira Insurance Transactions



Client Testimonials

"There was so much happening outside the walls of our business. We needed someone we could trust – and quickly. Sequeira became an integral part of our team and our most trusted advisors. We had frank, open conversations very regularly. Having someone who had our best interests at heart during the deal process was invaluable."

- Roger Roebuck, Sr. Partner, Foster Park Brokers Inc.

"What's unique in the insurance world, is we touch so many different industries. Sequeira Partners not only had the contacts and credibility, but understood the complexity of our industry. They brought parties to the table that weren't on our radar, which brought clarity to finding the right deal."

- Mark Wiens, President, Foster Park Brokers Inc.

Interested in Learning More?

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Sequeira Partners is the leading Canadian advisor in the independent insurance brokerage sector. If you are interested in learning more as a potential buyer, seller or fellow insurance industry enthusiast, we would love to hear from you.

Our dedicated partners and staff are always available and eager to discuss market trends and strategize on opportunities.

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About Us

Sequeira Partners is Western Canada's leading sell-side transaction advisor to private businesses across a diverse range of industries.

From our offices in Vancouver, Edmonton and Calgary, the team at Sequeira Partners has completed more than 200 mid-market transactions in Canada, the United States, and countries around the world.

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