

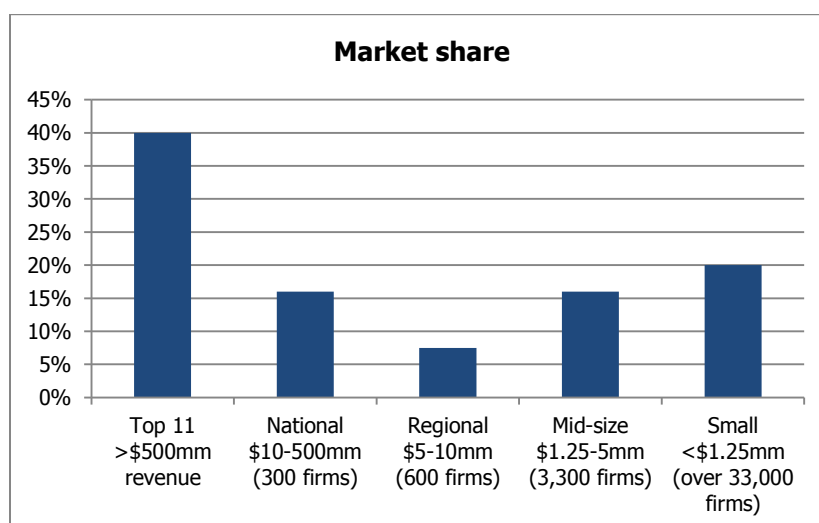
Insurance Agents & Brokers – Mergers & Acquisition Activity is Accelerating

Insurance agents and brokers in the U.S. are benefitting from the beginning of a long-awaited hard market, a slowly improving U.S. economy, and increasing complexity in the health and benefits markets. Consolidation – long a path for revenue growth in the industry – continues at a heated pace, as strategic buyers and private equity backed players rush to grab share ahead of rising P&C pricing. Additional private capital is eagerly seeking entry, providing a floor on valuations. Insurance agents and brokers with revenues in excess of \$30 million are in high demand, allowing acquirers to efficiently add scale, augment leadership, extend geographic reach and increase product breadth. Several recent large transactions highlight strong demand for well-run properties of size among strategic buyers and private equity firms. Independent, privately-held consolidators, on the other hand, continue to take a more moderate approach to acquisitions. Commercial banks are evaluating their commitment to the industry; at least ten banks have exited the industry in the past five years.

- Market tailwinds are driving improved operating performance and increased consolidation activity among insurance distribution firms.
- Timing of P&C cycle, strong demand for mid-size properties, financial strength of consolidators, and recent transaction multiples make this an opportune time for owners of well-run firms to consider selling.
- Despite increased consolidation activity, over 40% of industry revenues are controlled by companies with less than \$10 million in annual revenue.
- We expect the top 10 insurance distribution industry participants in the United States to increase their collective market share from under 40% to over 60% by the end of 2017.

Industry Structure

The U.S. retail insurance distribution industry exceeds \$50 billion of annual revenue, comprised primarily of commission and fee income. The top dozen firms (who control an estimated 40% of annual revenue) dominate, but the industry remains highly fragmented, with more than 37,000 firms littering the landscape. Only 300 firms nationwide reported revenues in excess of \$10 million.



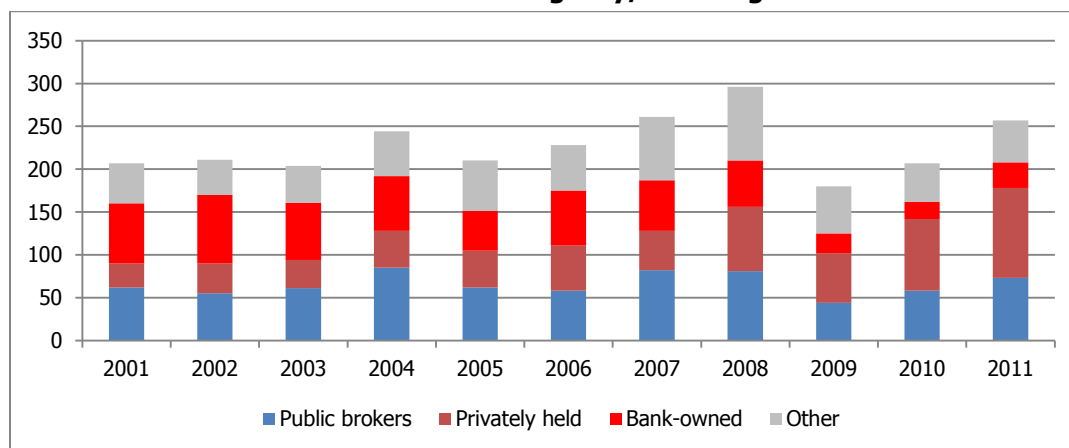
Source: Colonnade estimates and Reagan Consulting

Mergers & Acquisitions Activity Accelerates

Consolidation has long been a staple of the industry, particularly in a soft market, as publicly-owned firms driven by earnings pressure seek to augment weak organic growth through acquisition. Aging owners are increasingly seeking to monetize family-run businesses, absent continued investment in the business or a perpetuation plan. Acquirers benefit from economies of scale, including investments in information technology and improved carrier relations. Insurance carriers continue to streamline their distribution networks by eliminating smaller agencies.

M&A activity consistently exceeds 200 transactions each year, with the vast majority of deals involving firms with less than \$5 million of revenue. Activity rebounded by 25% and 15% in 2011 and 2010, respectively, after plummeting almost 40% in 2009 during the financial crisis. Many sellers who missed the window of opportunity before the financial crisis are now seeking to capitalize on market demand. If organic growth rates increase meaningfully, however, M&A activity should ebb.

Announced insurance agency/brokerage deals



Source: Colonnade estimates and SNL

Buyer Universe

Large strategic buyers with strong balance sheets and access to debt financing continue to dominate the M&A landscape. Most publicly-held brokers are trading near their 52-week highs. Private equity backed platforms are increasingly aggressive in gaining share through acquisition. Several private equity backed platforms nearing the end of their investment cycle are active buyers as they seek to add scale ahead of an exit in the next 12-24 months. New entrants, such as AssuredPartners (backed by GTCR), are ramping up quickly. AssuredPartners has completed over a dozen acquisitions since its platform investment in Neace Lukens in 2011. Marsh McLennan Agencies is also a force, using the balance sheet of its parent to build a middle market powerhouse. HUB and USI, both private equity backed national brokers, continue to add scale and will likely seek an ownership transition in the near future.

Insurance Distribution

Company	Ticker	% of 52 week high	EMV \$mm	EBITDA margin	EV / Revenue	EV / EBIT	EV / EBITDA	PE LTM	PE 2012E	PE 2013E	PE 2013 / LTGR	Div. Yield	Share prices as of 10/10/2012
Marsh & McLennan	MMC	98%	\$18,759	17.0%	1.7x	11.9x	9.9x	17.2x	16.0x	14.2x	131%	2.6%	
Aon PLC	AON	98%	\$17,356	19.2%	1.9x	13.5x	9.7x	16.8x	12.8x	11.3x	118%	0.9%	
Willis Group Holdings	WSH	89%	\$6,313	23.6%	2.4x	12.4x	10.2x	16.2x	13.1x	11.8x	109%	2.9%	
Arthur J. Gallagher	AJG	96%	\$4,325	17.7%	2.0x	16.6x	11.4x	20.1x	19.8x	17.2x	182%	3.7%	
Brown & Brown	BRO	95%	\$3,841	33.3%	3.7x	13.6x	11.2x	22.9x	21.4x	18.3x	169%	1.3%	
Median				19.2%	2.0x	13.5x	10.2x	17.2x	16.0x	14.2x	131%	2.6%	

Bank-owned agencies, for the most part, are not currently active acquirers, with the exception of BB&T and Wells Fargo, both of which are committed to insurance distribution. BB&T's acquisition of wholesaler Crump was a classic strategic move for this bank. BB&T consistently seeks to hold leading market share in its target markets. The Crump acquisition cements BB&T's lead as the #1 U.S. wholesaler, expanding its CRC Insurance operation considerably. This deal increases the bank's total insurance business by nearly 30% to more than \$1.3 billion in revenue.

Finally, privately-held independent brokers continue their steady pursuit of small tuck-in acquisitions, quietly consolidating the smaller end of the industry.

Mid-Sized Targets are in High Demand

Mid-sized insurance distribution firms are particularly attractive to large strategics and fast-growing private equity backed platforms as a means to quickly add scale, leadership, geographic reach and product expansion. Approximately 65 firms with revenue between \$30 million and \$200 million generate an estimated \$4.6 billion of revenue and offer significant consolidation opportunities for acquirers with large balance sheets and/or aggressive expansion plans. In general, these firms dominate a geographic region and/or maintain sought-after industry expertise. Most bring a strong management team with an institutionalized client base and salesforce, sound internal systems and controls, and a proven track record of identifying and completing tuck-in acquisitions, providing a new pipeline for larger acquirers. Current market transaction multiples are tempting many owners of these mid-sized firms to consider selling. Well-run properties are fetching 7x-9x EBITDA or 1.5x-1.75x revenue; and a disciplined, competitive sale process can help sellers achieve better results and superior deal terms in a transaction.

Buyer Demand

- Strong corporate balance sheets and new private equity capital are driving multiples higher
- Large strategics are aggressive but still selective on product mix and concerned with margins
- Private equity backed players are expanding, seeking to rapidly achieve scale before an exit
- Improving P&C pricing and strong employee benefits market support higher growth prospects and valuations
- Heightened competition among buyers can be exploited in a sale process

Dynamics Among Mid-Sized Agencies

- Large acquirers favor mid-sized targets to quickly gain scale, leadership and geographic reach, although integration risk can be high
- Mid-sized agencies offer attractive platform opportunities and/or geographic and product expansion
- Mid-sized firms can dominate a geographic region and/or possess attractive industry expertise
- Scarcity value drives increased interest and competition in transactions

Banks Are Evaluating Their Participation in the Insurance Distribution Sector

Banks continue to evaluate the strategic importance of their insurance agencies. Banks are attracted to the fee income, cross-sell opportunities and high return on equity generated by the insurance distribution business. Some banks have determined, however, that insurance is non-core, poses business risk, and involves higher expenses compared to other banking operations. A relatively small insurance agency can create distractions for senior leaders of large financial institutions.

Reasons for Banks to Sell

- Senior management distraction
- Not “core banking” product
- Business risk
- Opportunity to raise and redeploy capital
- Eliminate expense base; improve efficiency ratio
- Current high valuations for insurance brokerage businesses

Reasons for Banks to Hold

- Attractive fee income
- Cross-sell opportunities with retail and commercial banking clients
- High ROE and ROA
- Inability to redeploy capital efficiently

As a result, at least ten banks have exited the distribution segment in the past five years, as outlined below.

Date	Seller	Agency/Broker	Insurance Revenue (\$MM)
2012	TD Bank	TD Insurance	\$ 59
2012	Compass BBVA	Compass Insurance	27
2011	First Place Bank	First Place Insurance	4
2011	First Financial Holdings	First Southeast Insurance	21
2010	PNC	National City Insurance	13
2009	First Banks	Adrian Banker	10
2008	Webster Financial	Webster Insurance	30
2007	Capital One	Hibernia	18
2007	BNC National Bank	BNC Insurance Services	19
2006	Citizens Financial Group	Citizens Clair, Brewer & Lord	45

Particularly in a period of heightened M&A activity, we anticipate commercial banks will continue to evaluate the strategic importance of their insurance operations as they look to streamline operations and redeploy capital.


Conclusion

Consolidation in the insurance distribution sector has resumed and is accelerating, after having stalled during the 2008 – 2010 financial crisis and recession. We expect the top 10 insurance distribution industry participants in the United States to increase their collective market share from under 40% to over 60% by the end of 2017.


Recent Transaction

Colonnade represents TD Bank in the sale of TD Insurance to USI Holdings

In September 2012, USI Holdings, a portfolio company of Goldman Sachs Capital Partners, acquired the stock of TD Insurance, a subsidiary of TD Bank, NA. USI is a leading U.S. insurance broker with nearly \$800 million of revenue. TD Insurance, with \$60 million of revenue, adds management strength, specialty practice leadership, and product expansion to the USI platform.



TD Bank, N.A.
has sold its U.S. insurance agency



to

USI Insurance Services
The undersigned acted as financial advisor to TD Bank N.A. and TD Insurance, Inc.

Colonnade Securities LLC
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This advertisement was prepared October 18, 2012. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.
