

Mergers & Acquisitions

Newsletter

Acquisitions for Agency Owners: Finding the Right Buyer

The M&A market for insurance brokers has been growing for years. Much of this activity has been driven by private equity-backed buyers, who have steadily increased their percentage of total transactions since the Great Recession. However, the shock of COVID-19 and its aftereffects have caused many potential sellers to reconsider strategic buyers (either independently owned or publicly traded) as a better alternative.

Although strategic buyers each have their own way of operating, as a group, they offer key differentiators, which often include an established culture, a focus on investing in their business for the long term, and the type of purchase consideration given in a transaction.



SUMMARY

There is a lot to consider when selling your agency, but who you sell to should be at the top of the list. Strategic buyers can offer straight forward purchase consideration, a focus on investing in integrated capabilities and resources for the long term, and, most importantly, an established culture to help you realize your team and your business's potential.

FOR MORE INFORMATION

Scott Penny

*Executive Vice President
& Chief Acquisitions Officer*

spenny@bbins.com | (386) 239-4066

Vaughn Stoll

*Senior Vice President
& Director of Acquisitions*

vstoll@bbins.com | (386) 239-8899



The Importance of Culture

Establishing clear priorities is important for any business. When evaluating potential buyers, you should understand each buyer's strategy and how your business fits within that framework. What brings strategy to life, though, is aligning those priorities with a defined culture.

The best strategic buyers have built their cultures over decades through the collective wisdom of their teammates and incorporating new insights via acquisitions.

Some strategic buyers require a fair amount of change on day 1. At Brown & Brown, we focus on preserving the entrepreneurial spirit and providing as much autonomy as possible.

What operational and financial goals could you achieve by selecting a buyer with the right culture?



A Forever Mentality

Without the limitations of a prescribed investment horizon, the best strategic buyers make decisions with a forever mindset. At Brown & Brown, those decisions include establishing a world-class internal university to train and develop not only our producers but also our service teams, intentionally and properly integrating new acquisitions, and investing in analytic capabilities that enhance our ability to leverage resources across our various businesses. What could your team achieve with the strength of these powerful resources?

Second Bite of the Apple?

Some acquirers will offer a significant portion of the purchase price in shares of newly formed entities. These shares represent what many call the 'second bite of the apple,' where sellers could participate in selling that entity to a new ownership group.

In the past, some sellers have made healthy returns on those sales when private equity groups were buying businesses at lower valuations and selling the combined entity at a premium multiple. With valuations at all-time highs, the ability to 'buy low sell high' has diminished significantly.

Another point to consider is that not all shares are equally ranked, so the shares offered to you may not realize full value, especially after debt holders are re-paid. Debt holders typically get paid out before shareholders, so if the new entity has too much debt, there may not be enough for the shareholders to generate an acceptable return.

When evaluating what buyers are offering, it is as important as ever for sellers to decide how much the 'second bite of the apple' will be worth going forward.

