

# Rapid-fire growth



**Norah Black (Moderator)**  
Marketing Manager  
Insurance Brokers Association  
of Ontario (IBAO)

A discussion of M&A trends in the broker space, featuring brokerages of all types and sizes.



**Michael Craig (MC)**  
Registered Insurance Broker  
CMR Insurance Brokers  
*A full-service brokerage with 46 staff and 7 locations throughout Southwestern Ontario.*



**Dario Battista (DB)**  
President, CEO  
isure.ca  
*An independent digital broker and brand-focused P&C insurance brokerage retailer.*

Quite surprisingly, this year didn't top the mergers and acquisitions (M&A) record for Insurance Brokers Association of Ontario (IBAO) brokerages – only 25 M&As in 2017-18, compared to 32 in 2016-17. Perhaps a more surprising stat, especially given all the headlines, is that 85% of reported mergers and acquisitions in 2016-17 remained in the independent broker channel, while only 15% of brokerages sold to insurance companies.



**Ryan Craig (RC)**  
Registered Insurance Broker  
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People seem surprised to hear this, the assumption being that there is a higher percentage of insurer purchases in today's marketplace. BrokerLink is often seen as the most active within M&A in Ontario, but McDougall Insurance & Financial, an independent brokerage in Belleville, has expanded to over 30 branches across Eastern Ontario and become one of the fastest growing brokerages in the province. And while 2017-18 wasn't the biggest year for M&A activity on record, acquisitions are happening at a very steady pace, with no indication of slowing.



**Joseph Carnivale (JC)**  
Associate Broker  
Director of Sales  
Brokers Trust Insurance Group  
*A hybrid organization focused on client relationships and leveraging technology to support them.*

We approached what's become our typical range of IBAO Brokerages – traditional, digital, small town, large-scale – to ask about their specific growth strategies, particularly as they relate to mergers and acquisitions, target businesses, market trends, and insurer-owned brokerages. ≡



**Barry Hogan (BH)**  
President  
Gamble HUB International  
*A 400-office, 11,000-employee North American operation.*

## Q: WHAT'S YOUR CURRENT GROWTH STRATEGY?



**DB:** We've made technology the foundation of our client development model, attracting new customers by leveraging a proprietary approach to digital marketing and supporting our brokers to better leverage their knowledge and experience within our value proposition. We continue to focus on scalability, organic growth, and consistency in the marketplace. We recently moved to a new office space with the capacity to grow our team from 30 to more than 70 brokers. Looking ahead, we're considering strategic acquisitions where a local presence or specific capability can enhance our overall value proposition.



**JC:** Our main growth strategy is to attract Independent producers and open new offices across Ontario, sharing ownership when it makes sense with select producers. We're looking at small acquisitions that meet specific geographic needs and we want to partner with small, rural brokerages in need of our markets, technology and management team. We focus on developing our existing producers' growth and providing access to a large number of insurers – on average, we gain a new market every year.



**MC & RC:** We've grown primarily through organic growth over the past few decades, but during that time there've been 12 mergers and acquisitions – three in the last three years alone. Money is always an important factor in M&A, but many other factors don't receive the same attention. Organizations should be a good fit in terms of overall culture. We look at the expertise of team members, geography, and whether the seller wants to stay involved after the sale. We try to chase the right opportunities, ones that align with our goals and overall vision, and avoid spinning our wheels chasing everything that comes our way.



**BH:** HUB has completed over 400 acquisitions since 1998, typically completing 45 to 50 acquisitions within North America each year. When we're looking at M&A, we tend to take our time to make sure people joining the HUB team can work well with our existing team – it's more about fit than anything else. It's far more important to have the right people join the team than to acquire additional volume or enter a new geographic area.

### Q: FOR THOSE VISIBLY IN ACQUISITION MODE, WHAT'S YOUR SWEET SPOT? WHAT SIZE AND TYPE OF BROKERAGE ARE YOU LOOKING TO ACQUIRE?



**MC & RC:** Brokerage size and type matters with respect to the complexities involved in acquiring or merging with another organization, but there are other variables to consider. We don't really have a sweet spot. Our most recent acquisitions ranged in size from \$1 million to \$2.5 million gross written premium, with one to three employees each. Their geography was appealing – they were located where we're currently in operation, allowing for efficiencies. Because our brokerage was already actively involved in these communities, it made the transition easier in terms of public perception. Just as important in two of these acquisitions was the fact the owner agreed to stay on for a number of years, which was appealing given the experience we could leverage.



**BH:** HUB will look at any business, from a regional personal lines brokerage, to a large commercial operation, to an employee benefits operation of two. We also look at specialty ventures. We've purchased P&C insurance firms, digital brokerages, and managing general agency operations. But the sweet spot for us is all about the right people.

### Q: WHAT DO YOU SEE AS THE CURRENT TREND IN VALUATION?



**JC:** It varies depending on the type of business, but we're seeing valuations anywhere from 2.5 to 3.5 times commission income. The current trend is slightly higher for personal compared to commercial, but I see this trend leveling off and heading the other direction over the next few years.



**MC & RC:** In terms of multiples, current trends we've seen have been as low as 2 and as high as 4.5.



**DB:** It comes down to value. A business with opportunities for purchasers to enhance value will demand more in the market compared to a valuation based solely on a book of business.



**BH:** Well-run brokerages are always in demand and will always command higher value. One factor in determining if a brokerage is well-run is whether it's growing or not. I think some buyers purchase brokerages to get additional scale or volume with a market. Buyers are looking at overall value when they purchase a brokerage in today's market.

### Q: IS IT EASIER OR MORE DIFFICULT TO FIND TARGET M&A BUSINESSES?



**BH:** HUB has completed more acquisitions across North America in the first part of 2018 compared to the first part of 2017, and 2017 was a record year for us in M&A activity. Our M&A operation grows across North America every year – but buyers seem to be becoming more specific in what they're looking for compared to past years.



**MC & RC:** It's both easier and harder to find target businesses. Seller demographics and the pace of technology and investment are aligning to create a lot of opportunities, but it's difficult for many independent brokers to acquire given the cost, time, and resources involved. If independent brokers are looking to merge, sell or acquire, they need to ask one another what they are trying to achieve and get to the bottom of mutual and differing interests. Typically, you'll find aspects beyond money that can create win-win situations. In two of our last three acquisitions, the multiple was potentially less than sellers could have achieved elsewhere. A number of other factors aligned to make these deals happen: the continuation of the owner's presence within the brokerage and the community; creating compensation beyond purchase price; and ensuring staff is well looked after. These examples prove that mergers and acquisitions can happen without always paying the highest lump sum.