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## ReaganView

### Big Game Hunting in Insurance Distribution

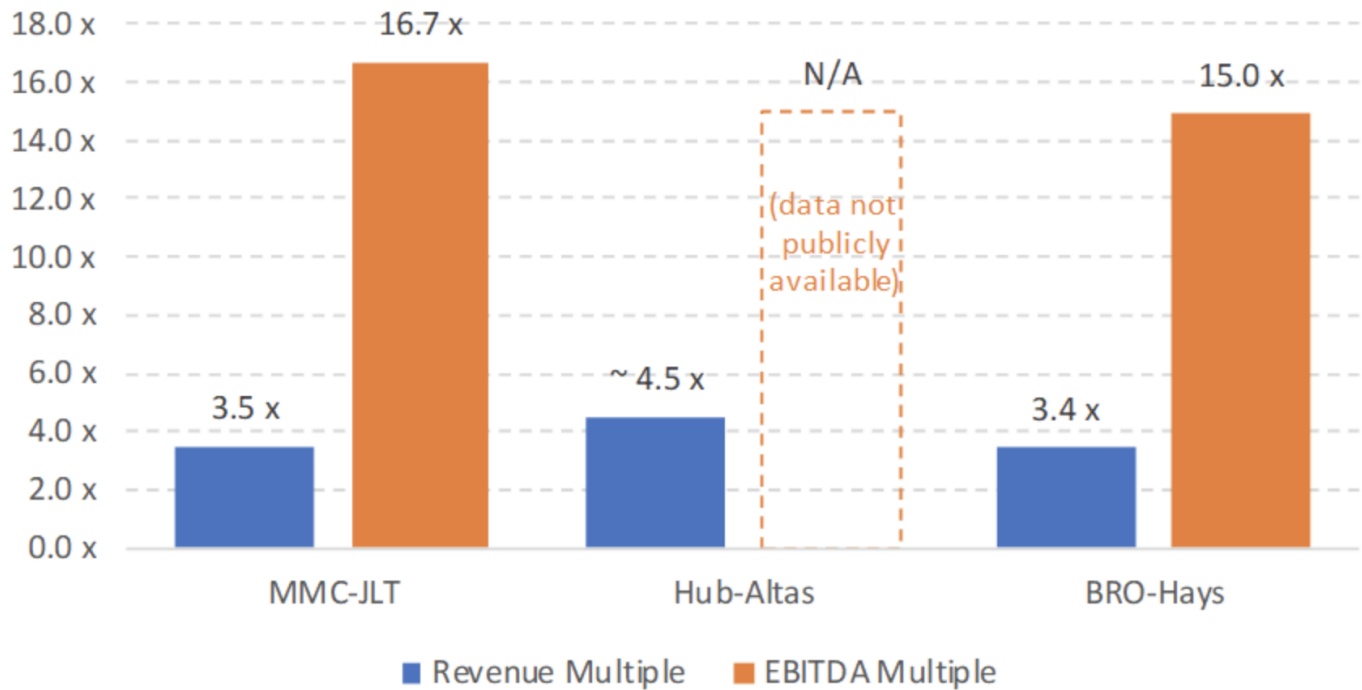
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To our clients and friends,

Sometimes the deals are big deals. In the last month and a half, there have been three transactions announced involving purchases of or investments in brokers with over \$200 million in revenue:

1. Marsh & McLennan (MMC) agreed to buy Jardine Lloyd Thompson (JLT) in a deal with an approximate enterprise value of 4.9 billion pounds (or about 6.3 billion US Dollars)
2. Hub International (Hub) announced a minority investment by Altas Partners that values Hub at over \$10 billion
3. Brown & Brown (BRO) announced an agreement to acquire Hays Companies in a transaction valued at over \$700 million

The valuations were large in terms of absolute dollars, but also large in terms of multiples. The chart below looks at Reagan's analysis of the revenue and EBITDA multiples involved in these three transactions.



*Notes: data taken from information available from press releases, earnings calls and public filings. BRO-Hays transaction includes only the upfront purchase price.*

While we don't have publicly available data on the Hub EBITDA multiple, we believe that it is likely in the mid-teens as well.

Our clients generally have two questions when they hear about multiples like these. The first is: "How are acquirors justifying these values?" In Hub's case, the private equity model – using leverage to accelerate equity returns – helps to allow for continued returns to investors even at high valuations. Hub's model is further enhanced if it can maintain a high volume of smaller acquisitions at lower valuations. The JLT and Hays acquisitions involve synergies – savings that the buyers expect to realize after closing – so the hope for the acquiror is that EBITDA grows rapidly after the transaction, thus justifying the aggressive upfront multiples.

The second question is: "How long is this going to last?" There isn't a simple answer to this one. History says it can't last forever. But despite the threat of rising interest rates, recent stock market turmoil and the intrusion of technology, big bets are being made on the insurance distribution system – at the highest valuations we've ever seen.

**Brian Deitz**  
Partner / Reagan Consulting



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