Recent Trends in Mergers and Acquisitions

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3 October 2007

Agenda

- Intermediary sector
- Underwriting sector
- Run-Off sector
- Investors
Most active sector in terms of transaction volumes: reflects unconsolidated market

There was a gradual decline in the value of transactions and brokerage multiples until 2005
Then a significant upward shift in multiples
High transactional activity is expected

Many deals, less value

3,500 broking firms remain in the UK
Many owners are ageing and looking for an exit
Published transaction volumes for 2001-2006 represented less than 2% of this total

Main drivers of corporate activity
Well capitalised consolidators in a hurry
Insurers buying distribution
Regulatory pressure
Cost and commission drivers
Barriers to corporate activity

- Pipeline in consolidators
- Difficulty in merging cultures
- Regulatory challenges

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Fewer but larger transactions

- Significantly lower volumes than intermediaries
- Aggregated value of deals is much higher
Main drivers of corporate activity

- Softening market
- Pressure to cut costs
- The search for diversification
- London and Bermuda: the dumb-bell model
- Geographical and portfolio expansion
- Specialism vs scale

Barriers to corporate activity

- Capital constraints
- Legacy Issues
  - Reserving uncertainty and long tail business
  - Technology
  - Pensions, staff and occupancy costs

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A growth area for M&A

- Increasing value of transactions
- US$2.5 billion of transactions in 2005
- Substantial market: total liabilities just for Lloyd's syndicates in run-off post 1993 > £7 billion
- Closed life funds: the two models
- Non-life run-off: the two models

Main drivers of corporate activity

- Increasing asset returns
- Pressure on cost base
- Regulatory pressure
- Diversification
- ... and geographical spread just starting

Barriers to corporate activity

- Demonstrating value from consolidation
- Exit solutions technology
- Difficulties for start-ups
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What attracts private equity and non-trade capital into the insurance sector?

- Stable earnings
- Strong management (when it is!)
- Non-transparency
- Non-correlation of earnings with other sectors

What are the deterrents to private equity and non-trade investment in the insurance sector?

- Earnings volatility in the underwriting sector
- Limited growth opportunities
- A lack of exit routes
Buyers

- Non-trade buyers have been showing increasing interest in the sector
- Trade deals remain substantially in the majority
- Is credit squeeze impacting?

Questions and discussion

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