Ursano: Expect more broker IPOs and strategic mergers as PE firms look for liquidity

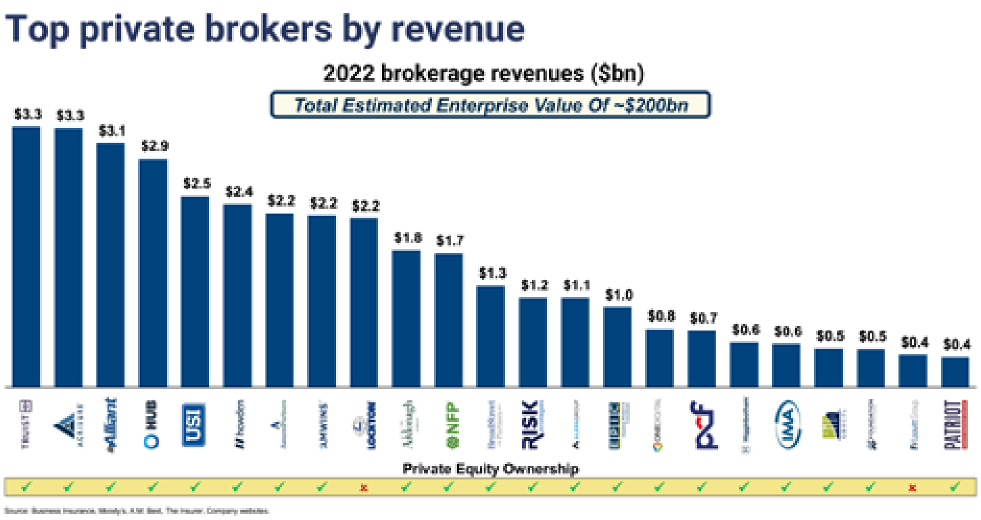
Insurance Advisory Partners (IAP) managing partner and co-founder Tony Ursano predicts the concentration of private equity in the broking sector together with attractive valuations will result in a flurry of strategic mergers and some IPOs in 2024 and beyond.

Speaking at *The Insurer*'s Pre-Monte Carlo Forum, Ursano said that commissions and fees from the top 20 global brokers now total almost $60bn.

The top 10 publicly traded brokers now hold $282.5bn of market capitalisation and generated $32.8bn of revenue in 2022, he added.

Ursano said public brokers are now trading at around 22.3x their 2023E Ebitda, a measurement he felt could inspire a number of private equity firms' broker-focused strategies.

Of the 23 largest private brokers, Ursano said 21 were owned or at least part-owned by private equity firms – representing a total enterprise value of ~$200bn.



But the IAP managing partner said higher interest rates and borrowing costs meant "private equity to private equity trades have become trickier at current valuations".

He explained that increased interest rate expenses had contributed to a reduction in net income. For example, he said net income for a $200mn Ebitda business with 7x leverage was now 51 percent lower compared to 20 months ago.

Ursano suggested two anticipated consequences from this development.

The first will see a greater focus on more strategic mergers of equals, where synergies are expected to justify a greater value. Ursano's second expectation is that private equity firms will opt towards the public listing of their investee companies with New York being the natural location.

"We also expect to see IPOs launched to establish a path to liquidity for private equity shareholders. People are talking about it a lot today. This is especially true given the average public brokers are trading at around 20x," said Ursano.

The increase in strategic mergers and the anticipated launch of IPOs will both contribute to the increased consolidation of brokers to an even fewer number of larger players over the next three to five years, Ursano explained.

Ursano offered a valuation comparison between the "highly attractive" model adopted by brokers and that of carriers.

For $2bn premium businesses, Ursano estimated the goodwill value of the less capital-intensive brokers to be ~$1.73bn compared to $1bn for a carrier.

Ursano said this disparity in goodwill value contributed to 85 percent of private equity firms stating they had zero interest in balance sheet businesses.

"Why? Because they made a fortune selling, buying and recapping [broker] businesses as opposed to carriers," Ursano continued.

"As you all know brokers have little if any volatility embedded in them.

They are capital-intensive with recurring revenue streams, inorganic and organic growth opportunities, and great margins."