

# INSURANCE DISTRIBUTION

## LIFE, ANNUITY, AND HEALTH

MARKET UPDATE | WINTER 2023



Dear Clients and Friends,

We are pleased to present our inaugural Insurance Distribution Market Update for the winter of 2023, with this issue having a particular focus on organizations involved with the marketing and distribution of life insurance, annuities, and health insurance.

Inflation, recession concerns, rising rates, and market volatility continue to impact decision-making. The current macroeconomic environment creates many challenges as well as opportunities for companies across the spectrum of insurance distribution. We remain busy with engagements among independent marketing organizations, field marketing organizations, and other distribution companies where differentiated platforms continue to garner interest from strategic and financial investors.

We have included industry insights to help you stay ahead in our dynamic and constantly evolving sector, a public markets update, and select transaction announcements. We hope you find this quarterly update to be informative and that it serves as a valuable resource to you in staying abreast of the market. We look forward to staying in touch and hopefully getting together soon for a drink, coffee, or lunch.

Best Regards,



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## Insurance Subverticals Covered

Insurance Distribution, Services, and Tech

Property and Casualty

Life, Annuity, and Health

Warranty and Ancillary Services

Title and Escrow

Reinsurance

Life Settlements

## Services Provided

M&A Advisory

Capital Raising

Financial Restructuring

Board and Special Committee Advisory

Valuation Services

Fairness Opinions

Illiquid Financial Assets Divestiture





# Houlihan Lokey



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

2022 M&A Advisory Rankings All U.S. Transactions		
Rank	Advisor	Deals
1	Houlihan Lokey	191
2	Goldman Sachs	188
3	JP Morgan	160

Source: Refinitiv.

## Exceptional Qualifications

### Life and Annuity Experience (Select Transactions)

<p>has been acquired by</p> <p>Sellside Advisor</p>	<p>has been acquired by</p> <p>Sellside Advisor</p>	<p>has merged with</p> <p>Financial Advisor</p>	<p>has received up to \$89,000,000 of financing from</p> <p>a company backed by</p> <p>Exclusive Placement Agent</p>	<p>has been acquired by</p> <p>Financial Advisor</p>
<p>has been acquired by</p> <p>a portfolio company of</p> <p>Sellside Advisor</p>	<p>has reinsured approximately \$19 billion of fixed and fixed indexed annuity liabilities from Voya Financial and made a minority investment in the newly formed</p> <p>Venerable Holdings, Inc.</p> <p>which acquired the closed block variable annuity business of</p> <p>Financial Advisor to the Special Committee</p>	<p>has completed the spin-off of</p> <p>Financial Advisory Services</p>	<p>has received a preferred equity investment from</p> <p>Exclusive Placement Agent</p>	<p>has been acquired by</p> <p>Sellside Advisor</p>

### Other Insurance Distribution and Services Experience (Select Transactions)

<p>have sold equity stakes to</p> <p>Sellside Advisor</p>	<p>has been acquired by</p> <p>Sellside Advisor</p>	<p>has been acquired by</p> <p>Sellside Advisor</p>	<p>has been acquired by</p> <p>Sellside Advisor</p>	<p>has been acquired by</p> <p>Financial Advisor to State Auto Financial Corp</p>
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Tombstones included herein represent transactions closed from 2015 forward.

# Life, Annuity, and Health

## Trends Impacting M&A

### Economic Factors

- **Interest Rates Rising** | As inflation has eased a bit, the Fed has indicated a more moderated view on further interest rate hikes.
- **Market Volatility** | Concerns over recession risk are causing swings in the broader equity markets, as shown by the bear market in 2022.
- **Waning Consumer Confidence** | Grocery inflation, combined with the stock market performance, continues to negatively impact consumer confidence.
- **Some Positive Indicators** | Despite the concerns, U.S. GDP exceeded expectations in Q4 2022, consumer spending continued to be somewhat positive, and unemployment fell to a 50-year low.

### Industry Trends

- Total annuity sales surged to \$310.6 billion in 2022, a 22% increase as investors ventured to lock in attractive rates; MYGA led the pack as its volume continues to rapidly grow.
- Life insurance sales slowed down in 2022 as consumer interest driven by the “COVID bump” subsided to more normalized levels; claims utilization is expected to drop as COVID-19 continued to wane.
- Medicare Advantage continues to take away market share from traditional enrollment; In the past 10 years, Medicare Advantage went from 12% to 48% of overall enrollment.
- Overall volumes are expected to support another robust year for IMOs/FMOs and IDCs.

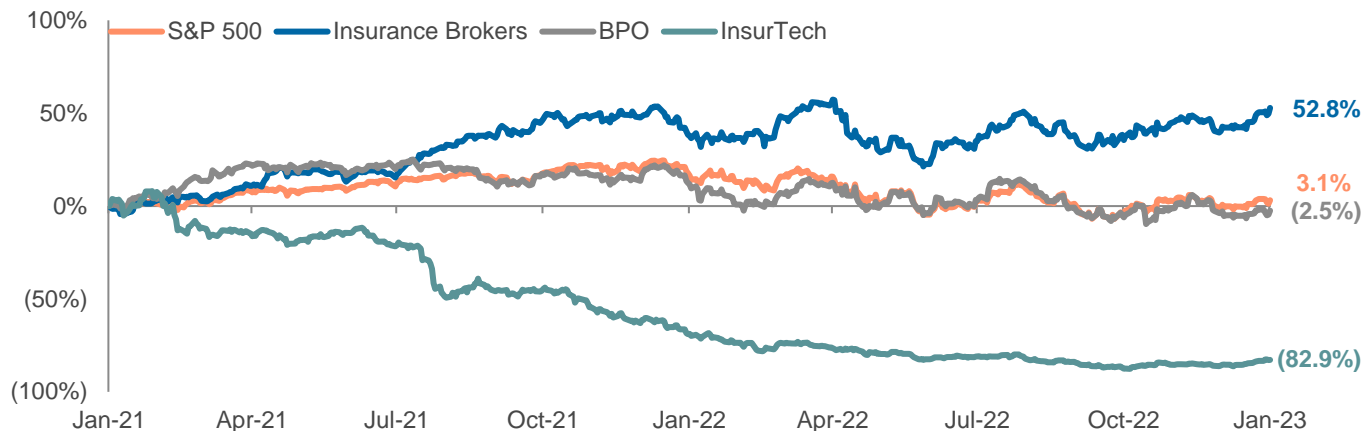
### M&A Impacts

- *Globally, M&A activity has slowed and is expected to remain sluggish as investors take a more careful approach to which sectors they focus on and the quality of target companies.*
- *As interest rates have increased, access to capital has become a bit trickier, particularly impacting leveraged buyouts and how investors approach valuations.*
- *Despite the broader macro headwinds, the insurance distribution sector continues to be a shining star, maintaining attractive valuation levels relative to other related sectors (as shown on the next few pages).*

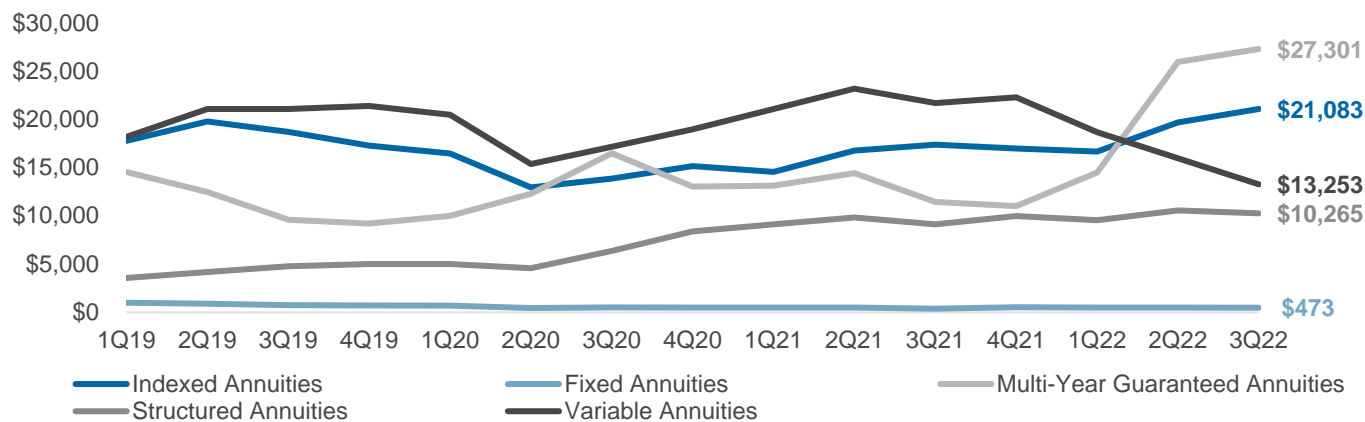
# Insurance Distribution

## Key Market Metrics

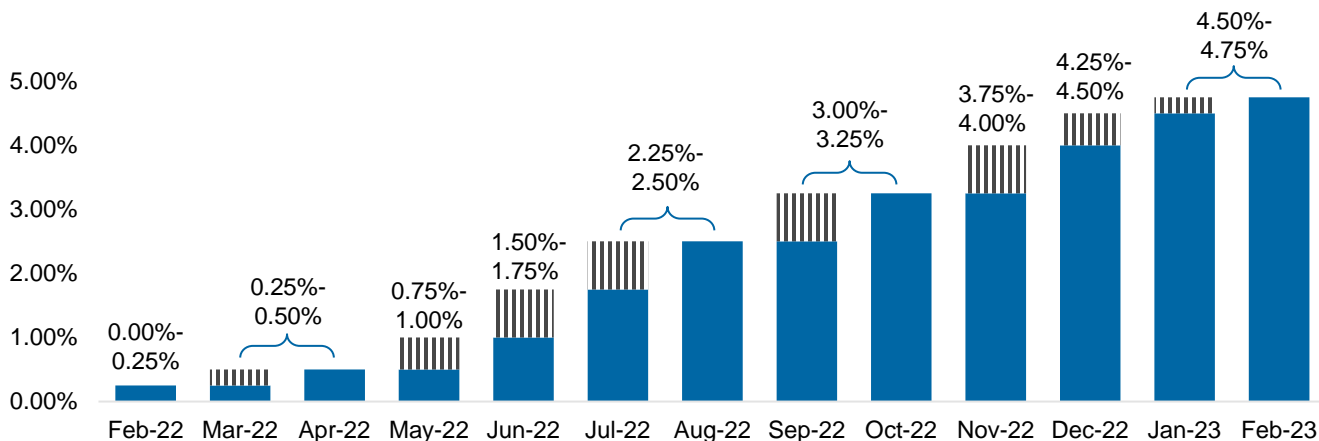
### Equity Market Index Performance (Jan. 2021 – Jan. 2023)



### U.S. Annuity Sales (Jan. 2019 – Sept. 2022)



### U.S. Interest Rates (Feb. 2022 – Feb. 2023)



Source: S&P Capital IQ data as of January 20, 2023.

Note: Public company constituents include Brokerage (MMC, AON, AJG, BRO, CRVL, CRD.B), BPO (ADP, FIS, TTEC), and InsurTech (FTDR, LMND, QNST, EVER, MAX, HCI, HIPO, EHTH, GOCO, SLQT).



# Insurance Distribution M&A Highlights

## U.S. Insurance Broker M&A Deal Count



## Notable Insurance Distribution Transactions (2022–2023 YTD)

Date	Acquirer	Target	Business Model	Deal Value \$M
12/22*	WARBURG PINCUS	K2 INSURANCE SERVICES	Multi-Line MGA	\$1,375
7/22	INTEGRITY	annexus®	Annuity Design & Marketing	NA
7/22	INTEGRITY	PHP AGENCY	Field Marketing Organization	NA
5/22	CARLYLE	NSM Insurance Group	Specialty MGA	\$1,775
5/22	INTEGRITY	ASH BROKERAGE	Financial Advisor & BGA	NA
4/22	MILLENNIUM TRUST COMPANY ABOVE AND BEYOND CUSTODY	PAYFLEX®	HSA Provider/Admin	\$775
3/22	BRP	WESTWOOD™ INSURANCE AGENCY	Homeowners' MGA	\$388
1/22	First American	MLHC MOTHER LODE HOLDING COMPANY	Title Insurance Services	\$300

Sources: SNL, S&P Capital IQ, public filings.

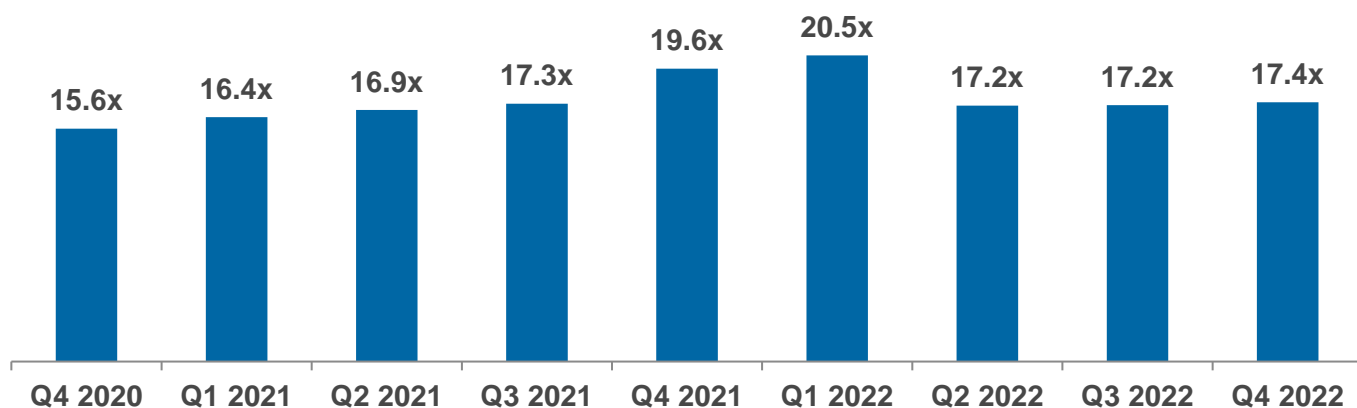
Notes: Deals shown reflect transactions selected by Houlihan Lokey since January 2022 for illustrative purposes only. Deals that include an asterisk (\*) denote pending transactions. Deals shaded in blue denote those advised by Houlihan Lokey.



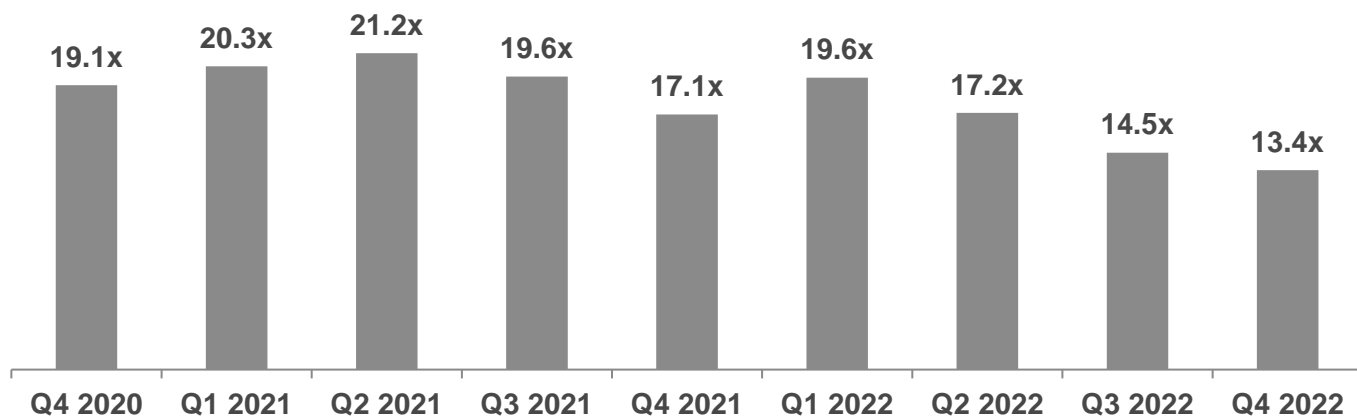
# Insurance Distribution

## Public Company Valuation Multiples

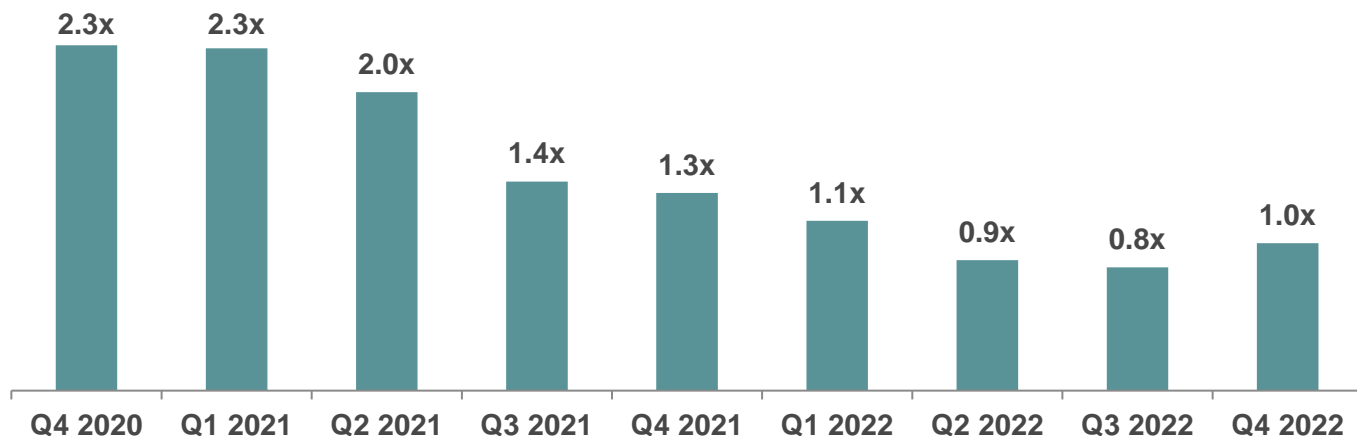
### EV/NTM EBITDA—Insurance Brokers



### EV/NTM EBITDA—Business Process Outsourcing



### EV/NTM Revenue—InsurTech



Source: S&P Capital IQ data as of January 20, 2023.

Note: Public company constituents include Brokerage (MMC, AON, AJG, BRO, CRVL, CRD.B), BPO (ADP, FIS, TTEC), and InsurTech (FTDR, LMND, QNST, EVER, MAX, HCI, HIPO, EHTH, GOCO, SLQT).



# Insurance Distribution

## Public Company Benchmarking



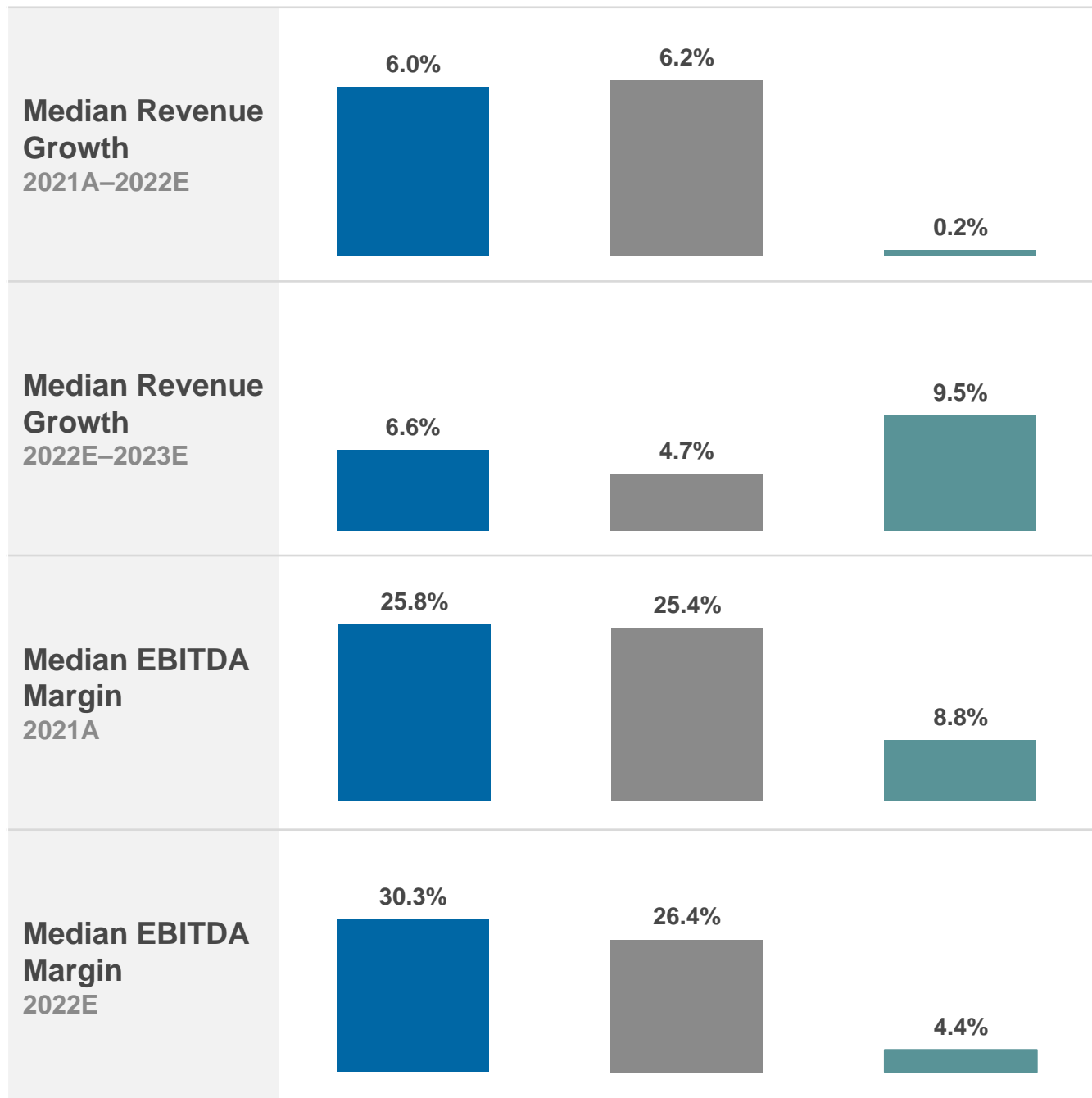
Insurance Brokers



Business Process  
Outsourcing



InsurTech



Source: S&P Capital IQ data as of January 20, 2023.

Note: Public company constituents include Brokerage (MMC, AON, AJG, BRO, CRVL, CRD.B), BPO (ADP, FIS, TTEC), and InsurTech (FTDR, LMND, QNST, EVER, MAX, HCI, HIPO, EHTH, GOCO, SLQT).





# Houlihan Lokey's Strategic Advice

## You Have Questions, We Have Answers

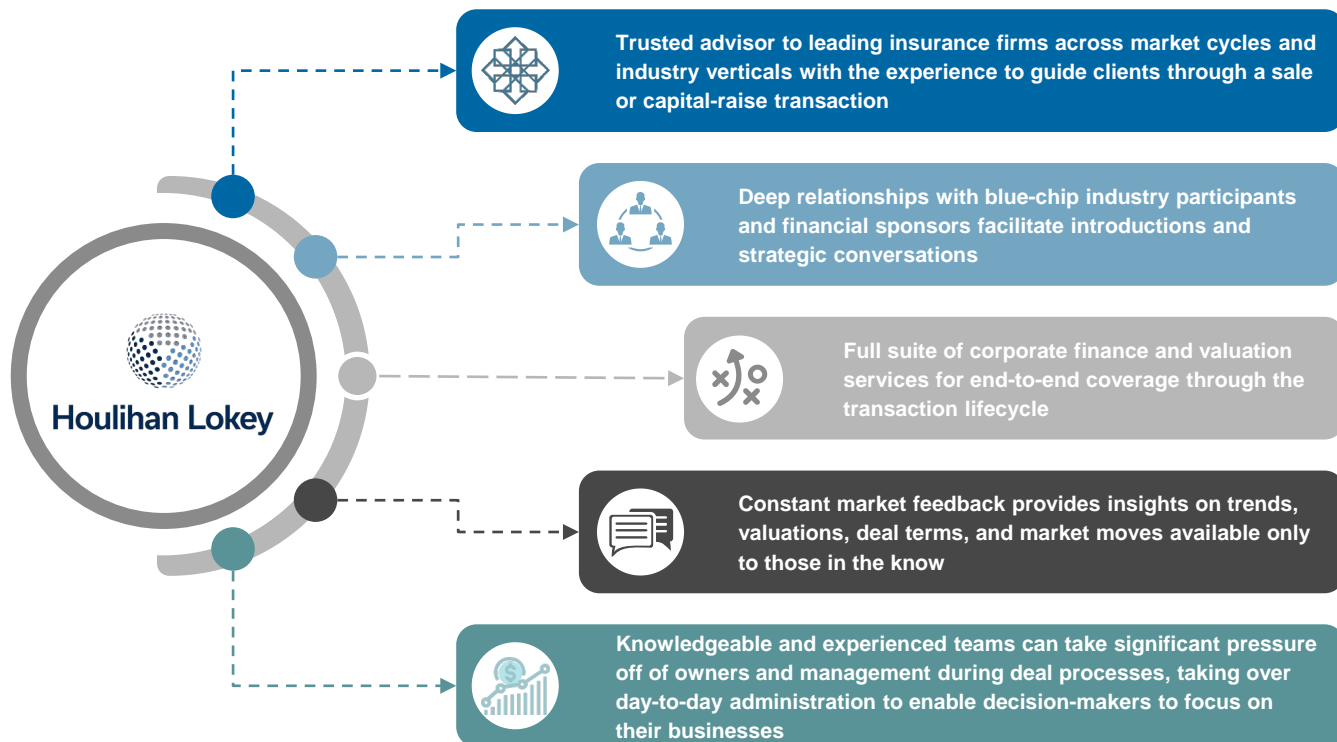
- *What Should Be My Valuation Expectations?*
- *Am I Getting Market Terms?*
- *Should I Take Stock vs. Cash?*
- *Should I Sell or Raise Capital?*
- *When Is the Right Time for a Liquidity Event?*
- *Who Are the Right Investors?*



**Houlihan  
Lokey**

*We would love to connect in person or via video conference and walk through your questions and discuss market dynamics*

## Why Hire an Investment Bank?



# About Houlihan Lokey

Houlihan Lokey (NYSE:HLI) is a global investment bank with expertise in [mergers and acquisitions](#), [capital markets](#), [financial restructuring](#), and [financial and valuation advisory](#). The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, the Middle East, and the Asia-Pacific region. Independent advice and intellectual rigor are hallmarks of the firm's commitment to client success across its advisory services. Houlihan Lokey is the No. 1 investment bank for global M&A transactions under \$1 billion, the No. 1 M&A advisor for the past eight consecutive years in the U.S., the No. 1 global restructuring advisor for the past nine consecutive years, and the No. 1 global M&A fairness opinion advisor over the past 25 years, all based on number of transactions and according to data provided by Refinitiv.

## Locations



## Product and Industry Expertise

### Product Expertise

- Mergers and Acquisitions
- Capital Markets
- Financial Restructuring
- Financial and Valuation Advisory

### Dedicated Industry Groups

- Business Services
- Consumer, Food, and Retail
- Energy
- Financial Services
- Healthcare
- Industrials
- Real Estate, Lodging, and Leisure
- Technology

### Financial Sponsors

- Active Dialogue With a Diverse Group of 1,000+ Sponsors
- Private Equity Firms
- Hedge Funds
- Capital Alliances



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