

OIC Research Group | Analyst Group Report

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Date: 29 Jun, 2024

AUB Group Acquired Leading Lloyd's Wholesale Broker Tysers

Transaction Summary

Announcement Date	9 May, 2022
Transaction Size	AU\$880mm (c. US\$614.6mm)
Close Date	30 Sep, 2022
Deal Structure	Equity and Debt
Deal Multiple	EV/FY22 EBITDA 9X (post synergy)

Deal Background

- On May 9, 2022, AUB announced its acquisition of Tysers from Odyssey for AU\$880mm (c. US\$614.6mm), with an additional AU\$176mm (c. US\$108mm) payable if growth targets are met.
- Initially, AUB and PSC Insurance planned a joint venture for PSC to acquire a 50% stake in Tysers' UK Retail Division, but this plan was canceled in May 2023. Hence, AUB **initiated a AU\$224.7mm (c. US\$150mm) equity raising** to enhance financial flexibility.

Deal Rationale

Acquirer

- Expanding into wholesale broking:** Tysers is **the largest independent wholesale platform by revenue in the London insurance market** (£183mm in FY20). They offer offers an alternative to the big three with embedded expertise for long-term success.
- Direct access to Lloyd's market:** Around half of Lloyd's premiums emanate from North America and around one quarter from Europe. By entering into Lloyd's market, AUB is able to **capture further economics outside Australia and New Zealand**.
- Cost saving and restructure:** An estimated **run-rate synergies of AU\$25mm (c. US\$16.7mm) of incremental EBITDA** accomplished through margin uplift and rationalization of cost efficiencies. AUB will also redirect AU\$200mm (c. US\$133.5mm) of Gross Written Premium (GWP) from international wholesale brokers to Tysers.

Seller

- Strategic Growth Transition:** PE firms often prioritize quick returns over long-term growth. Transitioning from Odyssey to AUB provides Tysers with **greater stability and access to industry resources**.
- Legal and Financial Support:** Tysers **faced a US\$46.6mm settlement** with the US DOJ for activities in Ecuador*. AUB Group's agreement to cover this, nearly equal to Tysers' entire annual EBITDA (US\$49.3mm), provides **crucial financial relief, allowing Tysers to focus on growth**.
- Experienced Board Members:** Adding highly experienced members to Tysers' Board **enhances governance and strategic oversight**. This includes Peter Harmer, the former CEO of IAG (the largest Australian insurance company), and Mike Emmett, CEO of AUB.

Acquirer

AUB Group (ASX: AUB)



AUB Group is a **leading network of insurance brokers**, underwriting agencies, and risk management service providers operating across New Zealand and Australia. AUB caters to over 950,000 clients with AU\$9.5 billion in insurance premiums. Its diverse business areas include Australian Broking, Non-broking Services, Austbrokers Member Services, Underwriting Agencies, NZBrokers, BizCover, The Insurance Alliance, and Tysers.

Founded Year	1985
HQ	New South Wales, Australia
Sector	Insurance Brokers
Market Cap	AU\$3.42bn (c. US\$2.27bn)
FY2023 Revenue	AU\$1.1bn (c. US\$740mm)
FY2023 EBITDA	AU\$383mm (c. US\$255mm)

Recent Transactions:

May 2024: AU\$105mm acquisition of Pacific Indemnity, a leading specialty underwriting agency.

Dec 2023: Acquisition of Mexbrit, a Miami-based reinsurance broker, for an undisclosed amount.

Target

Tysers Insurance Brokers



Tysers is a leading specialist international insurance broker and the **6th largest wholesale broker in the Lloyd's marketplace**. Business operates across three segments: wholesale, retail, and Managing General Agents (MGA). Its retail broking services niche product areas, including sport, entertainment, and SME. It is originally owned by US PE firm Odyssey Investment Partner until 2022.

Founded Year	1820
HQ	London, UK
Sector	Insurance Brokers
FY2021 Revenue	AU\$322 (c. US\$214mm)
FY2021 EBITDA	AU\$64.1 (c. US\$42mm)

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Short-term Implications

- **Revenue synergies:** The integration of Tysers represents a strategic initiative aimed at **transitioning approximately AU\$90mm (c. US\$59mm) in binder placements and upcoming renewals** into Tysers. This move is designed to streamline processes, enhance efficiency, and **expand Tysers' product offerings and capabilities**. The bulk of the value from this integration is **anticipated to materialize in FY24**, particularly in the second and third quarters.
- **Cost synergies:** Optimized operating model by incorporating and extending Tysers offering internally and reducing costs on headcounts and IT licensing. Results on-track with **AU\$7.6mm (c. US\$5.2mm) run-rate savings initiatives executed in FY23**. Additional cost-saving measures are **planned for FY24 to achieve the remaining AU\$15mm cost target**.
- **Retention Bonuses:** AUB offered **12-month retention bonuses to Tysers employees**, contingent on retention for more than 12 months after the deal's completion. This **financial incentive supports employee retention** and maintains stability.

Long-term Upsides

- **Enhanced wholesale broking and product innovation:** The acquisition **integrates Tysers' specialty capabilities with AUB's existing operations**, providing access to more offerings, capturing additional value, and **creating economies of scale that improve margins** and **expand the capacity to write new business**.
- **Stability and employee engagement:** With AUB's stable and long-term ownership, **employees benefit from clear strategic direction**, reducing the uncertainty previously experienced under private equity ownership. AUB's commitment to **making Tysers its primary wholesale platform further enhances job security and motivation**.
- **International expansion and market presence:** The acquisition allows AUB to **expand in London's Lloyd's market, adding AU\$500-600mm (c. US\$332-398mm) in gross written premium**. Tysers strengthens AUB's position, enabling market-leading products and enhancing the ability to establish new agencies and secure Lloyd's binders.

Risk and Considerations

- **International expansion risk:** AUB will be exposed to laws, regulatory requirements, and fluctuations in value of international currencies in the various jurisdictions that Tysers operates in. **Failure to comply with applicable laws could result in regulatory investigations, adversely impacting AUB's earnings and reputation**.
- **Debt and financing concerns:** AUB increased its debt levels post-acquisition, with a **gross debt/EBITDA ratio expected to be around 2.8x**. The equity and debt funding for the acquisition is fully underwritten, but **any inability to draw down on these commitments could adversely impact AUB's financial position**.
- **Influence by major shareholders:** AUB's **substantial shareholders**, including Odyssey Investment Partners (7.8%), Greencape Capital, and Challenger Limited (each 4.7%), **may influence management decisions**, director nominations, and significant transactions. **Sales of their shares**, or perceived sales, **could negatively impact AUB's market share price**.

Precedent Transactions

Announcement Date	Target	Acquirer	Target Location	% Acquired	Deal Size (US\$)	EV/Sales	EV/EBITDA
9 May, 2022	Tysers	AUB	UK	100%	663.4mm	8.0x	59.5x
22 May, 2023	Kentro Capital Limited	Brown & Brown, Inc.	UK	100%	423.5mm	5.6x	5.6x
20 Dec, 2022	BCHR Holdings	Arthur J. Gallagher & Co.(NYSE:AJG)	Europe	100%	660.0mm	NA	NA
9 Nov, 2020	Miller Insurance Services LLP	Cinven Limited; GIC Private Limited	Europe	100%	946.9mm	5.2x	23.1x
2 Dec, 2020	Riverstone Europe	CVC Capital Partners Limited	Europe	100%	734.5mm	2.7x	12.4x
Mean					685.7mm	5.4x	25.6x
Median					663.4mm	5.4x	17.8x