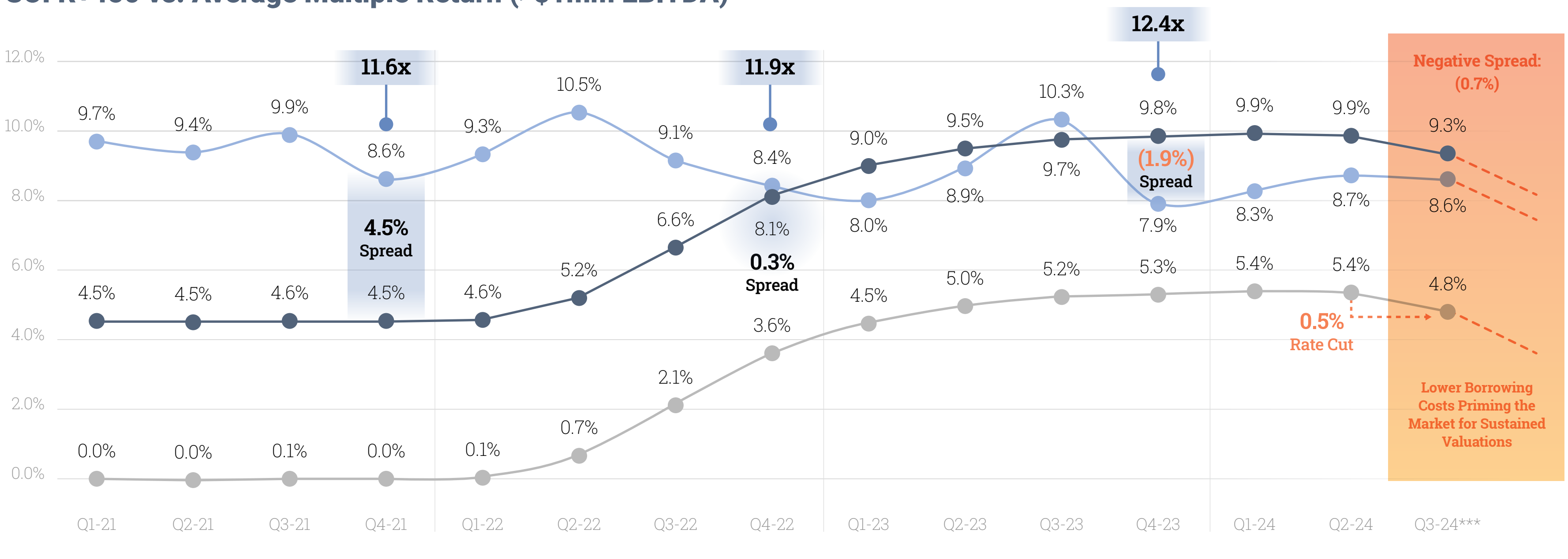
Federal Reserve Rate Cut

What It Means for Insurance Brokerage M&A

SOFR+450 vs. Average Multiple Return (>$1mm EBITDA)



Sources: Sica Fletcher Proprietary Data; U.S. Federal Reserve *Cost of debt is calculated by taking the average floating interest rate paid by Private Equity-backed platforms. **Expected return expresses the quarterly average Enterprise Value/EBITDA multiple as an inferred return percentage. ***Reflects rate as of 9/24/2024.

On September 18, 2024, the Federal Reserve cut interest rates by 50bps, which was a larger cut than many were forecasting. This decrease in interest rates will reduce the go-forward borrowing costs for leveraged insurance brokerage investors.

In August, Sica Fletcher published a whitepaper indicating that despite interest rates rising substantially from early 2021 to Q1-2024, valuations for insurance brokerages have increased. This reflects the increased number of acquirers with capital for insurance brokerages and the resultant increased demand for acquisitions.

Since Q4-2022, the cost of debt has exceeded the expected return for insurance brokerages, resulting in a negative spread. Following the recent Federal Reserve action, while the spread is still negative, the gap is closing. If rates continue to decrease, the negative spread will revert to positive, which should alleviate the downward pressure on insurance valuations.

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Opportunities Abound

Sica | Fletcher is a strategic and financial advisory firm focused exclusively on the insurance industry, advising on over $17.5 billion in insurance agency and brokerage transactions since 2014. According to S&P Global, Sica | Fletcher ranked as the #1 advisor to the insurance industry for 2017-2024 YTD in terms of total deals advised.