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The findings behind the figures

IMAS partner James Simpson looks at how this year's Top 50 measure up to previous years' performances

Over the past year we have seen the continuation of difficult trading conditions and several major transactions. This year it has not been the big four doing the deals but other ambitious companies – Arthur J Gallagher acquiring Heath Lambert, significantly increasing its UK presence; Cooper Gay merging with Swett & Crawford to boost its international presence; and Capita making two acquisitions in the personal lines market. The historically active acquirers have been relatively quiet, consolidating their positions, addressing operational matters and working hard at retaining clients.

Income development

The Top 50 has continued to grow its aggregate revenue by 4.6% to £6.2bn. A year on we gain better visibility of last year's acquisitions and it would appear that we overestimated the impact the HSBC Insurance Brokers acquisition would have on Marsh in the UK. If we adjusted this year's income figures and the prior year-comparative to arrive at this year's growth without acquisitions, Top 50 growth would be a mere 0.7%, less than inflation.

While some of this is down to the acquisitions mentioned above – Gallagher and Cooper Gay are ranked first and second in the growth table – there have been other notable individual performances.

JLT increasing revenues by 17% is a tremendous achievement, confirming the success of its strategy to pursue organic growth, particularly in the retail sector, as well as benefiting from exchange rate improvements.

Brightside has seen the most significant non-acquisition-led growth at 48%, confirming that the move to a more online and call centre-focused method of transacting insurance is well and truly here. This change is reinforced by the next fastest grower, online trader Hastings, which has turned in growth of 40%.

Newcomers to the Top 50 include Lonmar, following its buyout from Bluefin, and Oamps, the specialist commercial broker owned by Wesfarmers of Australia, whose growth of 25% in 2010 propelled it into the Top 50 this year.

But as these Top 50 growth performances have been achieved during a period of reduced economic activity, one has to wonder where it's all come from. So, as part of this year's review, we have also looked at the next band of brokers outside the Top 50. We have restricted this to the next 40 because below that it is more common to find abbreviated accounts being filed and proprietors being more cautious about releasing information.

While there have been some good performances from those ranked 51 to 90, it becomes apparent that these brokers have found achieving organic growth materially harder than their larger rivals. Overall these brokers achieved income growth of only 1.8% compared with the Top 50's 4.6% (acquisitions included).

Top 50 by sector

Once acquisition-led growth is taken out of this figure, the overall performance is weak. But there are exceptions, notably from specialist brokers such as AAA Insurance & Reinsurance, Crispin Speers and HW Wood.

The five-year growth record of the Top 50 is also worth looking at. In 2006 the aggregate income of the Top 50 was £4.4bn, which means we have seen a compound annual growth rate of 7.1%.

Sectors

Growth by sector is always worth looking at, as there has usually been material divergence between sectors. This year is the exception as the growth is fairly evenly balanced (see chart, 'Brokerage growth by sector', p12).

Commercial leads the way this year with growth well ahead of last year at 5.7% compared with 0.8%. The London market has slowed from its previous acquisition-led 12.3% to a more modest 4.1%, and personal lines growth has slowed to 5.4% from 7.4%.

The sector profile of the Top 50 can be seen in the 'Top 50 by sector' chart, below, contrasted to the profile from five years ago. The Top 50 is now much less dominated by London market brokers, down by 21.9%, and the commercial sector has made the most progress – a 78.5% rise over the five years.

Margins

As we have said in previous years, turnover without margin and profit is vanity, and it is good to see that a significant number of the Top 50 are now achieving excellent earnings margins.

These margins were achieved even at the top of the table, where it can be much harder to drive through the necessary disciplines and attention to costs. Aon's 2010 figures reflect the firm's huge turnaround in increasing its margin from 6.1% to 19.6% – an improvement of more than 200%.

This does not, however, get Aon into the top 15 of best EBITDA margin companies, which is once again led by Abbey Protection at 60.6%, up from 50.3% last year. Second is Towergate with an EBITDA margin of 37.6%, down slightly on last year but still a market-leading achievement.

Of this year's best performers, 11 were in the top 15 last year, with places changing due to

Top 50 compound annual growth
7.1%

Average income per employee
£107,000

EBITDA margin benchmark
20%

Top 50 2011 aggregate revenue
£6.2bn

newcomer Oamps with a margin of 31.9%, Towers Watson Re at 28.7% and Swinton at 27.4%.

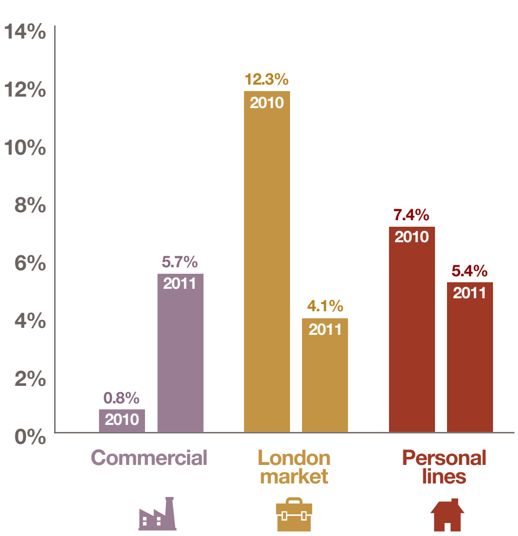
In all, 50% of the Top 50 that had available EBITDA figures had margins in excess of 20%, the figure that IMAS believes all brokers should be looking to achieve. This is up from 39.5% last year, so we can conclude that 2010/11 has been a year not only of continued growth but also a period where the focus on financial performance has been very much to the front.

Overall the Top 50 has an EBITDA margin of 21.9%, although the largest companies' strong margins compensated for the smaller ones.

Looking back five years, this margin was only 10.7%, at a time when the market had suffered a decline. Six years ago the equivalent margin was 15.2%. Comparing the margins of the Top 15 in 2006 with those in 2011 illustrates how much companies have improved their earnings. With these current margins and the general feeling that rates are rising, the prospects look good.

This focus on financial performance is also confirmed when one looks at the list of companies that have improved their margins. Aon, mentioned above, was only the second best improver. The best (excluding exceptional prior-year circumstances) was Towers Watson Re, increasing its margin from 8% to 28.7%.

Brokerage growth by sector



Highest incomes per employee are dominated by the London brokers

In fact it has been London brokers' year, with the sector taking 12 out of the top 15 margin improvers. Third is Newman Martin and Buchan. Its conversion to a limited liability partnership in 2009 has changed the way remuneration is taken, resulting in its disclosed margin rising from 13% to 35% on the back of a decrease in average employee cost of 36%.

Lockton's progress is also apparent, its margin improving to just under 20%, and Alwen Hough Johnson's underlying margin improvement could have been overlooked after the settlement of a long-running dispute funded a material contribution to its pension scheme.

It would appear that London brokers' performance has been driven by increased or shifting volumes of North American business and relatively stable exchange rates.

The ones to spoil a London market clean sweep were Capita, whose acquisitions aided its margins; Abbey Protection, which topped the list with the best absolute margin; and Kwik-Fit. All are personal lines businesses for whom margin improvement is tough to achieve but where underlying insurance rates have moved during the year.

Employees

Margin is fundamentally achieved by the managers and employees of a business. We have looked at their performance in terms of income per employee, which highlights the different operating environments in the market.

The highest incomes per employee in the Top 50 are dominated by the London brokers. Only Saga/AA and Budget break their grip on the top 15 best performers.

Top of the table for the second year running is Berry Palmer & Lyle with a massive £351,200 of income per employee – marginally up on last year, but a long way in front of the rest of the market.

Excluding those of the Top 50 that have not provided employee numbers, just over 50% of the rest have an income per employee in excess of £100,000, compared with 47% last year and 41% five years ago. This is a steady improvement and one we would hope to see continuing.

Top of the employee income improvers list is Towers Watson Re, whose income per employee has risen 30.6% as its North American binder business has grown. It is closely followed by Hastings, on 30.2%, and Brightside on 24.1%.

Encouraging performances have been turned in by Jelf, with a 19% improvement, closely followed by Lonmar. Despite a turbulent year, both have improved their team's productivity.

There is some divergence between this ranking and the EBITDA margin improvers as the impact of those that have focused on cost come into play – notably Aon, Kwik-Fit, Brightside, Abbey Protection, Hyperion and JLT.

Looking at the Top 50 as a whole for those that have provided employee numbers, this year's average income per employee is £107,900, whereas five years ago this was £85,840, a compound annual growth of 4.9%. This suggests the market is not becoming more efficient, as the compound income growth rate was 7.1%.

Balance sheets

A picture of rising income and improved margins appears healthy, but it's worth remembering the margin being used is EBITDA, which means that amortisation of goodwill has been excluded.

Of the companies that have provided the relevant information, there are 12 in the Top 50 where goodwill in the balance sheet exceeds shareholders funds. Nearly all of these are as a result of recent transactions or serial acquisitions. Of a further 10, for which we looked at historical balance sheets as there was no current information, four had goodwill in excess of their shareholders funds.

Five years ago, we were more focused on pension fund deficits than goodwill. While pension fund issues are still with us, many have been dealt with and the remaining ones are only relevant if a material acquisition or sale is being contemplated.

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The data

We've crunched the numbers for the UK's Top 50 brokers so you don't have to

2011		2010	Company name	Current year	Brokerage £000s	Brokerage change	Costs £000s	Investment income net £000s	EBITDA £000s	EBITDA growth	EBITDA margin	Net current assets £000s
01	—	1	Aon	Dec-10	640,490	-4.5%	512,072	-13,610	125,378	205.3%	19.6%	591,223
02	▲	4	JLT Group [6]	Dec-10	608,679	17.1%	518,488	-2,595	121,585	28.3%	20.0%	156,718
03	▼	2	Marsh [1]	Dec-10	603,470	-19.5%	n/a	n/a	n/a	n/a	n/a	615,600
04	▼	3	Willis [1]	Dec-10	581,935	8.4%	n/a	n/a	n/a	n/a	n/a	n/a
05	—	5	Saga/Automobile Association [4]	Jan-11	504,000	0.0%	n/a	n/a	n/a	n/a	n/a	n/a
06	—	6	The Towergate Partnership [4]	Dec-10	365,900	2.3%	229,900	n/a	137,500	-2.3%	37.6%	n/a
07	▲	8	BGL Group [4]	Dec-10	296,376	9.3%	226,283	-3,178	66,915	5.1%	22.6%	137,768
08	▼	7	Swinton Group	Dec-09	271,715	-2.6%	230,118	-5,531	74,492	0.0%	27.4%	-48,596
09	▲	19	Arthur J Gallagher (UK) [2]	Dec-10	187,752	166.9%	161,506	3,602	29,847	125.1%	15.9%	-13,389
10	▲	12	Cooper Gay & Co	Dec-10	156,111	55.4%	144,579	-18,040	21,426	27.3%	13.7%	22,475
11	▼	9	Bluefin [4]	Dec-10	132,455	-0.9%	144,439	549	14,528	5.6%	11.0%	-52,598
12	▼	11	Lockton	Apr-10	99,462	-3.0%	95,173	14	19,471	118.9%	19.6%	27,059
13	▲	14	Kwik-Fit (Ageas) [4]	Dec-10	98,697	17.0%	74,562	-7,541	27,234	40.9%	27.6%	28,273
14	▼	10	Oval [4]	May-11	98,000	2.1%	n/a	n/a	17,000	0.0%	17.3%	n/a
15	▲	16	Capita Insurance Services [2,4]	Dec-10	97,500	26.0%	79,367	0	18,133	117.5%	18.6%	n/a
16	▼	15	RIAS (Ageas) [4]	Dec-10	84,331	4.6%	58,423	-196	27,612	2.0%	32.7%	16,875
17	—	17	Miller	Apr-11	83,529	8.7%	74,408	3,018	6,278	-31.3%	7.5%	38,390
18	—	18	Giles Insurance Brokers [2,4]	May-11	75,500	5.9%	53,000	0	22,500	-5.1%	29.8%	n/a
19	▲	22	Hyperion Ins Group	Sep-10	75,344	20.9%	62,938	-2,448	12,406	49.3%	16.5%	21,396
20	—	20	Jelf	Sep-10	70,371	7.5%	67,230	-2,863	8,693	114.1%	12.4%	5,091
21	▲	24	R K Harrison Group	Jun-10	67,234	13.7%	59,484	-1,059	11,933	-8.0%	17.7%	13,607
22	▲	25	Hastings Insurance Services	Jun-10	67,161	40.4%	59,914	421	11,407	1130.5%	17.0%	15,440
23	▲	29	Brightside	Dec-10	66,157	48.0%	55,796	-810	10,072	51.1%	15.2%	25,588
24	▼	23	CCV [2,4]	Dec-10	64,555	8.2%	44,435	475	20,595	4.3%	31.9%	-10,633
25	▼	21	Endsleigh Insurance Services	Dec-10	62,763	-3.4%	50,164	-800	16,264	-13.0%	25.9%	21,133

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[1] Figures extracted from US SEC form 10K for UK business
[2] Annualised figures to reflect material acquisitions in current financial year
[3] Figures extracted from group consolidated accounts
[3] Management provided information
[4] Annualised for changed year-end
[5] Excludes employee benefits business

Bank and investments £000s	Creditors £000s	Shareholder funds £000s	Goodwill to equity	Highest paid director £000s	Total directors' emoluments £000s	Employee number	Employee cost £000s	Directors' emol change	Average employee cost £000s	Average employee cost change	Headcount change	T/O per employee £000s
1,116,444	5,020,695	382,249	4.7%	1,143	4,290	5,035	342,893	-49.8%	68	15.3%	-7.4%	127.2
524,865	696,617	303,418	93.0%	1,788	5,126	6,212	441,797	-5.2%	71	8.7%	9.7%	98.0
631,400	4,366,800	613,200	43.4%	1,038	5,180	4,500	266,800	0.0%	59	n/a	-3.0%	134.1
n/a	n/a	n/a	n/a	n/a	n/a	4,674	n/a	n/a	n/a	n/a	35.7%	124.5
n/a	n/a	n/a	n/a	n/a	n/a	3,400	n/a	n/a	n/a	n/a	0.0%	148.2
n/a	n/a	n/a	n/a	n/a	n/a	4,000	n/a	n/a	n/a	n/a	4.0%	91.5
47,675	278,100	208,535	9.0%	n/a	n/a	2,148	n/a	n/a	n/a	n/a	6.0%	138.0
1,177	283,147	106,438	108.1%	5,003	9,172	4,192	104,883	1,022.6%	25	11.3%	8.5%	64.8
119,870	408,723	21,258	251.2%	n/a	n/a	1,867	117,981	n/a	63	-50.9%	425.9%	100.6
172,567	210,380	-28,463	n/a	1,108	3,275	1,041	90,229	n/a	n/a	n/a	n/a	n/a
81,394	293,521	196,000	126.3%	n/a	n/a	1,712	64,218	n/a	38	0.2%	-3.5%	77.4
77,601	284,408	23,895	n/a	227	227	n/a	n/a	-44.5%	n/a	n/a	n/a	n/a
22,506	167,127	51,011	n/a	254	479	1,095	29,655	255.9%	27	3.5%	10.3%	90.1
n/a	n/a	n/a	n/a	n/a	n/a	1,150	n/a	n/a	n/a	n/a	-8.9%	85.2
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
18,658	50,031	20,785	n/a	432	1,097	979	26,570	9.5%	27	8.5%	-3.8%	86.1
117,712	532,625	31,385	n/a	852	4,452	503	78,408	17.2%	156	42.5%	5.9%	166.1
n/a	n/a	n/a	n/a	n/a	n/a	1,200	39,000	n/a	33	-0.9%	14.4%	62.9
58,430	90,027	41,444	102.5%	647	1,888	555	43,690	11.5%	79	1.3%	23.9%	135.8
20,801	48,481	88,656	66.0%	428	1,444	1,015	39,304	12.2%	39	-4.8%	-9.6%	69.3
125,554	304,438	22,350	95.8%	936	2,620	478	35,955	6.3%	75	1.6%	3.9%	140.7
21,461	119,657	17,663	0.7%	799	957	783	21,169	6.6%	27	-5.5%	7.9%	85.8
7,139	6,469	57,981	72.2%	253	788	674	18,438	-1.3%	27	1.8%	19.3%	98.2
20,965	110,549	14,829	468.7%	227	543	732	n/a	-19.7%	n/a	n/a	33.3%	88.2
22,917	36,415	16,216	116.1%	323	704	916	23,045	-73.8%	25	-5.4%	-11.9%	68.5

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2011		2010	Company name	Current year	Brokerage £000s	Brokerage change	Costs £000s	Investment income net £000s	EBITDA £000s	EBITDA growth	EBITDA margin	Net current assets £000s
26	▲	30	Barbon Insurance	Dec-10	53,583	3.7%	39,097	-158	14,486	13.2%	27.0%	15,040
27	▼	26	BMS Associates	Dec-10	50,217	7.0%	50,030	83	7,100	29.1%	14.1%	6,523
28	▼	27	THB Group	Oct-10	48,389	4.7%	46,774	-1,008	5,406	17.4%	11.2%	2,876
29	▼	28	A-Plan	Feb-10	47,725	5.1%	31,206	-12,069	16,649	0.1%	34.9%	6,767
30	▲	31	RFIB Group	Jun-10	43,449	13.4%	40,074	-290	4,120	-7.2%	9.5%	5,388
31	▲	32	Adrian Flux [4]	Sep-10	41,128	10.3%	n/a	n/a	n/a	n/a	n/a	n/a
32	▲	33	Price Forbes	Dec-10	40,501	13.3%	36,933	-662	6,398	26.8%	15.8%	5,356
33	▲	37	Towers Watson Reinsurance [5]	Jun-10	38,627	27.7%	28,545	0	11,100	358.7%	28.7%	23,855
34	▲	35	United Insurance Brokers [4]	Dec-10	36,097	8.3%	34,881	350	2,058	-54.6%	5.7%	19,340
35	▼	34	Tyser & Co	Dec-10	35,540	6.2%	32,104	-762	5,056	30.8%	14.2%	-6,022
36	▲	38	Windsor [5]	Dec-10	32,838	14.5%	23,047	-2,103	10,186	20.7%	31.0%	1,588
37	▼	36	Besso Holdings	Dec-09	27,946	-10.4%	26,769	-738	1,867	-25.8%	6.7%	8,399
38	▲	39	Newman Martin & Buchan [5]	Mar-10	27,067	6.0%	15,781	88	9,462	190.8%	35.0%	11,387
39	▲	40	Carole Nash [4]	Dec-10	23,828	-1.6%	17,980	10	6,643	-6.2%	27.9%	3,269
40	★	N/A	Allen & Allen	Dec-10	23,039	5.1%	21,761	-137	6,778	241.9%	29.4%	544
41	—	41	Cobra	Mar-10	22,679	0.9%	20,693	-1,595	3,051	15.2%	13.5%	-341
42	★	N/A	Lonmar [4]	Dec-10	20,753	-3.2%	17,257	226	3,496	n/a	n/a	2,483
43	▼	42	Lark Group [5]	Dec-10	20,526	-0.8%	n/a	n/a	n/a	n/a	n/a	n/a
44	▼	43	Abbey Protection	Dec-10	20,488	5.7%	15,452	0	12,421	n/a	n/a	-266
45	▼	44	Henderson [4]	Apr-11	20,144	6.0%	n/a	n/a	n/a	n/a	n/a	n/a
46	▲	48	Ageas Insurance Solutions	Dec-10	19,840	19.5%	17,827	57	3,022	-7.6%	15.2%	-258
47	▼	46	Oxygen Group	Dec-10	17,896	-5.0%	21,252	-180	-1,310	-667.1%	-7.3%	316
48	▼	45	AHJ Holdings	Dec-10	17,681	-6.8%	17,074	-177	3,354	66.0%	19.0%	7,813
49	—	49	Berry Palmer & Lyle	Mar-10	17,560	7.4%	11,883	43	5,975	11.7%	34.0%	10,476
50	★	N/A	Oamps	Dec-10	17,324	24.6%	11,175	102	5,521	3.1%	31.9%	0

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32,441	50,015	48,748	78.8%	369	1,344	642	22,058	25.6%	34	9.2%	-0.9%	83.5
49,624	275,275	6,733	17.9%	542	2,818	267	33,372	-38.7%	125	12.2%	0.0%	188.1
40,445	72,666	25,344	111.0%	311	1,197	350	31,251	7.9%	71	5.2%	-4.5%	109.5
27,134	27,598	-8,025	-1,587.9%	360	924	698	20,247	47.1%	29	6.5%	0.7%	68.4
51,105	296,988	24,084	69.8%	442	2,785	308	25,020	36.3%	81	8.2%	-2.2%	141.1
n/a	n/a	n/a	n/a	n/a	n/a	621	n/a	n/a	n/a	n/a	15.2%	66.2
5,361	10,988	4,225	126.1%	575	1,484	210	24,833	18.4%	118	7.2%	9.9%	192.9
42,456	321,429	23,464	n/a	523	2,273	173	20,458	38.0%	118	10.4%	-2.3%	223.3
10,779	12,165	16,988	n/a	225	1,240	321	22,795	-16.2%	71	10.8%	6.3%	112.5
36,982	57,562	2,582	682.1%	458	1,545	229	19,402	93.6%	85	-8.5%	13.9%	155.2
38,181	47,532	14,028	237.0%	408	2,780	208	16,410	1.3%	79	5.2%	7.2%	157.9
37,260	136,346	9,681	52.6%	318	1,297	214	16,406	-11.0%	77	7.9%	-18.3%	130.6
10,700	5,743	5,669	n/a	72	176	166	10,645	-67.5%	64	-20.5%	-7.8%	163.1
3,241	4,022	4,581	1.3%	274	812	311	8,459	-0.5%	27	-2.2%	8.4%	76.6
6,411	22,668	15,500	112.3%	177	560	389	10,411	9.4%	27	-12.1%	11.5%	59.2
8,644	28,710	11,380	217.2%	195	538	274	11,872	-31.5%	43	-10.7%	1.1%	82.8
31,678	91,204	3,609	n/a	n/a	n/a	133	11,753	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7,337	25,157	11,822	n/a	185	1,046	234	10,720	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2,404	22,968	50	n/a	184	572	379	8,346	-2.2%	22	-6.5%	32.1%	52.3
313	6,302	842	n/a	223	909	184	14,369	16.2%	78	17.6%	0.0%	97.3
22,916	59,722	15,978	33.9%	375	1,068	99	12,444	4.4%	126	16.9%	3.1%	178.6
24,274	17,647	10,477	12.0%	568	3,981	50	9,121	-5.1%	182	-2.9%	6.4%	351.2
6,732	19,834	9,468	n/a	0	0	164	7,606	n/a	46	-4.0%	19.7%	105.6