

PERENNIAL GROWTH

There have been a few changes at the top – but it has been another year of steady progress for the top 25 EC3 brokers

By James Simpson

The majority of EC3 brokers have managed the past year with some success, judging by the numbers that have increased their revenue and earnings. There have also been some material transactions – Gallagher acquiring Heath Lambert and Cooper Gay merging with Swett & Crawford – resulting in some changes to the top of the table.

Within all of this there are several businesses that have performed consistently well over a number of years and, while not featuring as a major growth or a high increase in earnings company, they feature high in rankings for earnings margin and employee performance.

Aon, Jardine Lloyd Thompson, Marsh and Willis are not featured in this review, as with their significant international presence they do not readily compare to the primary EC3 focus of this analysis. JLT is, however, represented by Lloyd & Partners.

Top of the table for growth (see chart opposite) is Gallagher following its acquisition of Heath Lambert, with its increase estimated at 166%, based on aggregating the Gallagher and Heath numbers. The Cooper Gay Swett & Crawford merger has seen the business grow revenue by 55%; next up and a newcomer to the Top 25 is Crispin Speers & Partners with organic growth of 34% primarily coming from its agency business.

The growth curve flattens out after the top five, steadying at the 13% to 14% mark, which

is a good level for a business in a market that has not seen overall growth and may, in some senses, have gone backwards a bit.

However, top line growth can be more of a one-off event and can distort analysis such as this, while what is really impressive and drives value is consistent and steady growth. Having compiled this review for a number of years it is possible to look back and analyse which firms have consistently shown growth over the last five years.

Consistent growth

There are only three brokers that have been in the top 10 growers for all five years and three brokers for three out of the five years – the most consistent have been RK Harrison, Cooper Gay and Hyperion, followed by ▶ 16

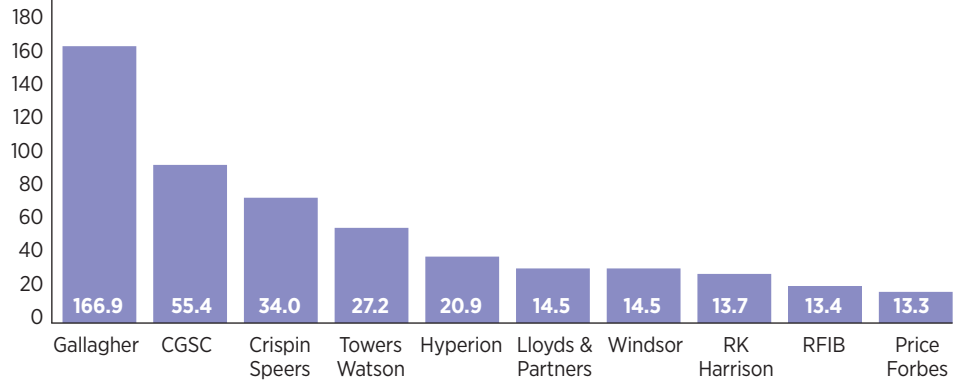
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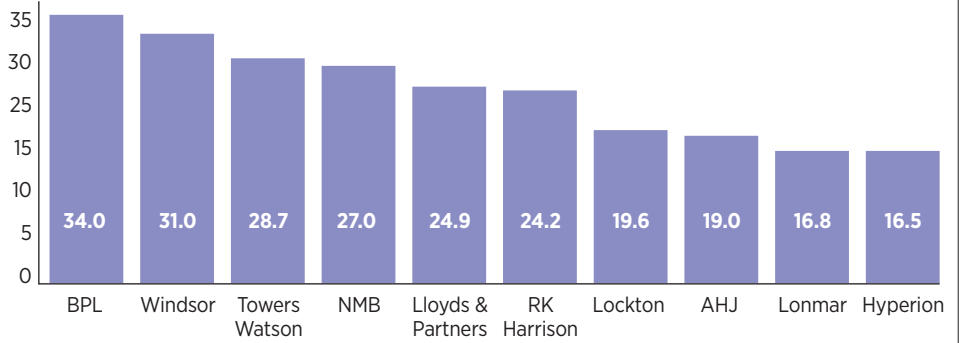
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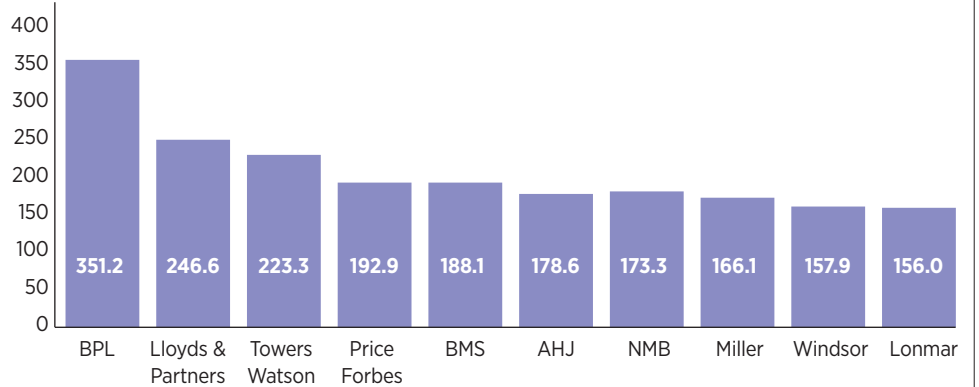
% Top 10 growth in 2011



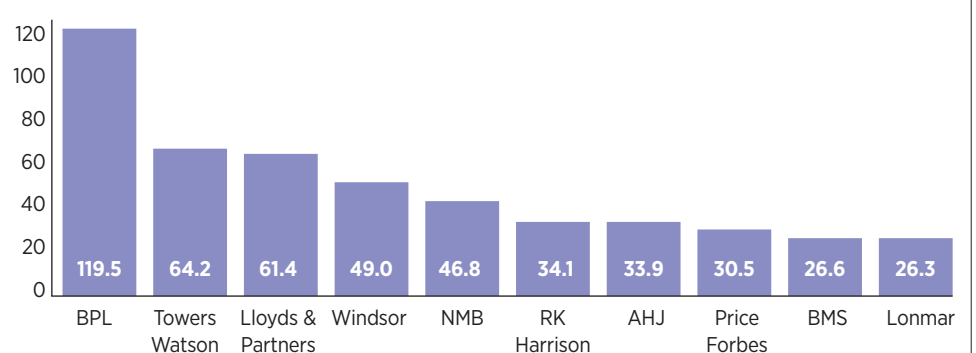
% Top EBITDA margins in 2011



£000s Highest income per employee in 2011



£000s Highest EBITDA per employee in 2011



Top 25 EC3 Brokers Analysis

Top 25 EC3 brokers: brokerage (data shown in £000s)

Position 2011	Position 2010	Company name	Current year	Brokerage	Brokerage change	EBITDA	EBITDA growth	EBITDA margin %
1	5	Arthur J Gallagher²	Dec-10	£187 752	166.9%	£29 847	125.1%	15.9%
2	2	Cooper Gay Swett & Crawford	Dec-10	£156 111	55.4%	£21 426	27.3%	13.7%
3	1	Lockton	Apr-10	£99 462	-3.0%	£19 471	118.9%	19.6%
4	4	Miller	Apr-11	£83 529	8.7%	£6278	-31.3%	7.5%
5	6	Hyperion Insurance Group	Sep-10	£75 344	20.9%	£12 406	49.3%	16.5%
6	7	RK Harrison Group	Jun-10	£67 234	13.7%	£16 302	18.4%	24.2%
7	8	Lloyd & Partners	Dec-10	£55 977	14.5%	£13 935	70.9%	24.9%
8	9	BMS Associates	Dec-10	£50 217	7.0%	£7100	29.1%	14.1%
9	10	THB Group	Oct-10	£48 389	4.7%	£5406	17.4%	11.2%
10	11	RFIB Group	Jun-10	£43 449	13.4%	£4120	-7.2%	9.5%
11	12	Price Forbes	Dec-10	£40 501	13.3%	£6398	26.8%	15.8%
12	15	Towers Watson Reinsurance³	Jun-10	£38 627	27.7%	£11 100	358.7%	28.7%
13	14	United Insurance Brokers	Dec-10	£36 097	8.3%	£2058	-54.6%	5.7%
14	13	Tyser & Co	Dec-10	£35 540	6.2%	£5056	30.8%	14.2%
15	16	Windsor	Dec-10	£32 838	14.5%	£10 186	20.7%	31.0%
16	18	Newman Martin & Buchan	Mar-11	£28 768	6.3%	£7775	-17.8%	27.0%
17	17	Besso Insurance Group	Dec-10	£26 554	-5.0%	£862	-53.9%	3.2%
18	19	Lonmar¹	Dec-10	£20 753	-3.2%	£3496	904.6%	16.8%
19	21	Oxygen Group	Dec-10	£17 896	-5.0%	£(1310)	-667.1%	-7.3%
20	20	AHJ Holdings	Dec-10	£17 681	-6.8%	£3354	66.0%	19.0%
21	23	Berry Palmer & Lyle	Mar-10	£17 560	7.4%	£ 975	11.7%	34.0%
22	22	CJ Coleman	Dec-10	£13 974	-16.9%	n/a	n/a	n/a
23	25	Colemont	Dec-10	£12 481	2.2%	£271	-283.1%	2.2%
24	24	Bell & Clements	Dec-10	£11 078	2.8%	£442	-48.2%	4.0%
25	—	Crispin Speers¹	Mar-11	£10 735	34.0%	£1 726	175.7%	16.1%

(1) Management provided information (2) Annualised figures to reflect material acquisitions in current financial year (3) Annualised figures to reflect change in year end

◀ 15 Windsor, UIB and Lloyd & Partners. The latter three also grew in the two other years but not by quite enough to make it into the top 10.

Earnings are by far and away the most important factor in measuring a business's success and value and consistent earnings even more so. With the very visible interest in the insurance sector by private equity investors the key earnings measurement now being used is EBITDA and this is what has been focused on in reviews over recent years.

The best performers in terms of earnings margin (see page 15) has a familiar look to it and, while the order changes year to year, there are five brokers that have consistently featured over the past five: Windsor, RK Harrison, Hyperion, Cooper Gay and Lloyd & Partners.

These have been joined by a newcomer for the past two years, Berry Palmer & Lyle, and it has topped the margin table in each year. Within this grouping there is only one that has had a margin in excess of 25% for each of the past five years and that is Windsor — a remarkable performance.

Employee contribution

Without committed employees none of the performance above is possible. Interestingly though, when looking at the income and cost per employee, it is clear that there must be significant cultural and cost management differences between some of the top firms.

While the top six or seven regularly featuring brokers are present in the highest income per employee table, there are also some different

faces. Price Forbes, BMS, AHJ and Miller all achieve excellent incomes per employee but these do not always translate into top 10 margin performances.

Delving further into this some interesting contrasts emerge. Take RK Harrison and Lloyd & Partners; both have an earnings margin of around 24.5% but income per employee for Lloyd & Partners is £246 600, while RK Harrison is £140 700.

The cost per employee reflects the differing business mixes between the two: Lloyd & Partners' costs are £137 000 per employee, while RK Harrison's are only £75 000, and this difference allows RKH to match Lloyd & Partners in terms of margin.

Really setting the pace, however, is Berry Palmer & Lyle, which has the highest income per employee by some distance at £351 200. With the majority of the employees being client fac-

Net/current assets	Bank & investments	Creditors	Shareholders funds	Employee numbers	Employee cost	Average employee cost	Headcount increase	T/Over employee
£(13 389)	£119 870	£408 723	£21 258	1867	£117 981	£63	1.3%	£100.6
£22 475	£172 567	£210 380	£(28 463)	1041	£90 229	£87	57.5%	£150.0
£27 059	£77 601	£284 408	£23 895	n/a	n/a	n/a	n/a	n/a
£38 390	£117 712	£532 625	£31 385	503	£78 408	£156	5.9%	£166.1
£21 396	£58 430	£90 027	£41 444	555	£43 690	£79	23.9%	£135.8
£13 607	£125 554	£304 438	£22 350	478	£35 955	£75	3.9%	£140.7
£17 338	£55 596	£61 022	£18 252	227	£31 078	£137	3.7%	£246.6
£6523	£49 624	£275 275	£6733	267	£33 372	£125	0.0%	£188.1
£2876	£40 445	£72 666	£25 344	442	£31 251	£71	-4.5%	£109.5
£5388	£51 105	£296 988	£24 084	308	£25 020	£81	-2.2%	£141.1
£5356	£5361	£10 988	£4225	210	£24 833	£118	9.9%	£192.9
£23 855	£42 456	£321 429	£23 464	173	£20 458	£118	-2.3%	£223.3
£19 340	£10 779	£12 165	£16 988	321	£22 795	£71	6.3%	£112.5
£(6022)	£36 982	£57 562	£2582	229	£19 402	£85	13.9%	£155.2
£1588	£38 181	£47 532	£14 028	208	£16 410	£79	7.2%	£157.9
£11 805	£12 999	£8 52	£7732	166	£14 470	£87	0.0%	£173.3
£7989	£30 725	£115 005	£8812	205	£17 052	£83	-4.2%	£129.5
£2483	£31 678	£91 204	£3609	133	£11 753	£88	-17.4%	£156.0
£316	£313	£6302	£842	184	£14 369	£78	0.0%	£97.3
£7813	£22 916	£59 722	£15 978	99	£12 444	£126	3.1%	£178.6
£10 476	£24 274	£17 647	£10 477	50	£9121	£182	6.4%	£351.2
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
£7540	£13 421	£53 803	£(5674)	158	£8211	£52	-4.8%	£79.0
£4051	£10 295	£38 717	£3514	103	£8666	£84	-5.5%	£107.6
£4162	n/a	n/a	n/a	150	n/a	n/a	32.7%	£71.6

ing and a relatively small back office, its average staff cost is also high at £182 000; however, it still achieves the best earnings margin of 34%.

Having noted that growth has been achieved in a relatively flat market, what has also been happening is a steady movement of people over the past five years. What effect this has had is not immediately clear and analysing changes in headcount over that period would suggest there is no strong correlation between growth in headcount and in income.

For the likes of Hyperion, headcount has increased by 94.7% over five years; RK Harrison 79.7%; Newman Martin, Buchan 58%; and UIB 39.6%. The more modest growers have been Windsor 16.2%, Tyser 12.3%, and AHJ 19.3% but this has not stopped their income growth nor their profitability.

RK Harrison with an almost 80% five-year increase in headcount achieved income growth of 79.5% and still managed an earnings margin of 24.2% for last year; Windsor with headcount growth of 16.2% over the five years has achieved earnings growth of 94% and a margin of 31%. Both great results but achieved via very different routes.

Trying to measure the longer term impact of the major acquisitions over the last five years is not easy and, to a certain extent, falls outside of this review as the biggest transactions have been made by Aon and Marsh, which are not included.

It is, however, possible to see what has happened to the more modest transactions like THB's acquisition of PWS. In 2007, before the transaction, THB had 398 employees with

an average income of £85 780 of income per employee; for this year it has 445 employees with £109 500.

PWS had 259 employees in 2007 so it is possible to conclude that THB has been successful in making the transaction work and retaining the acquired business, growing income per employee by 27.6%, while headcount has declined by 32.7%. In the next five years it will be interesting to see the outcome of the Gallagher/Heath Lambert transaction and assess what longer-term impact it has had on the performance of the group. ■



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