

PROJECT COUGARS

Maximizing value realization in an insurance distribution platform recapitalization.



Private Equity firms are prolific investors in the insurance distribution industry, many owning distribution aggregation platforms focused on rapid scaling and assimilation of existing assets. The attractiveness of the category: strong cash flows, recurring revenues, low capex, natural expense scalability, resilience to economic shocks – motivated the formation and capitalization of +/- 50 such platforms of similar characteristics presently trading. The resulting competition for assets to acquire has increased acquisition costs considerably shifting the emphasis on value creation from multiple arbitrage to platform performance – organic growth, profitability / productivity, efficient / effective scaling, and sustainability. The question for investors today is how to find, or engineer, performance excellence in legacy environments that prioritized speed to scale over building foundational enterprise strategies, infrastructure, and capabilities to support performance within their rapidly assimilated, marginally integrated distribution ecosystem?

With more than 40 years of experience in the insurance distribution industry, including 15+ years in shaping and executing distribution aggregation strategies focused on value creation for investors, Fideles Advisors' experts couple an understanding of how these businesses work (and how well) with the insights to know which problems to solve and how to best solve them to generate real value creation for all stakeholders, from clients to investors. Furthermore, our firm's work with the industry leading Insurtech firms gives us a distinct advantage in understanding the important relationship between data, systems, and technology choices and how they intersect with integration, growth, and financial performance.

THE SITUATION



A leading, global Private Equity firm desired an exit or recapitalization transaction in relation to a top 100 insurance distribution aggregation platform for which they were the lead investor. The investor had been unable to realize their target exit multiple which would have been roughly in line with industry comps for assets of similar scale. Their "process" was challenged by inadequacy / unavailability / inaccuracy of key data points including growth trend, lack of a clear strategy around performance impact of the platform upon the acquired distribution assets, absence of credible strategy around future organic growth efforts, and minimal emphasis on integration, data capabilities, and related considerations.

OUR SOLUTION



Our team members worked closely with investors and the distribution platform leaders to perform a situational assessment focused on identifying key limitations to a successful process. We then helped the teams prioritize among the gaps in infrastructure, resources, coordination, and information that suppressed both actual performance and the ability to credibly understand and communicate the condition of the business with regard to present-day and future expectations. Net of all relevant constraints (including time and capital) we mutually developed a roadmap to define which problems to solve and how to most effectively solve them within our governing parameters: a recap to meet or exceed a target exit multiple within six months while achieving the necessary improvements around performance and performance validation in scalable and sustainable ways. Not just "look better", "is better".

The 6-month window to create an aligned platform architecture to understand, measure, analyze, and favorably influence financial performance in a distributed decision-making environment – in support of a desired transaction valuation – was both uniquely challenging and stimulating. It drew on our full range of experience.

Sustainable success through collaboration

Our approach focused on the “art of the possible”, configuring the framework for necessary data gathering, storage, and curation along with the identification of supportive resources to build the infrastructure and integrations necessary to support both near and long-term use cases (“keeping one eye long, one eye short”). We worked with investors and the platform to build industry appropriate FP&A models to depict financial performance and trend to demonstrate platform impact on acquired assets. We created the internal opportunity exchange interface and communications strategy to coordinate organic growth initiatives across the enterprise and among acquired assets. The platform was better able to drive Producer engagement based on a new interface, improved user experience, and the distribution of high-propensity leads (client and non-client) with access to both relevant campaigns and coordinated product / insurer support. In addition to being able to demonstrate command of essential business performance metrics, the actual results depicted revealed organic growth improvement of over 800 basis points over the period in question. The enhanced credibility, along with “getting the nose of the plane pointed up” supported a successful recapitalization outcome within the target period with the platform exceeding its threshold exit multiple by more than 5%. The additional 1.2 turns of EBITDA (vs. previous term sheets) added more than \$175MM to total transaction value.

Complex problems, pragmatic solutions that scale

Investors and management shared a desire to build a significant distribution asset predicated on rapid scaling through many, highly variable acquisitions. They were confronted with an environment that no longer rewarded scale without integration, information, and performance. The challenge they faced was reorienting an already scaled asset and establishing a credible foundation that would permit sustainable performance (growth / productivity) at scale, and to do so efficiently and fairly quickly in support of a desired recap. By incorporating our experience in solving for these challenges in similar models, and our expertise in orchestrating business outcomes requiring coordination of a number of interdependent functions, we were able to collectively transform the enterprise into a reliable, scalable platform that could assimilate additional assets and bias them toward success well into the future.

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