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NFP to continue aggressive rollup strategy with current capital structure–CEO
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by Jeff Sheban in Chicago

NFP, a private equity backed insurance broker and benefits consultant, is in no hurry to exit following a 2017 recapitalization, said Chairman and CEO Doug Hammond.

“I don’t see any broad change in our capital structure over the next four-to-five years,” the executive said, largely because the continued low interest rate environment remains favorable to rollup efforts. New York City-based NFP expects to complete 45 transactions, representing a total of USD 125m in revenue and USD 40m-USD 50m in incremental EBITDA in 2018, Hammond said.

“Credit markets are very friendly to businesses like ours, and for the foreseeable future a private environment is where I expect we will be,” he said. “Our [investment] partners are feeling pretty good and are very supportive.”

In 2013, Chicago-based Madison Dearborn Partners took a control equity ownership position in then-listed NFP. In January 2017, HPS Investment Partners acquired a minority stake valued at approximately USD 750m at that time.

The current ownership breakdown is Madison Dearborn and NFP management and employees holding 65%, with HPS, Stone Point Capital and other institutional investors holding the remainder. If any current investors would want liquidity in the near term, Hammond said other PE firms, sovereign wealth funds or family offices would be logical buyers.

TTM revenue is “just under USD 1.2bn” with a projected EBITDA margin of 30% in 2018, he said. Asked about a current valuation, he said it would be comparable to NFP’s public company peers trading at 12x-14x their forward price-to-earnings multiple.

Property & casualty

NFP, formerly called National Financial Partners, competes with large international insurance brokers and benefits consultants such as Aon Hewitt**,** Arthur J. Gallagher [NYSE:AJG] and Marsh & McLennan [NYSE:MMC], as well as small regional independent players. The current business mix is approximately 55% of revenue from corporate benefits consulting, 25% from property & casualty (P&C) insurance and 20% from wealth management and other products and services for individuals. The goal is to “balance out” the consulting and P&C segments in three-to-five years, he said.

To that end, Hammond said NFP will “deploy more M&A capital on the P&C side” with an emphasis on middle-market business customers. Organic revenue growth YTD in the P&C segment has been 6%, which he said was “above our peers in the middle-market insurance brokerage space.”

Canada

Canada is targeted for growth, especially in the P&C segment, the CEO said. NFP has a "rich pipeline of deals" in Canada, mainly in the large population centers of Toronto, Montreal, Quebec, Calgary and Vancouver. The goal is to boost revenue to USD 100m from the current USD 50m in Canada "by early next year based on the [M&A] pipeline," he said.

In December 2017, NFP acquired Ancaster, Ontario-based Dalton Timmis Insurance Group, a large P&C insurance broker with commercial expertise in trucking and transportation, and personal lines of insurance. The agency will rebrand in 2019 and serve as a platform for continued growth.

NFP also does business in the UK and will be opportunistic in seeking acquisitions in that market, Hammond said for this report.

Multiples

Multiples are rising in the space because NFP's competitors are also pursuing rollup strategies, the CEO said.

Blended multiples for assets of all sizes in both consulting and P&C are expected to be in the 7.5x-8.5x EBITDA range in 2019, up from about 6.5x-7x in 2017, he said. Tuck-in deals can be had for 5x-6.5x, he said, while larger targets with EBITDA of USD 5m and above can command multiples approaching double digits. Most of NFP's acquisitions are tuck-ins with two or three larger deals a year, he said.

In March, NFP established a new venture fund focused on strategic partnerships and early-stage investments in insurtech, fintech and HR tech, and those activities will be a priority going forward, Hammond said. On 9 November, NFP Ventures bought a minority stake in Nubundle, a Chicago-based holistic family planning and fertility services company.

Legal services are provided by Ropes & Gray; Skadden Arps; Winget, Spadafora & Schwartzberg; DLA Piper; and Greenberg Traurig; with accounting services provided by EY, KPMG and BDO.