Insurance M&A Performance Tracker

Measuring the correlation between acquisitions and share price performance

Performance from January 2016 to July 2017

A year of megadeals, political instability and strong equity markets has left insurance acquirers underperforming. But that doesn't mean the industry should discount M&A all together – the long-term gains are encouraging.

Insurance M&A Performance Tracker

Measuring the correlation between acquisitions and share price performance

Table of contents

What is the Insurance M&A Performance Tracker?

Based on analysis from Willis Towers Watson and Cass Business School, the Tracker explores the performance of insurance companies that carry out major acquisitions against their sub-industry and regional indexes.

Key findings

In 2016, insurance firms that carried out a significant acquisition were likely to underperform their sub-industry index.

This is a reversal of the pattern of the previous eight years, when acquirers were likely to outperform their sub-industry index.

A high-value, low-volume M&A environment, political volatility and a strong equity market have contributed to the weaker performance of acquisitive insurers in 2016.

High value and political volatility deliver underperformance in 2016

The Willis Towers Watson Insurance M&A Performance Tracker shows that insurers undertaking M&A in 2016 underperformed non-acquisitive peers for the first time since 2010

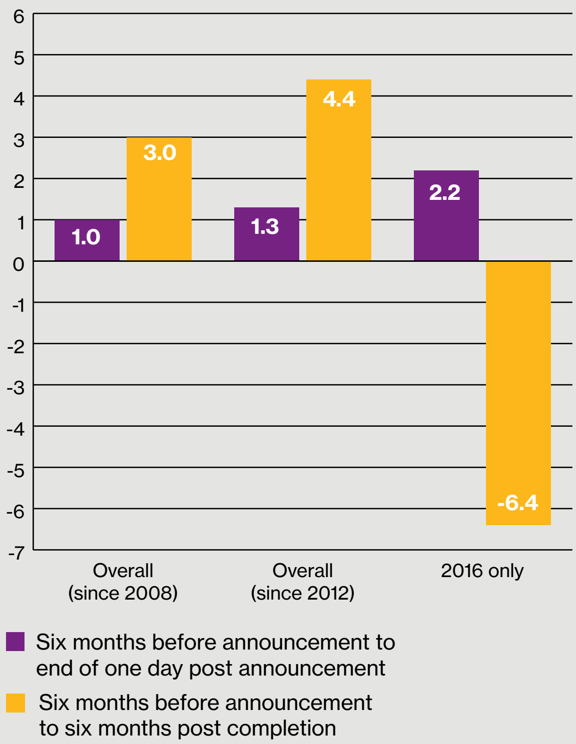
A turbulent 2016 has adversely affected the performance of acquirers in the insurance industry. For only the second time this decade, insurers undertaking an acquisition underperformed their sub-industry index, according to the Willis Towers Watson Insurance M&A Performance Tracker.

The research, based on analysis of all deals with a value of more than US$50m conducted in the insurance sector, showed that acquirers lagged the index by 6.4 percentage points in the period six months before announcement to the point six months after the deal completed. The last time acquirers underperformed their sub-index was in 2010.

In all other years from 2008 onwards, insurance acquirers outperformed their rivals. Over this period, insurers that carried out a qualifying acquisition outperformed peers by 3 percentage points. Since 2012, the outperformance of acquirers has become even more pronounced and they have traded 4.4 percentage points above their sub-industry index.

Interestingly, investors in 2016 initially gave acquirers early credit with a boost of 2.2 percentage points in the period six months before announcement to the end of one day after announcement. However, acquirers underperform by 8.6 percentage points in the period between announcement and six months after completion. From 2012 to 2015, by contrast, acquirers only traded at a premium of 1.3 percentage points in the six months before announcement to the end of one day after announcement. This was followed by a further outperformance of 3.1 percentage points in the period between announcement and six months after completion.

Figure 1: **Insurers making acquisitions underperformed in 2016.** *Showing median number of percentage points higher than sub-industry index*



"The analysis we have done is based on annual data going back to 2008. Underperformance by acquirers has happened once before, so it is worth noting that it is not unprecedented. The long-term trend still shows that acquirers outperform their peers," says Willis Towers Watson's Brendan McMaster.

Big deals mean big risk

There are a number of factors that account for the recent underperformance. First, the general trend for high value and low volume in the M&A market. There were only 19 insurance deals tracked in 2016, and average deal value was almost double the average value in 2015. These figures mirror those from 2010, the last year in which acquisitive insurers underperformed.

"One explanation for the underperformance of acquirers could be that the market is nervous around big, transformational transactions and more comfortable when most activity involves smaller incremental bolt-ons," McMaster says. "All other things being equal, big transactions are generally deemed to be riskier for the acquiring company."

Life deals ebb away

The drop in deal volumes could be attributed to a slowdown in activity in the life sector. There had been significant consolidation in life insurance, especially in the closed life space, where acquirers saw opportunities to cut costs through synergies and apply specialist knowledge to portfolios. Much of this consolidation has now run its course. Meanwhile, Asian life insurers have stepped back from dealmaking after actively pursuing M&A in 2015.

The fall in Property and Casualty (P&C) deals was less pronounced, but as transactions in this area are typically driven by the need to build scale in order to improve capital efficiency and manage competitive pressure, they are usually larger in size. The biggest insurance deal of 2016, ACE's US$28bn purchase of Chubb, for example, was in the P&C space.

Volatility rocks the market

However, it is worth noting that there have been years when average deal value has been high. In 2011, for example, deal values were above average but acquirers still outperformed their non-acquisitive peers. This suggests that geopolitical uncertainty and the surprise poll results in the UK's Brexit referendum and US Presidential elections could also have been factors in shareholders' cautious reactions to big-ticket transactions.

Separate Willis Towers Watson research tracking M&A across all sectors reveals similar trends to those in insurance, with acquirers underperforming firms that did not do deals. This could indicate that investors are in "risk-off" mode, especially when deal values have been higher than normal.

Strong equity markets may be another factor in the weaker performance of acquisitive insurers. "Equity markets are doing well, so firms don't need to do acquisitions as shareholders are rewarding those focusing on organic growth," says Willis Towers Watson's Fergal O'Shea.

Long-term gains

However, the underperformance of insurance acquirers in 2016 does not mean that M&A is not value accretive over the long term.

"The main observation is that although acquirers in the insurance sector haven't done as well in 2016 as they have in previous years, there are plausible explanations for this," says O'Shea. "Since 2008, insurance acquirers have outperformed the market, a trend that has become even more pronounced since 2012. M&A is still beneficial and it will be interesting to see what the data for 2017 shows."

"One explanation for the underperformance of acquirers [in 2016] could be that the market is nervous around big, transformational transactions and more comfortable when most activity involves smaller incremental bolt-ons. All other things being equal, big transactions are generally deemed to be riskier for the acquiring company."

– Brendan McMaster, Senior Consultant, Willis Towers Watson

"Since 2008, insurance acquirers have outperformed the market, a trend that has become even more pronounced since 2012. M&A is still beneficial and it will be interesting to see what the data for 2017 shows."

– Fergal O'Shea, EMEA Life Insurance M&A Leader, Willis Towers Watson

Methodology

All analysis is conducted from the perspective of the acquirer and based on standardised analysis.

Share price performance is measured as percentage change in share price and is compared to MSCI Indices.

This analysis is performance over two time periods:

- from six months prior to the announcement date to one day post announcement
- from six months prior to the announcement to six months after the deal completed.

Only completed M&A deals with a value of at least $50m are included in this research.

All deals where the acquirer owned less than 50% of the shares of the target after the acquisition were removed, hence no minority purchases have been considered. All deals where the acquirer held more than 50% of target shares prior to the acquisition have been removed, hence no remaining purchases have been considered.

Deal data sourced from Thomson Reuters.

All deals for which Thomson Reuters did not have a share price for the acquirer six months prior to the announcement were removed, as were acquisitions where the share price did not move over the period of the analysis.

Willis Towers Watson/Cass Business School

About Cass Business School

Cass Business School, which is part of City, University of London, is a leading global business school driven by world-class knowledge, innovative education and a vibrant community. Located in the heart of one of the world's leading financial centres, Cass has strong links to both the City of London and the thriving entrepreneurial hub of Tech City. It is among the global elite of business schools that hold the gold standard of triple-crown accreditation from the Association to Advance Collegiate Schools of Business (AACSB), the Association of MBAs (AMBA) and the European Quality Improvement System (EQUIS).

For further information, visit: www.cass.city.ac.uk or to follow our research on Twitter: @cassbusiness.

About Mergermarket

Mergermarket
An Acuris company

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

For more information, please visit www.mergermarket.com

Acuris Studios

Acuris Studios, the events and publications arm of Acuris, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

To find out more, please visit:
www.acuris/publications

For more information regarding this report, please contact:

Simon Elliott
Managing Director EMEA, Acuris Studios
Tel: +44 (0)20 3741 1060
Email: simon.elliott@acuris.com

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

willistowerswatson.com

Willis Towers Watson