



HOULIHAN LOKEY

INSURANCE TECHNOLOGY

MARKET UPDATE | Q1 2020



Insurance Technology (Insurtech) Market Update: COVID-19

The outbreak of COVID-19 has resulted in a global health emergency and sent financial markets into a frenzy. Below is Houlihan Lokey's assessment of the impact of the virus on the insurtech industry.

Key Insurtech Themes Related to COVID-19

1 While the impact of COVID-19 is proving negative in the short term, some areas will likely prove resilient (or even benefit), and there is plenty of liquidity.

While insurtech ended 2019 on an optimistic note, with several large financings and M&A deals announced and an environment that indicated that other deals were sure to follow, this momentum has paused with the COVID-19 pandemic. Some have predicted that, because insurtechs were overvalued and have never weathered an economic downturn, a market correction is sure to hit the category hard. Recent harbingers of doom include the following:

- States including New Jersey and Ohio have introduced legislation that would effectively require commercial insurers to pay claims to businesses affected by COVID-19, even if there is policy language specifically excluding viruses/pandemics.
- Given the current shelter-in-place status for most of the world, demand is expected to decrease for coverages related to the contingent workforce (e.g., Uber/Lyft drivers, 1099 contractors, etc.).
- Healthcare insurance claims related to COVID-19 are expected to skyrocket.

The thought is that insurtechs selling into markets like these will suffer along with incumbents. On the other hand, even in a recession people need basic insurance coverage—think auto, homeowners/renters, life, and health—and, indeed, demand may surge in some categories. Additionally, large carriers, reinsurers, and brokers enter this crisis in a much stronger position than they did in 2008 and may be willing to invest in or acquire insurtechs, especially as valuations compress. Further, private equity funds retain massive amounts of dry powder and, if not overwhelmed by concerns related to COVID-19 with their existing portfolio companies, may seek to capitalize on current opportunities. Even if capital raising and M&A effectively shuts down in the short term, there's still plenty of liquidity likely to lead to consolidation once the market recovers.

2 As with past economic downturns, winners and losers among insurtechs will emerge.

Although incumbents have different exposures, COVID-19 is anticipated to speed up digitization and data usage initiatives. In the short term, B2C models are probably more vulnerable, while B2B and B2B2C models should be more resilient. In particular, deals relating to consumer engagement and marketplaces, software, and data and analytics should be less negatively affected by COVID-19. Both strategics and sponsors will continue to favor platforms that either reduce cost and operating friction and/or have highly recurring revenues, strong operating leverage, and robust cash flow generation.

3 Private-market valuations will take a hit overall, but it probably won't be as bad as you think.

The "growth at all cost" mindset took a hit in 2019, as investor sentiment began souring about firms using cheap VC capital to drive customer growth at the expense of profitability. Current market uncertainty may accelerate this trend, causing a sharp reversal in investor sentiment and reducing, if not eliminating, the number of outsized rounds being done at stratospheric valuations. We believe the "bump up" in insurtech valuations between rounds will also flatten out or contract significantly in cases of down rounds.

That said, high-performing insurtechs should continue to demand a market premium, especially as they become more scarce in our new reality. Historically, private-market valuations have been impacted when public markets have remained dislocated for at least two quarters. So unless the current slowdown lasts through the November election, private-market holdings should not see meaningful write-downs, at least for healthy insurtechs that don't need immediate funding.



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Our firm is extremely well equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

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Mergers and Acquisitions

Capital Markets

Private Funds Advisory

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Company Advisory

Distressed M&A

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Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000 to 2019.

Financial and Valuation Advisory

Over nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation help inspire confidence in the financial executives, boards of directors, special committees, investors, and business owners we serve.

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Dominant in Special Situations and Restructuring
- ✓

Significant Experience With Financing Markets
- ✓

Senior-Level Commitment and Dedication
- ✓

Deep, Industry-Specific Expertise
- ✓

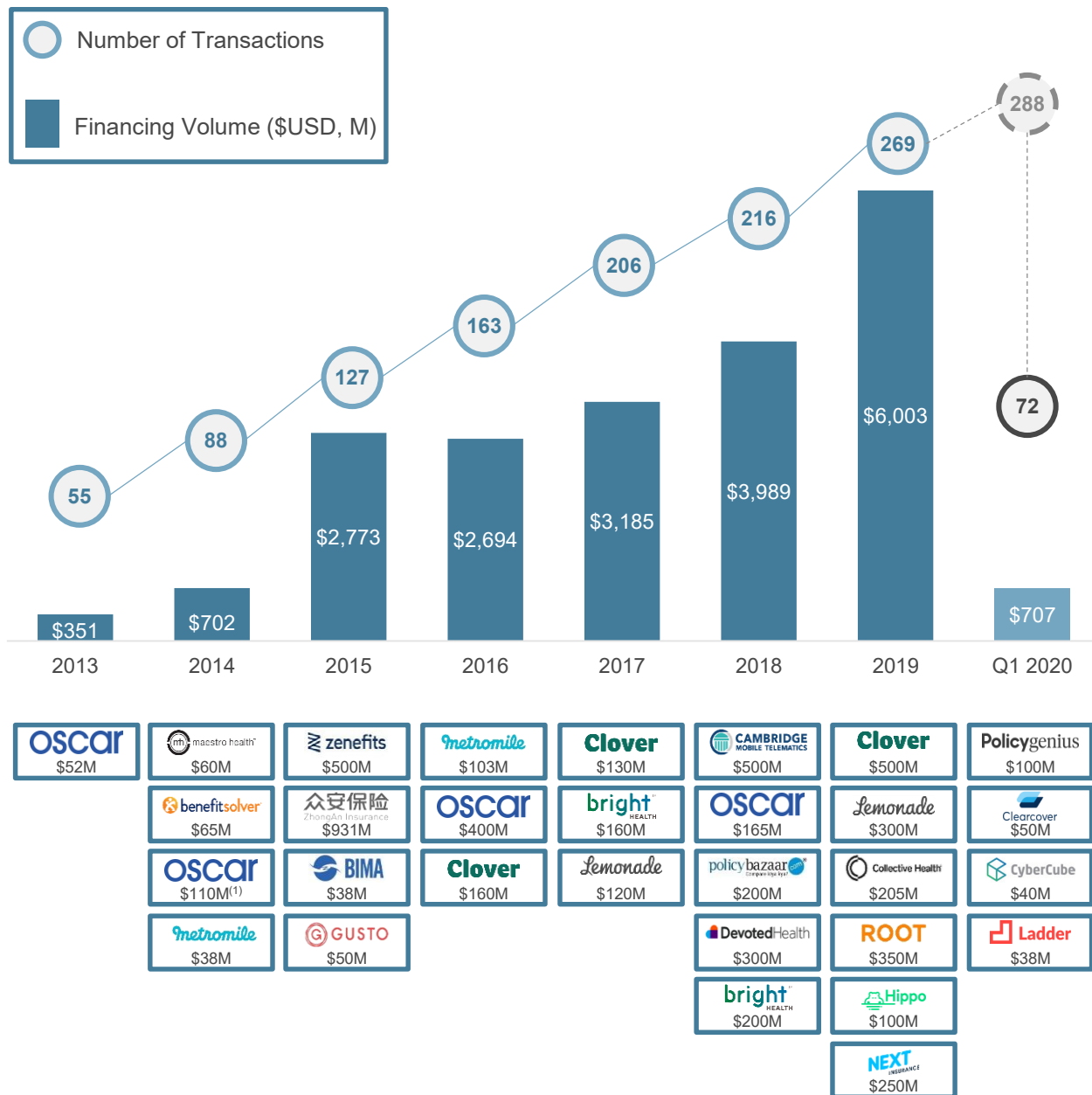
Superior Work Product/Technical Abilities
- ✓

Creativity, Imagination, Tenacity, and Positivity

Investment Into Insurtech Continues, But at a Slower Pace

\$700M+ in financing volume across 70+ transactions in Q1. Annualized number of 2020 deals doesn't reflect the effect of COVID-19 on capital-raising activity.

Select Major Insurtech Financings



Source: CB Insights, Pitchbook.com. S&P Capital IQ.
Market data as of 03/31/20.

(1) Oscar raised two rounds in 2014 worth \$30M and \$80M, respectively.

Financing Activity Continues Across Insurance Types and Value-Chain Categories

Q1 '20 financing volume was well below the previous three quarters and the year-ago period, with a higher number of transactions and lower average deal size.

Quarterly Financing Activity (\$M)⁽¹⁾

LTM financing volume: \$5.2B across 251 deals



Selected Q1 2020 Financing Transactions (\$M)

Ann. Date	Company	Selected Investor(s)	Amt. Invested	Post-Money Valuation	Segment/ Value Chain
03/09	CyberCube	ForgePoint CAPITAL	\$40.0	\$145.0	
02/27	TRACTABLE	Georgian Partners	\$25.0	N/A	
02/23	HealthJoy	healthvelocity CAPITAL	\$30.0	\$95.0	
02/20	atbay	Munich RE	\$34.0	\$124.0	
02/21	Ladder	brewer lane ventures	\$37.5	\$237.5	
02/17	Conciris	AlbionVC	\$24.1	\$62.3	
01/30	Policygenius	KKR	\$100.0	\$540.4	
01/29	gabi	MUBADALA	\$27.0	\$87.0	
01/03	Clearcover	OMERS	\$50.0	N/A	
01/03	CORVUS	TELSTRA	\$31.8	N/A	

Insurance Segment



P&C



Life



Health

Insurance Value Chain



Customer Acquisition and Engagement



Innovative Distribution and Underwriting



Software and Services



Data and Analytics

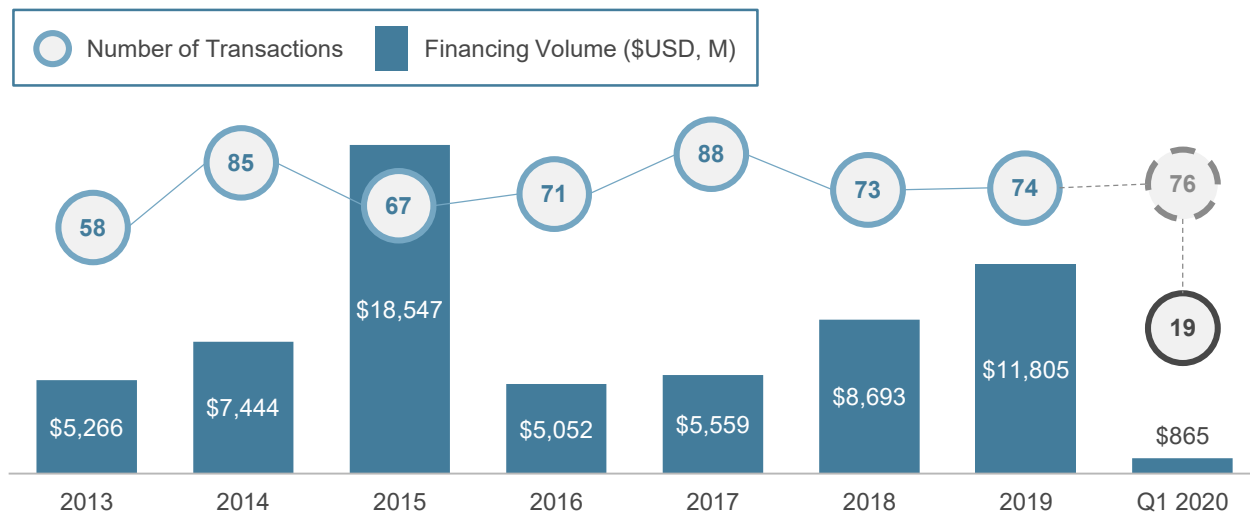
Source: CB Insights, Pitchbook.com. S&P Capital IQ.
Market data as of 03/31/20.

(1) Includes private company equity financings and Everquote IPO in Q2 2018.

M&A Activity Off to a Slower Start in 2020

Q1 '20 reflected a slower start compared to 2019 on an annualized basis, which doesn't reflect the effect of COVID-19 on M&A.

Selected Major Insurtech M&A Transactions



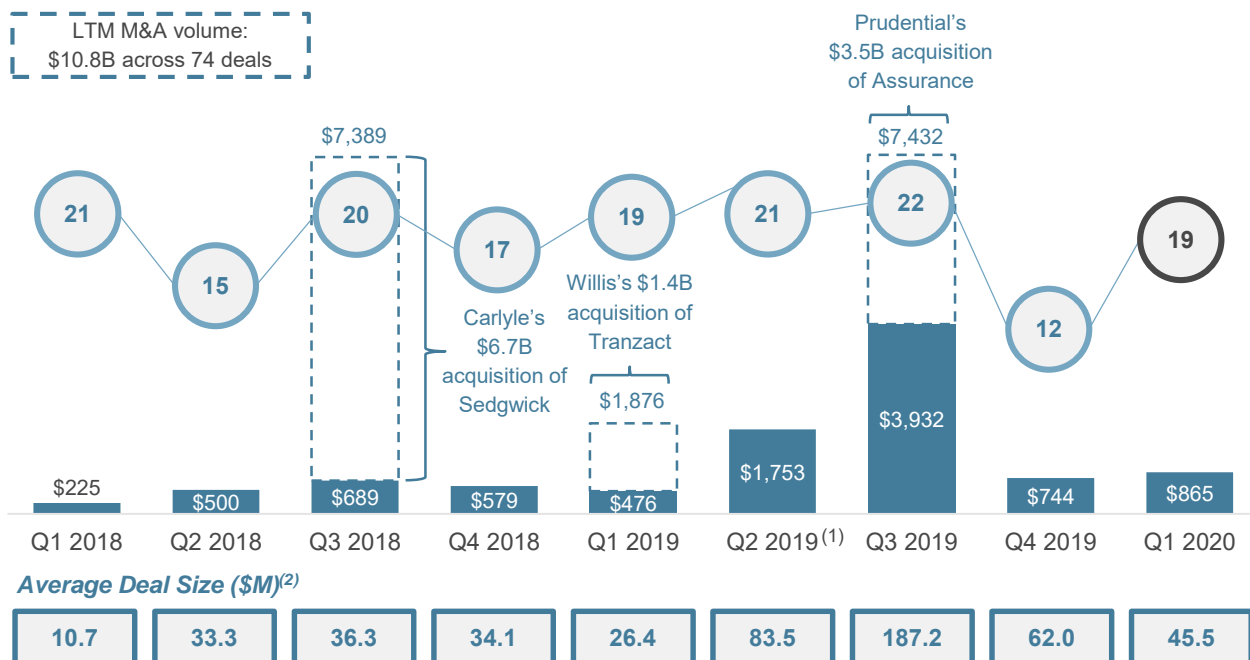
Acquirer logo on top

 \$1.8B	 \$2.4B	 \$8.7B	 \$1.4B	 \$2.5B	 \$155M	 \$3.5B	 \$276.3M
 \$1.1B	 \$400M	 \$760M	 \$174M	 \$919M	 Undisclosed	 \$1.5B	 Undisclosed
			 \$160M	 \$490M	 Undisclosed	 \$1.6B	 Undisclosed
			 \$322M	 \$6.7B	 \$1.4B	 Undisclosed	

























































M&A Activity Continues Across the Insurtech Ecosystem

Q1 '20 M&A volume was slightly ahead of Q4 '19 but well below the previous three quarters.

Quarterly M&A Activity (\$M)



Selected Q1 2020 M&A Transactions (\$M)

Ann. Date	Buyer	Target	Transaction Value	Segment/ Value Chain	Insurance Segment
02/20			N/A	 	 P&C  Life  Health
02/19			N/A	  	
01/30			\$12.0	   	
01/21			\$276.3	   	Insurance Value Chain
01/17			N/A	  	
01/08			N/A	 	
01/07			\$31.6	 	 Customer Acquisition and Engagement  Innovative Distribution and Underwriting
01/07			N/A	 	
01/06			N/A	   	
01/02			N/A	  	 Software and Services  Data and Analytics

Source: CB Insights, Pitchbook.com, S&P Capital IQ. Market data as of 03/31/20.

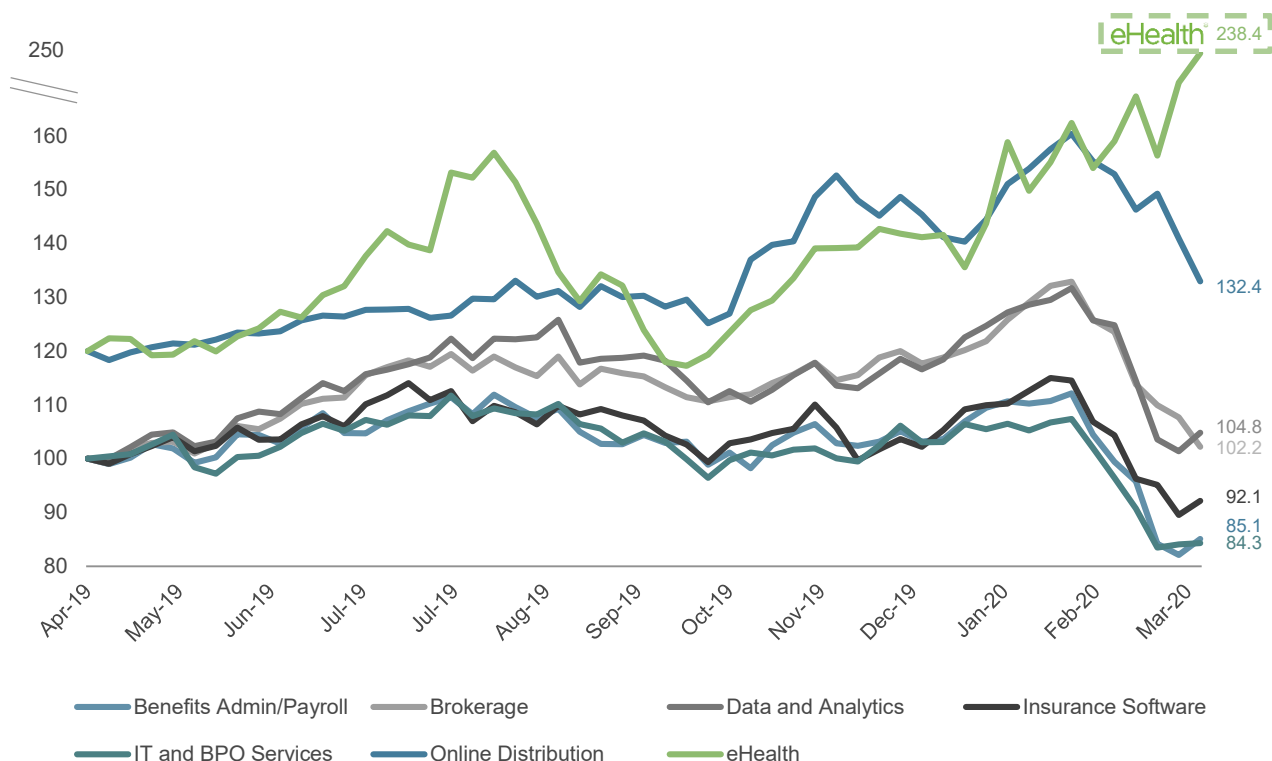
(1) Q2 '19 includes \$140M sale of an investment portfolio by Axiata Digital to Singaporean Fund managed by Gordian Capital, which included their stake in BIMA.

(2) Average deal sizes exclude outlier transactions.

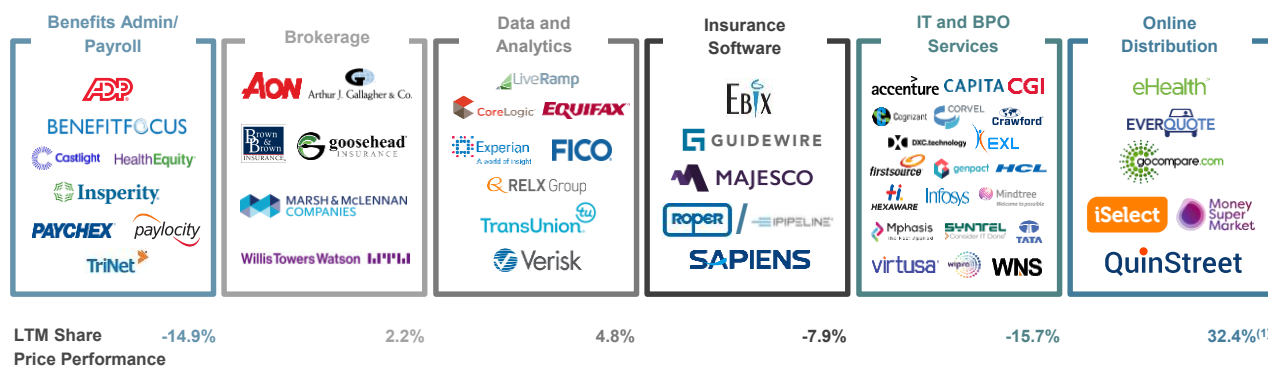
Mixed Insurtech Public Company Performance...

Online distribution and data and analytics lead the insurtech pack. Excluding eHealth, online distribution has increased 32.4% over the past year.

LTM Share Price Performance



Public Insurtech Ecosystem



Source: S&P Capital IQ.

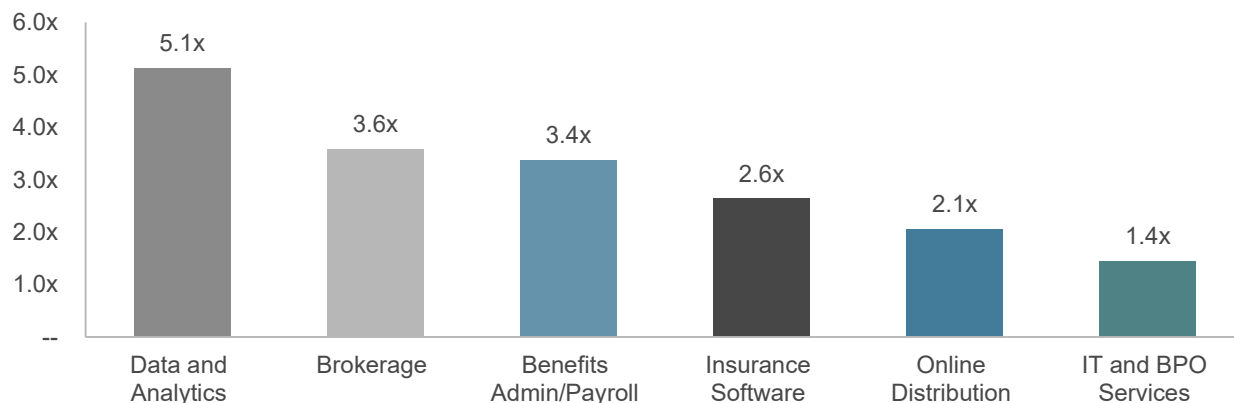
Note: Growth and multiples shown are median values for comp group. Market data as of 03/31/20.

(1) Online Distribution share price performance excluding eHealth.

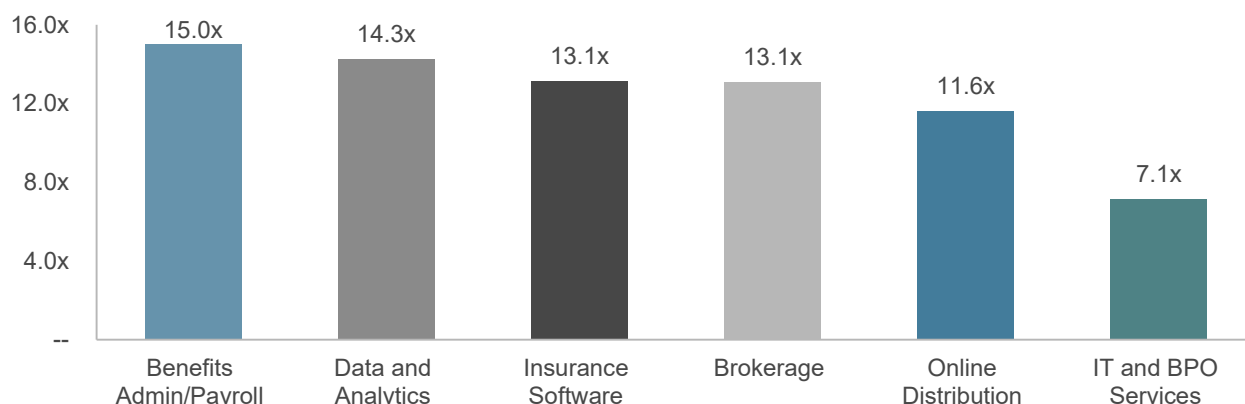
...Drives Revenue Multiple Differentiation in Certain Categories

Below are selected Insurtech subsectors and multiples.

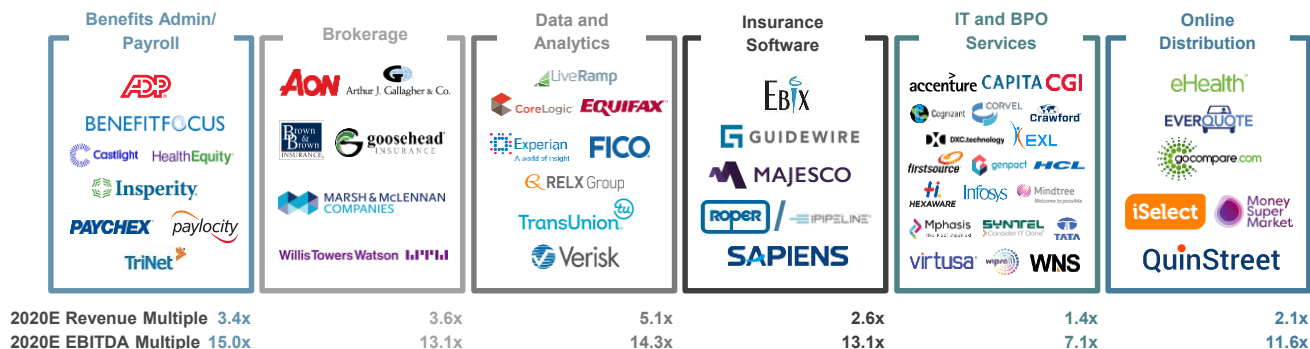
Enterprise Value/2020E Revenue



Enterprise Value/2020E EBITDA



Public Insurtech Ecosystem




































Source: S&P Capital IQ.

Note: Growth and multiples shown are median values for comp group. Market data as of 03/31/20.

All financials calendarized to a December year-end.

Proven Track Record in Fintech With Exceptionally Strong Momentum

 <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>September 2019 <i>Insurtech</i></p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>April 2019 <i>TCM Software</i></p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>April 2019 <i>TCM Software</i></p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>March 2019 <i>Financial Information</i></p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>March 2019 <i>TCM Software</i></p>
 <p>has received an investment from</p>  <p>Financial Advisor</p> <p>February 2019 <i>Credit Information</i></p>	 <p>has acquired a majority interest in</p>  <p>Buyside Advisor</p> <p>December 2018 <i>Payments</i></p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>September 2018 <i>TCM Software</i></p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p> <p>July 2018 <i>Financial Information</i></p>	 <p>has been acquired by</p> <p>Vermeg Group N.G.</p> <p>Sellside Advisor*</p> <p>February 2018 <i>Insurtech/ TCM Software</i></p>
 <p>a portfolio company of</p> <p>HG Capital</p> <p>has been acquired by</p> <p>Verisk Analytics</p> <p>Sellside Advisor*</p> <p>August 2017 <i>Insurtech</i></p>	 <p>has received an investment from</p> <p>Francisco Partners</p> <p>Sellside Advisor*</p> <p>July 2017 <i>TCM Software</i></p>	 <p>has been acquired by</p> <p>Equiniti Group PLC</p> <p>Sellside Advisor*</p> <p>July 2017 <i>Core Banking</i></p>	 <p>a portfolio company of</p> <p>EQT</p> <p>has been acquired by</p> <p>Moody's Corporation</p> <p>Sellside Advisor*</p> <p>March 2017 <i>Financial Information</i></p>	 <p>has been acquired by</p> <p>Broadridge</p> <p>Sellside Advisor*</p> <p>March 2017 <i>TCM Software</i></p>
 <p>has acquired</p> <p>BISAM</p> <p>Buyside Advisor*</p> <p>March 2017 <i>TCM Software</i></p>	 <p>has been acquired by</p> <p>Verisk Analytics</p> <p>Sellside Advisor*</p> <p>February 2017 <i>Insurtech</i></p>	 <p>has sold its Benelux operations to</p> <p>Altarea BV</p> <p>a portfolio company of</p> <p>Naxicap</p> <p>Sellside Advisor*</p> <p>February 2017 <i>Financial Information</i></p>	 <p>has received an investment from</p> <p>IK Investment Partners</p> <p>Sellside Advisor*</p> <p>October 2016 <i>Credit Information</i></p>	 <p>has been acquired by</p> <p>Broadridge</p> <p>Sellside Advisor*</p> <p>June 2016 <i>TCM Software</i></p>

*Selected transactions were executed by Houlihan Lokey professionals while at Quayle Munro, a firm acquired by Houlihan Lokey.



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Corporate Finance

2019 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
1 Houlihan Lokey	184
2 Goldman Sachs & Co	167
3 JP Morgan	141
4 Morgan Stanley	122
5 Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 U.S. M&A Advisor

Top 10 Global M&A Advisor

Leading Capital Markets Advisor

Financial Restructuring

2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	76
2 PJT Partners Inc	43
3 Moelis & Co	36
4 Lazard	29
5 AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Global Investment
Banking Restructuring Advisor

1,000+ Transactions Completed
Valued at More Than
\$2.5 Trillion Collectively

Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,057
2 JP Morgan	929
3 Duff & Phelps	734
4 Morgan Stanley	621
5 Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

No. 1 Global M&A Fairness
Opinion Advisor Over the
Past 20 Years

1,000+ Annual Valuation
Engagements



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