

## Funding from New Sources

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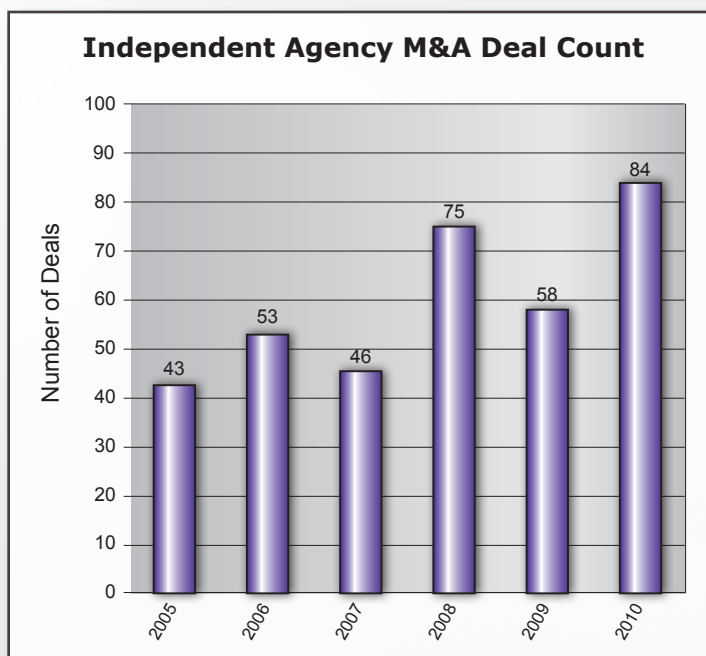
Within the insurance distribution industry, merger and acquisition activity is announced through press releases. Public brokers, private equity firms and large regional agencies announce these transactions because they want their peers, competitors, clients and acquisition prospects to know that they are active in the marketplace and continuing to expand their operation. These buyers use a combination of stock (public or private) and cash from operations or debt to acquire these organizations.

It is rare, however, that anyone hears or reads about independent agencies making acquisitions or successfully perpetuating their stock or assets. These deals are still occurring and at an increasing rate. Actually, it is anticipated that these types of transactions will continue to occur more frequently. During 2010, independently held agency acquisition activity increased significantly. One of the main reasons for this continued acquisition in the independent agency sector is that buyers are becoming more sophisticated and are able to access capital from sources other than the neighborhood bank.

While the credit market is still relatively tight, many banks and other financial institutions have started to increase their willingness to lend in the right situation. However, lending to an organization like an insurance agency is somewhat challenging to financial institutions that are not familiar with the industry. Agencies are typically capitalized with little to no tangible assets. Most of the value of the organization is tied up in the book-of-business, which is intangible in nature, and therefore difficult for banks to have adequate collateral to justify making a loan.

There has been an increase in funding into the marketplace from regional insurance carriers and other industry specific organizations like premium financing firms. These organizations understand the inner workings of an agency and the value of the intangible asset (the book-of-business). Even more importantly, they understand what to do with the asset in the unfortunate event of a default on the loan.

For agency acquisitions, lenders will typically fund a portion of the purchase price, but require the buyer to utilize other capital to complete the transaction. Ben Rubin\*, a Vice President for Wintrust Commercial Bank (a financial institution owned by the same parent company of First Insurance Funding), works closely with agencies of all sizes. "Our interest is in the value of the agency," said Rubin. "Our knowledge of the insurance distribution space allows us to lend between 4 -5 times EBITDA, where traditional lenders typically do not go beyond 2.5 - 3 times EBITDA."



If the seller is willing to accept a note from the buyer for the remainder of the purchase price, the seller's claim to debt would need to be subordinate (secondary) to the institutional lender. Favorable rates have been offered from these non-standard lenders and in certain cases there can be forgiveness of debt through increased premiums either with the carrier or financed through the premium finance company.

The assets of the agency are pledged as collateral for the debt. Depending on the size of the loan, lenders will also seek personal guarantees from the remaining or incoming shareholders. According to Rubin, "This guarantee is to ensure the remaining controlling shareholders are willing to assist us in unwinding the agency or selling off the assets in the unlikely event of a default."

If an internal perpetuation or agency acquisition is in the business plan for 2012, be aware of financing options that are available. Create a cash flow model that shows how the agency can repay the debt to the lender as well as maintain or grow the operation. This level of preparedness will give the lender confidence that you are a good credit risk.

\*Benjamin L. Rubin can be reached at 847-482-8456.

## MarshBerry M&A Advisory Services

### Deal Strategy

1. Acquisition Planning
2. Deal Return Modeling
3. Strategic Options Analysis
4. Alternative Buyer Comparison

### Deal Preparation

1. Sale Preparation Management
2. Offering Memorandum Development
3. Strategic Pitch Book Design
4. Candidate Profile Creation

### Deal Representation

1. Buy Side Representation (inc. Search & Screen)
2. Sell Side Representation
3. Letter of Intent Development / Negotiation
4. Creative Deal Structure Alternatives

### Deal Analysis

1. Agency Fair Market Valuation
2. Market Comparables / Deal Benchmarking
3. After-Tax Return Optimization
4. IRR, ROI and EPS Analysis

### Deal Execution

1. Diagnostic and Confirmatory Due Diligence
2. Intangible Asset Allocation - GAAP Reporting
3. Fairness Opinion
4. Definitive Agreement Best Terms / Conditions

### Post-Deal Management

1. Post-Closing Integration
2. Goodwill Impairment Testing
3. Peer-to-Peer CEO Exchange
4. Earn-Out Maximum Consultation

## SNL Financial M&A Advisor Rankings

Insurance Broker Merger & Acquisition Deals  
1997-2010

Rank	Firm	1997 - 2010 # of Deals	2010 # of Deals
<b>1</b>	<b>Marsh, Berry &amp; Co. Inc.*</b>	<b>308</b>	<b>33</b>
2	Hales & Company, Inc.	145	21
3	Reagan Consulting, Inc.	117	4
4	Mystic Capital Advisors Group, LLC	111	16
5	Macquarie Capital Advisors Grp., LLC	49	4
6	Bank of America Merrill Lynch	22	0
7	B.H. Burke & Company, Inc.	17	1
7	Sica Consultants, Inc.	17	2
9	Harbor Capital Advisors, Inc.	16	0
9	Keefe Bruyette & Woods, Inc.	16	1
11	Sandler O'Neill & Partners, L.P.	14	1
12	North Bridge Advisors, Inc.	13	0
12	Philo Smith & Company	13	3
14	Credit Suisse (USA), Inc.	9	0
15	Business Management Group, Inc.	8	0
15	Curtis Financial Group, LLC	8	0
15	J.P. Morgan Securities, Inc.	8	0
18	Boenning & Scattergood, Inc.	7	0
18	Gill and Roeser Holdings, Inc.	7	0
18	Nexus Group, Inc.	7	0
18	Optis Partners, LLC	7	3
22	2nd Generation Capital Corporation	6	0
22	Goldman, Sachs & Company	6	0
24	Austin Associates, LLC	5	1
24	Garland McPherson & Assoc., Inc.	5	0
24	Lazard Freres & Co., LLC	5	0
24	Piper Jaffray & Co.	5	1
24	Wells Fargo Securities, LLC	5	0

All States // Completed Transactions  
Whole deals as reported by SNL Financial, February 2, 2011  
**\*MarshBerry has closed 31% of total advised deal flow since 1997**

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