



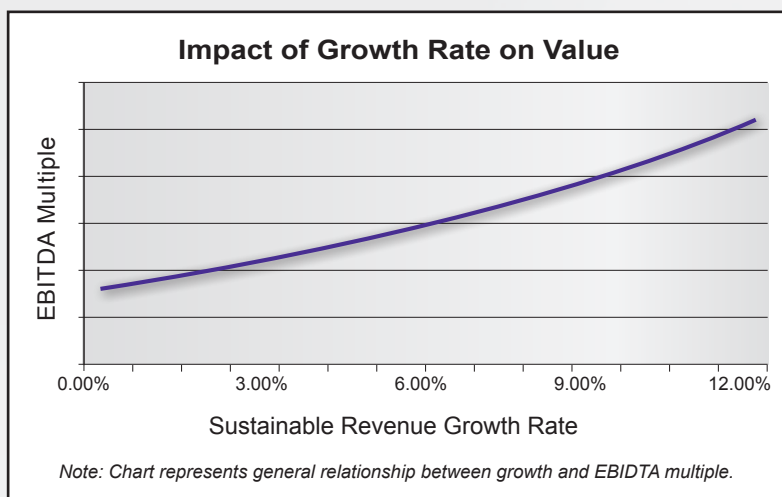
Maximizing Value While Reinvesting

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The best agencies in the country reinvest heavily for future sustainability. At any given point in time, an agency's EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) can be restricted as ownership chooses to make strategic reinvestments in their agency. These investments are designed to carry the value of the firm far beyond the short term. They construct a foundation for growth as opposed to running a skeleton operation.

When high-quality agencies are approached by a potential buyer, there is often a misconception that valuation will be hindered because EBITDA is lower than it otherwise would be without this reinvestment. Often such agency owners state that, "If I had known that I was going to sell, I would have stopped hiring and stopped being as innovative about three years ago." While that may seem reasonable to an outsider, the facts are that buyers are looking for sustainability within an agency and are willing to pay a premium for an organization that has reinvested in its future, assuming that the reinvestment is paying dividends in the form of revenue growth.

Here are three examples of investments agencies make and a suggested way of positioning the investment from a deal perspective:



- 1. Heavy Producer Reinvestment:** *The fruits of labor are long term when an agency has a significant volume of unvalidated producers. The industry average for hiring a successful producer is roughly 33%. This means that one in every three producers will be a viable contributor to your agency's future success. Consistently hiring producers and the willingness to recognize success or failure of those producers is an important characteristic in this process. Consider the "right" load of new producers, then work with the buyer to consider the balance on a dollar-for-dollar reduction in value, not EBITDA.*
- 2. De Novo Offices:** *Opening a new location is a strategy that may be a part of an overall business plan. If you believe you have enough critical mass that lends itself to sales and support staff in a new location, this is a great way to expand your organization's presence. Often times, these new offices have a profit margin less than the main location. As a seller in this situation, you can present/reiterate your business case that reflects the value of this location at a typical profit margin and put the difference as a dollar-for-dollar reduction in value – not a direct hit to EBITDA.*
- 3. Over Investment in Infrastructure:** *If you are a 5 million dollar agency that had not planned to sell, you may have a management team that will enable your operation to reach 10 million. Construct the pro forma to reflect the right staffing plus allow for some growth. For the balance of the staff, tell a buyer that you can terminate all these good people or a buyer can take that as a dollar-for-dollar reduction. Left to their own devices, buyers will want you to keep them for long-term capacity, but will pay less for the agency. Do not let them. It will ultimately be the responsibility of the seller to convince the buyer the value of the individuals to the larger organization.*

As reinvestment occurs within an agency, the most important factor is to determine how it will help the organization grow (organically or through acquisition). If you are positioning the agency for growth, you will be well prepared for the future – whether selling or not.

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 |
|------|--------------------------------------|---------------------------------|-----------------------|
| 1 | Marsh, Berry & Co. Inc.* | 308 | 33 |
| 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 28% of total deal flow since 1997

MarshBerry's clients are committed to realizing their fullest potential with respect to growth, profit, survival and shareholder value. Our agent, broker, bank and carrier clientele engage us to achieve their goals within the retail and wholesale channels of the insurance distribution system. Our unparalleled industry-specific services include consulting, performance benchmarking, peer-to-peer exchange networks, merger and acquisition intermediation and producer recruiting.

