Dealmaker's Dialogue

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A Buyer's Perspective

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There have been over 2,000 publically announced insurance brokerage M&A deals in the United States over the past ten years. While an impressive number, it pales compared to the number of deals that did not close. Appreciating the reasons some deals do not close is key to understanding a buyer's perspective in a potential transaction and how agency sellers can maximize desirability and value. There are many buyers in the insurance marketplace (brokers, banks, independent agencies, private equity firms). While motivations for each buyer type vary greatly, there are certain desirable qualities that every buyer is looking for in a "mate."

Demographics – *A buyer is especially motivated when a target agency is of the right revenue size, in the right location (buyer's footprint), has desirable specialties/niches, maintains proper headcount, has strong age stratification within the staff and maintains relationships with the right carriers/markets.*

Profitability – *During 2010, the average insurance agency maintained an actual EBITDA margin of 17.6%, while the top quartile maintained an EBITDA margin of 22.5%. After pro forma adjustments, the average agency that sold to a public broker produced a 29.2% EBITDA margin – it goes without saying that an agency that "operates at pro forma EBITDA" is much more attractive to a buyer than an agency that "cuts expenses to achieve pro forma EBITDA". Value is also greatly enhanced if profitability is consistent and a buyer has confidence that profitability is sustainable.*

Historical New Business Production Benchmarks

Agency Size	Average New Business Production*	Best 25% New Business Production*
$5M	12.7%	20.4%
$8M	13.6%	21.5%
$15M	14.0%	21.8%
$25M	14.4%	25.0%

** percentage of prior year total commissions & fees*

Infrastructure – *Unless a deal is simply a book purchase, no buyer wants to buy an agency that lacks the "bones" or the operational infrastructure necessary to maintain performance post closing.*

Growth/Revenue Potential – *Since any buyer has the financial motivation to minimize risk while maximizing return, the most appealing sellers have a history of revenue growth supported by above average new business production (see illustration for best practices new business production).*

Leadership – *The quality of the agency's leadership group and their commitment to stay with the buyer post closing is important for many reasons. If the target agency is going to be autonomous, the buyer must be comfortable that leadership will remain, stay motivated and drive revenue and profitability post closing. Leadership is less important in the case of a roll-in, wherein a buyer plans to integrate a target agency into an existing location.*

If you are a potential seller and the above characteristics do not describe your current operation, do not necessarily conclude that you are not attractive to a buyer. Given the challenging economic environment, many agencies are dealing with significant issues such as declining revenue growth, a hit to profit, employee turnover, maintaining large amounts of debt, or facing possible carrier termination due to lack of volume. If you are contemplating a sale and have issues that will detract from value, it is critical to implement strategies to improve areas of weakness and to highlight those plans to buyers. Problems will be detected during the due diligence process. If strategies to resolve issues have not been implemented, most buyers will walk away. Buyers recognize that no agency is perfect. And, buyers are desperate to find leaders who can recognize weakness and drive profitable change. A buyer wants to close the deal just like an underwriter wants to write an account. An account with a loss history can be very attractive if the underwriter has confidence in the broker and the risk management process that has been implemented. Drawing a parallel to agency value, those who proactively execute strategies to address problems concurrent to buyer discussions drive value despite weakness as they make buyers comfortable that leadership can identify problems, drive solutions, make tough decisions and lead change.

So have you looked at your agency in the mirror lately? If you have (and the smart ones have), and if there are any areas that need attention, now is the time to focus on driving a plan. Regardless of whether you are a peak performer or an agency that has had significant challenges, it is critical to demonstrate an ability and fortitude to lead change during times of turmoil. The ability to proactively implement best practices will make a buyer more comfortable with future performance and will enhance market value.

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.

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