

Centralized vs. Decentralized Structures

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Buyers can have a corporate structure that is centralized, decentralized or somewhere in-between. In a centralized corporate structure, after purchasing an agency, the buyer will take over many of the agency functions that are non-client related, such as accounting, HR and IT. These responsibilities are reallocated and handled at the corporate level rather than at the local agency level. The result is often the elimination of these departments and termination of employees at the local agency level.

Conversely, a buyer that maintains a decentralized corporate structure will require the selling agency to maintain some or all of these positions within the agency post close. For a decentralized buyer, it is not unusual for the entire accounting, HR and IT department to remain with the selling agency. Both centralized and decentralized buyers are extremely hesitant to make any changes to any personnel that have interaction with clients, such as producers and account managers.

Contrary to common belief, the size of the buyer doesn't dictate whether the organization is centralized or decentralized. There are some public brokers that are centralized and some that work in a more decentralized structure. Similarly, there are some independent agencies that intend to completely take over these functions post acquisition, and some that would not. It is more of a function of whether or not a buyer has a location in the vicinity of the selling agency and/or the resources and capacity to handle the additional responsibilities.

Many agency owners presume a sale to a centralized buyer means a higher price than selling to a decentralized buyer as the termination of departments and employees will improve the bottom line and ultimately the agency's value. However, this is not necessarily the case. A centralized buyer will eliminate the positions at the local level, but there is still the cost of handling the accounting, HR and IT functions. This corporate cost or "corporate load" is charged back to the selling agency. The more functions a buyer can centralize and eliminate at the local level, the higher the corporate charge back. Our experience is that the corporate charge is usually in-line with the expense savings achieved by eliminating departments and positions. In other words, if payroll is reduced by \$200,000 due to the restructuring of departments and the termination of several employees, the corporate load applied will be approximately \$200,000 (see Pro Forma Comparison below). The exception would be if an acquisition is more fully "rolled into" a buyer's location. In that case, more synergies and cost savings can be realized that would translate into a higher profit and potentially a higher price.

There are many cases where a centralized buyer handles a certain function that eliminates the need for a person and, at the same time, the seller believes that it is important to retain that person. In that case, most buyers will be flexible and encourage the selling agency to redeploy that person to another area of the business. All buyers, whether institutional or independent, struggle to find quality employees. If a local agency position is not feasible, there is always the possibility of finding a position at the corporate level post close. The overwhelming majority of buyers are more interested in retaining

employees and growing the agency than they are about eliminating bodies and cutting costs. A buyer's biggest fear is that employees will leave the agency after closing and the performance of the agency will suffer. Buyers will tell you that the most valuable asset they look for when contemplating an acquisition is its people. Acquiring agencies with quality people is their primary solution to this problem.

Pro Forma Comparison

Sample Pro Forma - Decentralized Buyer			Sample Pro Forma - Centralized Buyer		
		% Rev			% Rev
Total Revenue	\$5,000,000	100.0%	Total Revenue	\$5,000,000	100.0%
Payroll Expense:			Payroll Expense:		
Exec/Production/Service	\$2,550,000	51.0%	Exec/Production/Service	\$2,550,000	51.0%
Accounting	\$70,000	1.4%	Accounting/HR/IT	-	0.0%
HR	\$60,000	1.2%	Total Payroll	\$2,550,000	51.0%
IT	\$70,000	1.4%	Corporate Load	\$200,000	4.0%
Total Payroll	\$2,750,000	55.0%	Other Expenses	\$750,000	15.0%
Other Expenses	\$750,000	15.0%	Total Expenses	\$3,500,000	70.0%
Total Expenses	\$3,500,000	70.0%	EBITDA	\$1,500,000	30.0%
EBITDA	\$1,500,000	30.0%			

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 31% of total advised 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.

