Dealmaker's Dialogue

A MarshBerry Publication Volume I, Issue 3 March, 2010

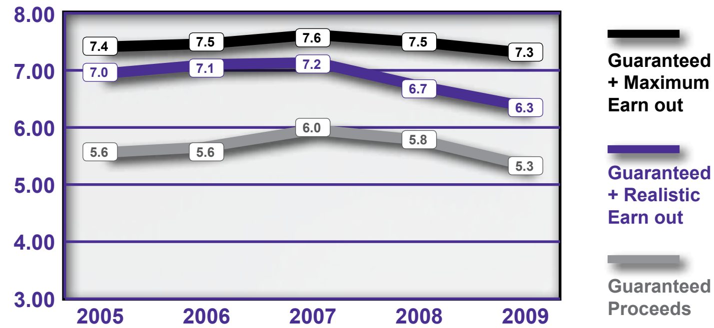
MarshBerry Exceeding the Standard

Striking a Balance

Authored by Dan Skowronski
Senior Vice President, 440-392-6552

Despite a significant downturn in the economy and a decline in deal activity, the average total potential transaction value as a multiple of Earnings Before Interest, Taxes, Depreciation and Amortization expense ("EBITDA") has not changed dramatically over the last several years. The average total transaction price available to sellers has remained between 7.25 times to 7.50 times EBITDA. What has changed is the portion of the transaction price that is paid on a guaranteed basis and the transaction price that realistically can be expected to be paid based on reasonable projections of future performance. Guaranteed purchase price as a % of maximum purchase price has declined from 78% in 2007 to 72% in 2009 (an 8% decline). Total purchase price based on realistic projections of performance as a multiple of EBITDA has declined from 7.2 in 2007 to 6.3 in 2009 (a 12% decline).

Deal Structure - Proceeds as a Multiple of EBITDA



Information considered in preparing estimated market comparables includes private transactions in which we were involved and have detailed information, private transactions from which we have general knowledge, transactions in the public record, our knowledge of the current M&A marketplace, and discussions with buyers and sellers that are active in the marketplace. Value iillustrated is net of a working capital requirement.

While there are no "cookie cutter" approaches to structuring a transaction, it is typical that a percentage of the agency's value is guaranteed and paid at closing, with the seller having an opportunity to earn additional proceeds based upon certain pre-determined performance goals ("earn out"). Difference of opinion naturally exists between a buyer and seller on how much of the total transaction price should be guaranteed and how much should be available via an earn out. This tension exists due to the actual or perceived risk in any given transaction as viewed by the various participants and the desire to transfer risk to the other party. The seller wants to maximize both the amount they are guaranteed at closing and the amount they can earn based on future performance. The buyer generally would like a lower guaranteed payment at closing to limit their risk on the deal, but usually is willing to pay out a higher overall purchase price based on solid performance over the next few years.

The performance metrics utilized in an earn out are typically based on either revenue, EBITDA (profit), or a combination of both. To a seller, an earn out that is based on revenue is conceptually easy to grasp and largely within their control. To a buyer, a revenue based earn out is easy to calculate, but must also be paired with expense controls so that the future profitability of the business is not jeopardized. In the scenario where a buyer is willing to give the seller wide latitude in running the business on a go forward basis and where profitability can be separately tracked, an EBITDA based earn out should be discussed.

Why the reduction in the pricing noted above? The answer is simple….. GROWTH. Both historical growth and post-closing growth projections for revenue and EBITDA are much lower today for most agencies than they were a few years ago. Lower growth results in lower expected returns which ultimately results in a lower guaranteed transaction price and a lower "expected" price including an earn out.

What does this mean to you as a buyer or seller in today's market? It is necessary to structure a deal with a balanced approach. The guaranteed payment and earn out metrics should provide the seller with a reasonably good chance of earning additional proceeds based on realistic growth goals, while requiring a stretch goal for maximum payout. It also means a buyer should analyze rate of return metrics under various growth possibilities to give them the best chance at making the deal accretive over a defined period of time. A bit of a balancing act to be sure, but necessary to strike a deal that is agreeable to both sides.

MarshBerry • 4420 Sherwin Road • Willoughby, Ohio 44094 • 800-426-2774 • www.MarshBerry.com • MarshBerry@MarshBerry.com

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
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 and 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
1997-2009

Rank	Firm	1997 - 2009 # of Deals	2009 # of Deals	2010 YTD
1	**Marsh Berry & Co. Inc.***	**275**	**23**	**3**
2	Hales & Co. Inc.	123	14	1
3	Reagan Consulting Inc.	122	7	2
4	Mystic Capital Advisors Group, LLC	95	11	4
5	Macquarie Capital Advisors Group, LLC	44	8	0
6	Bank of America Merrill Lynch	22	2	0
7	Sica Consultants, Inc.	18	3	0
8	B.H. Burke & Co., Inc.	16	0	0
8	Harbor Capital Advisors, Inc.	16	0	0
10	Keefe Bruyette & Woods, Inc.	15	0	1
11	North Bridge Advisors, Inc.	13	0	0
12	Sandler O'Neill & Partners, L.P.	11	1	0
13	Philo Smith & Co.	10	0	0
14	Credit Suisse (USA) Inc.	9	0	0
15	Business Management Group, Inc.	8	0	0
15	Curtis Financial Group, LLC	8	0	0
15	J.P. Morgan Securities, Inc.	8	0	0
18	Boenning & Scattergood, Inc.	7	0	0
18	Gill and Roeser Holdings, Inc.	7	0	0
18	Nexus Group, Inc.	7	0	0
21	2nd Generation Capital Corporation	6	0	0
21	Garland McPherson & Associates, Inc.	6	0	0
21	Goldman, Sachs & Co.	6	0	0
24	Lazard Freres & Co. LLC	5	0	0
24	Wells Fargo Securities, LLC	5	0	0
26	Austin Associates, LLC	4	1	0
26	Nomura Securities International, Inc.	4	0	0
26	Piper Jaffray & Co.	4	1	0
26	Russell Miller Corporate Finance, Inc.	4	0	0
26	UBS Investment Bank	4	0	0

All States // Completed Transactions
Whole deals as reported by SNL Financial, March 23, 2010

*** 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.

MarshBerry • 4420 Sherwin Road • Willoughby, Ohio 44094 • 800-426-2774 • www.MarshBerry.com • MarshBerry@MarshBerry.com