



Enter 2010 with Eyes Wide Open

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Most of us are keenly aware that the current capital gains tax rate will automatically sunset at the end of 2010 reverting back to the pre-2003 level of 20%. Many believe it could be increased to as much as 35%. Few business owners have taken the time to determine how this will impact the return on their investment. Whether you are an active acquirer or an owner contemplating internal perpetuation or an external sale, it is important to understand the potential impact of such a change in the tax rate. As illustrated in Figure 1, the automatic sunset will hit net value by 5.9% at flat growth and could exceed 10% if the tax rate is increased further. An agency would need to increase profits by 6.3% to net the same after-tax proceeds if the capital gains rate increases to 20% and 13.3% if the rate increases to 25%. The rate of tax increases by 33% going from a 15% tax rate to a 20% tax rate and by 66% if the tax rate changes to 25%.

At a time when flat growth is typical, an assumption of increased revenue and profit may seem delusional. Taking the same example, a seller would have to secure a multiple of 6.91 times under a 20% capital gains tax scenario and 7.37 times under a 25% tax rate

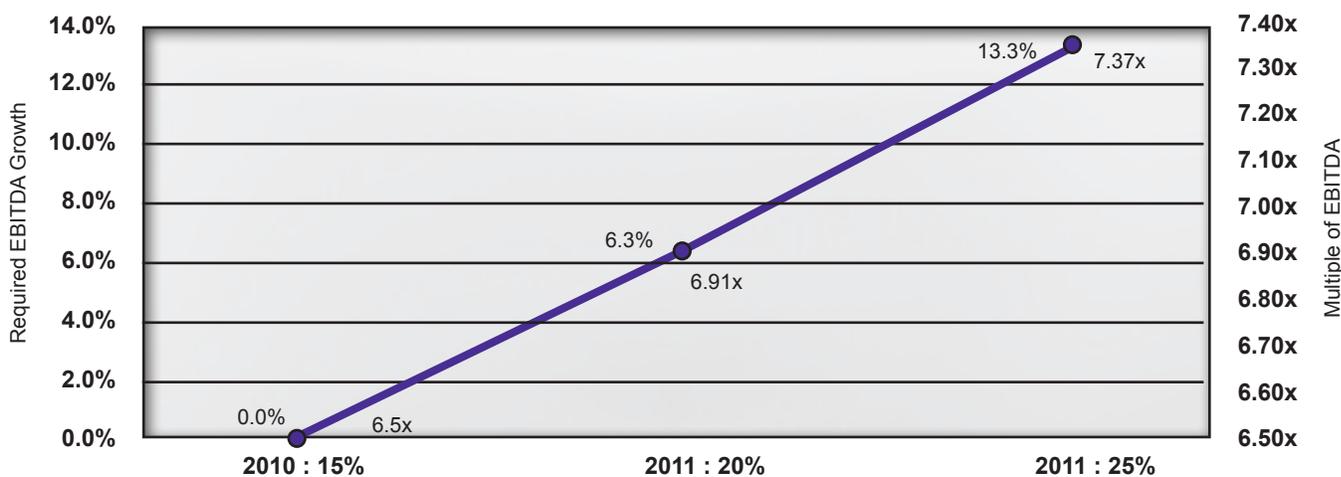
Figure 1 - Value Hit at No Growth

Capital Gains Tax Rate	2010 15% Tax	2011 20% Tax	2011 25% Tax
Pro forma EBITDA ¹	3,000	3,000	3,000
Multiple of EBITDA	6.5	6.5	6.5
Purchase Price ²	19,500	19,500	19,500
Less: Estimated Taxes ³	(2,925)	(3,900)	(4,875)
After-tax Proceeds	16,575	15,600	14,625
Reduction in After-tax Proceeds (\$)		(975)	(1,950)
Reduction in After-tax Proceeds (%)		-5.9%	-11.8%

¹ Earnings Before Interest, Taxes, Depreciation and Amortization expense
² For simplicity, assumed will be paid at closing
³ Excludes State, City and Local taxes for simplicity and assumes deal structure does not result in "double tax" for sellers

scenario just to break even on today's net proceeds. Either way you look at it, the increased capital gains rate will impact the proceeds of a seller. If agency owners are thinking of selling in the next few years, growth must occur to retain current value. Likewise, buyers pursuing sellers on the fence should highlight that a decision to wait one year will chop net proceeds by at least 5.9% at flat growth.

Figure 2 - Required EBITDA Growth or EBITDA Multiple Increase



MarshBerry M&A Advisory Services

Deal Process

- Acquisition Planning
- Buy/Seller Representation
- Agency Search and Screen
- Agency Fair Market Valuation
- Deal Benchmarking

Deal Execution

- Transaction Negotiation
- Letter of Intent Development
- Cross-Marketing Analysis
- IRR, ROI, EPS Analysis
- Intangible Asset Allocation
- Diagnostic Due Diligence
- Confirmatory Due Diligence
- Fairness Opinion
- Contract Recommendations

Post-Closing Management

- Goodwill Impairment
- Post-Deal Integration
- Operational Consulting
- Incentive Compensation

SNL Financial M&A Advisor Rankings <i>Insurance Broker Merger & Acquisition Deals</i> 1997-2009			
Rank	Firm	1997 - 2009 # of Deals	2009 # of Deals
1	Marsh Berry & Co. Inc.*	275	23
2	Hales & Co. Inc.	123	14
3	Reagan Consulting Inc.	113	7
4	Mystic Capital Advisors Group, LLC	94	10
5	Macquarie Capital Advisors Group, LLC	43	7
6	Bank of America Merrill Lynch	22	2
7	B.H. Burke & Co., Inc.	16	0
8	Keefe Bruyette & Woods, Inc.	15	0
8	Sica Consultants, Inc.	15	3
10	North Bridge Advisors, Inc.	13	0
10	Sandler O'Neill & Partners, L.P.	13	1
12	Philo Smith & Co.	10	0
13	Credit Suisse (USA) Inc.	9	0
14	Business Management Group, Inc.	8	0
14	Curtis Financial Group, LLC	8	0
14	Harbor Capital Advisors, Inc.	8	0
14	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
21	2nd Generation Capital Corporation	6	0
21	Goldman, Sachs & Co.	6	0
21	Harbor Capital Advisors, Inc.	6	0
24	Lazard Freres & Co. LLC	5	0
24	Wells Fargo Securities, LLC	5	0
26	Garland McPherson & Associates, Inc.	4	0
26	Nomura Securities International, Inc.	4	0
26	Piper Jaffray & Co.	4	1
26	Russell Miller Corporate Finance, Inc.	4	0
26	UBS Investment Bank	4	0

All States // Completed Transactions
 Whole deals as reported by SNL Financial, January 15, 2010
 * MarshBerry has closed 28% of total deal flow since 1997

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