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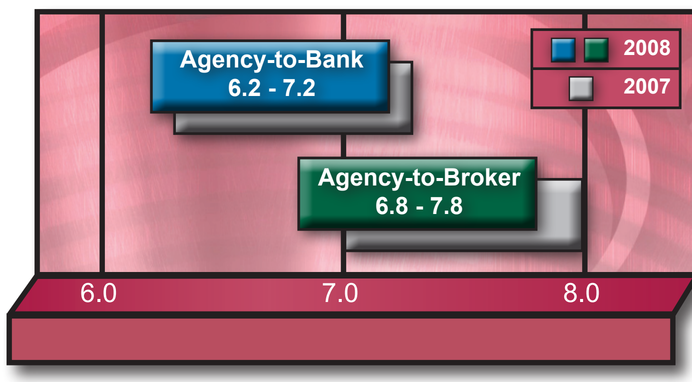
Valuation Comparables

The thread by which agency value was hanging has snapped for the masses. Declining revenue and earnings, a limited agency buyer pool and a drastic reduction in insurable risk caused by the current recession have placed many in a valuation free fall. The chart below illustrates the 2008 valuation and earn-out comparables for banks and public brokers.

While 2008 deal multiples were close to 2007 levels, do not be misled. The table does not reflect the extent to which valuations have declined for the average agency, especially year-to-date 2009. Deal comparables during 2008 were propped up by: 1) higher performing best in class sellers; and 2) organizations that foresaw the inevitable change in value and divested at higher multiples earlier in the calendar year. For hundreds of other potential sellers, deals collapsed during 2008 when unrealistic price and terms were not met or when strong valuations previously offered were rescinded. During the second half of 2008, many brides were left at the altar due to the fact that the credit crisis magnified as the calendar advanced. High performing agency sellers that caught the early bird special enjoyed the last great feast while countless others went hungry.

Valuation Comparables - Ranges



Note: Information considered in preparing estimated market comparables includes private transactions in which we were involved and have detailed information, private transactions where 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.

Source: Marsh, Berry & Company, Inc., 2008

The shift in value is now in full swing as the world continues to change dramatically on a daily basis. The first two months of 2009 saw a further reduction in the number of buyers and increased buyer selectivity, both of which compounded dilution in deal pricing. While publically traded buyers (suffering from reduced stock market valuations) and most equity funded buyers (struggling with fund returns and credit constraints) have been busy attempting to push deal value below what sellers perceive as fair, large regional private brokerages have emerged as preferred buyers. This new buyer segment is capturing the flag in agency acquisitions given a willingness and ability to pay fair pricing, albeit below 2008 levels. Given the inevitable struggle in the economy going forward, the disparity in valuation offered by large regional private brokerages and all of the other buyer segments will continue to widen during 2009.

High performing agencies that were smart enough to stock the pantry during the good times are now in a position to exploit the future, regardless of whether that future includes acquisition. For the masses incapable of reinvesting in youth, enforcing producer accountability, implementing pipeline management or developing a sustainable profit plan, the cupboards will become increasingly bare. And time, their worst enemy, will seal their demise at paltry valuations. Like never before, now is the time to execute a plan to drive sustainable profitable organic growth. Absent a plan to do so, what remains of agency value will dissipate for many faster than the value of companies being bailed out in the equities market.

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