

## Moving Towards a Normalized Value

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As cash became a scarce commodity that no one seemed willing to part with in 2009, total merger and acquisition deal flow in the insurance brokerage space decreased by almost half of the number of transactions finalized in 2008.

Major buyers from previous years, banks, national brokers, and private equity firms, slowed their overall activity as the timing of economic recovery was unknown. While some deals continued to involve bank-owned agencies, an increasing number were related to banks divesting their insurance operations versus acquiring. National brokers (including publicly traded and private equity owned) remained active but at only about one-third the level of 2008 due to buyers and sellers having a huge disconnect in pricing expectations. Few banks were able, let alone willing, to deploy capital for acquisitions and national brokers not only reduced pricing but became more selective. This change in the M&A marketplace provided a significant opportunity for local and regional independent agencies with strong balance sheets, to become acquirers. In addition, smaller agencies not able to withstand the economic downturn looked for relief through the sale to larger agencies. Being sought after by multiple banks and brokers was no longer an option.

With the decrease in activity by traditional buyers, 2009 marked the first time in a decade that independent agencies out acquired other individual segments. The private buyers smart enough to retain earnings over the last decade were well positioned for acquisitions. This access to cash, coupled with lower pricing from banks and national brokers, allowed agencies to close deals they may not have been able to compete for in the past.

Deal pricing in almost all buyer segments fell from the peaks seen throughout 2007 and early 2008. However, the average multiple of Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") paid by independent agencies increased in 2009 (from 5.87 in 2008 to 6.14 in 2009). Despite the increase, the average multiple paid by independent agencies still remained the lowest of all buyer segments.

So what does this all mean? Even though bank-owned agencies and national brokers closed fewer deals compared to previous years, average EBITDA multiples remained almost 1 times higher than the independent agency buyer. As outlined in the March issue of Dealmaker's Dialogue, the average guaranteed purchase price as a multiple of EBITDA across all buyer segments combined was 6.33, well below the average guaranteed multiple for banks acquiring platform agencies or national broker acquisitions. The number of independent agency purchases completed in 2009 (which primarily consisted of acquiring smaller agencies and some "books of business") impacted the overall multiples. National brokers and banks still paid guaranteed multiples of between 5.9 and 6.5 times EBITDA and total purchase price (including a realistic projection of earn out payments) of between 7.0 and 7.5 times.

As we move further into 2010, it is clear that the economy is beginning to show signs of life. The number of interested buyers is again on the increase. National brokers (both publicly traded and private equity owned) and private equity wanting to enter into the insurance space are more aggressively seeking acquisitions. Independent agencies are also continuing to look for strategic acquisitions. Prices are rapidly increasing for high-quality, growth oriented, and attractive agencies. The looming capital gains tax increase beginning next year is providing a new crop of willing sellers. While not yet reflected in closings, these factors have led to a significant increase in deal activity and pricing during 2010.

### Valuation & Earnout Comparables

Factors	2009 Average Agency to Agency	2009 Foundation (Platform) to Bank	2009 Subsequent to Bank	2009 Average Agency to Nat'l Broker
Pro Forma EBITDA as % Revenue	28.2%	26.9%	27.1%	28.6%
Multiply: EBITDA Multiple (including realistic earn out)	<u>6.14</u>	<u>7.33</u>	<u>6.32</u>	<u>7.06</u>
Book of Business Value as % Revenue	1.73	1.97	1.71	2.02
% Book of Business Value Guaranteed	65.4%	87.2%	73.9%	84.0%
Guaranteed EBITDA Multiple	<u>4.02</u>	<u>6.39</u>	<u>4.67</u>	<u>5.93</u>

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 illustrated is net of WC requirement.

# 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

<b>SNL Financial</b> <b>M&amp;A Advisor Rankings</b> <i>Insurance Broker Merger &amp; Acquisition Deals</i> 1997-2009				
Rank	Firm	1997 - 2009 # of Deals	2009 # of Deals	2010 YTD
<b>1</b>	<b>Marsh Berry &amp; Co. Inc.*</b>	<b>275</b>	<b>23</b>	<b>3</b>
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.