



Due Diligence - Prepare for Success

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Due diligence, one of the most critical stages in any merger and acquisition transaction, is a "necessary evil" for both the Buyer and the Seller. Both sides enter into the due diligence process with the primary goal of validating the value of the entity or assets being purchased. The Buyer wants to ensure that they do not overpay; the Seller wants to maximize the purchase price. With proper preparation by both sides, the pain associated with this process can be minimized. The first step in this preparation is to gain an understanding, in advance, of both the overall process of due diligence and the key areas that will need to be reviewed.

For the Seller, the due diligence process is their opportunity to prove their value as they have represented it to the Buyer up to this point in the transaction. Appearing disorganized at this critical stage can send an undesirable message to the Buyer. A prepared Seller should begin to organize much of the required information in advance. Knowing the location of all key documentation, contracts and agreements, and potentially having these items stored in an electronic format makes the submission process much simpler. This preparation can also reduce the amount of required onsite due diligence and provide the Buyer with confidence in the transaction.

For the Buyer, the due diligence period is their last chance to verify the information provided by the Seller and to look for any potential risks or issues of concern. The Seller has agreed to provide access to all of the company's books, records and files. While the financial aspects of the target company are the primary concern, it is extremely important to do a thorough analysis of all aspects of the company. Key areas that should be reviewed include, but are not limited to, financial information, human resources, legal, insurance, insurance company contracts/relationships, and insurance operations. A detailed overview of each of these key areas can be found in the July MarshBerry Letter.

While the goal is to understand the Seller's business as thoroughly as possible, the amount and depth of the due diligence conducted should be based on specific deal factors, including deal structure (asset, stock or merger), the size of the transaction, the Buyer's tolerance for risk, the likelihood of closing, time constraints, cost factors, and resource availability. It is impossible to learn everything about a business during this process, but it is important to learn enough such that a Buyer's risk is minimized and they are able to make good, informed business decisions.

Finding problems during due diligence is not necessarily a reason for a Buyer to not follow through with the deal. The discovery process provides the Buyer with an opportunity to address and correct issues with the agency prior to closing the transaction. In addition, results of the due diligence process should be factored into the valuation, the representations & warranties in the definitive agreement, and/or other components of the various purchase agreements. Understanding the overall process of due diligence and the key areas that will be reviewed is critical to a successful close of the transaction. Preparing for due diligence in advance will help to minimize any pain associated with this process and put both the Buyer and Seller in a better position for a successful transaction.

Key Areas of Review

I Financial Information

- A. General Ledger Information
- B. Tax Information
- C. Accounts Receivable
- D. Insurance Company Payables
- E. Outside Brokers
- F. Misc. Financial Information

II. Human Resources

- A. Personnel and Payroll
- B. Employee Benefit Plans
- C. Misc. Human Resources Info.

III. Insurance

IV. Legal

- A. Corporate Documents
- B. Stockholder Information
- C. Litigation
- D. Contracts and Agreements
- E. Regulatory & Compliance Matters

V. Insurance Companies

VI. Insurance Operations

- A. Book of Business
- B. Customer Files
- C. Operational

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 / 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 - 2010 # 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	95	11
5	Macquarie Capital Advisors Group, LLC	44	8
6	Bank of America Merrill Lynch	22	2
7	B.H. Burke & Co., Inc.	16	0
7	Harbor Capital Advisors, Inc.	16	0
9	Keefe Bruyette & Woods, Inc.	15	0
9	Sica Consultants, Inc.	15	3
11	North Bridge Advisors, Inc.	13	0
11	Sandler O'Neill & Partners, L.P.	13	1
13	Philo Smith & Co.	10	0
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
21	2nd Generation Capital Corporation	6	0
21	Garland McPherson & Associates, Inc.	6	0
21	Goldman, Sachs & Co.	6	0
24	Lazard Freres & Co. LLC	5	0
24	Wells Fargo Securities, LLC	5	0
26	Austin Associates, LLC	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

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.