

2012: The Year of the Employee Benefit Divestiture?

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The number of transactions involving employee benefit brokers continues to climb, even as the industry apprehensively waits for this month's opening arguments in the United States Supreme Court Cases. In February's Dealmaker's Dialogue, we discussed the increase in numbers of transactions for agencies of all types. This month's analysis confirms that essentially all of the active national brokers, PEG (Private Equity Group) owned brokers, and several bank buyers continue to close transactions with employee benefit insurance agencies. In 2011, of the three most acquisitive brokers, 29.3% of their transactions were employee benefit and human resource consulting related companies. Overall, total benefit shop deals accounted for 21.3% of total deal volume. During 2012, employee benefit deals have accounted for 50% of the transactions completed by the top three brokers.

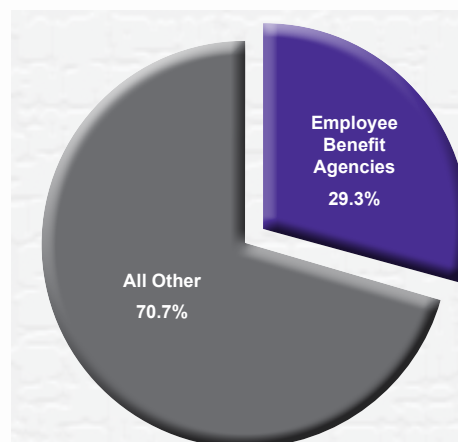
Along with the reported increase in number of transactions comes the rise in acquisition multiples for these deals. While the average of all transactions has increased, the climb of valuation multiples has been slightly less predictable as buyers continue to publicly question the value of the group health business, but privately continue to chase transactions.

Upon further analysis of deal activity, even though buyers thoroughly review the account sizes and business mix of these brokers during valuation and due diligence, human resource services, voluntary benefit success, and wellness services continue to attract the interest of hungry buyers. While the valuations of agencies with a high percentage of their business in the small group market have suffered consequences, agencies with a greater mix of larger accounts and services continue to attract buyers and higher valuations.

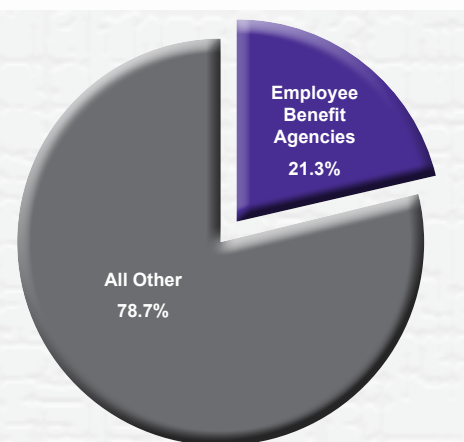
Buyers should include an analysis of customer accounts and stratification into their due diligence of the book-of-business, while sellers should perform a strategic assessment of their skills, product offerings, and client base. We see proactive agents using analytics and wellness to improve the experience of their clients, while at the same time looking at the necessity of charging a fee to make up for the decreasing revenue. These actions continue to make highly desirable business partners for acquiring brokers, banks, and PEGs.

We encourage buyers and sellers to stay tuned to the news out of the Supreme Court. The Supreme Court granted the writ of certiorari in *National Federation of Independent Business v. Sebelius*, Secretary of Health and Human Services, et al. and *Florida, et al. v. Department of Health and Human Services, et al.*, which challenge Congress' powers and Americans' freedoms created by the United States Constitution in regard to the constitutionality of the individual mandate and the minimum coverage provisions of PPACA. These cases should provide some early summer excitement to augment the upcoming Presidential election and legislative races in August and November. Culminating a busy year in 2012 will be the expiration of Bush era capital gain rates and the new Medicare tax on investment gains in 2013, helping to propel benefit agencies into the arms of these waiting buyers.

Transactions - Top 3 Acquirers - 2011



Transactions - All Deals - 2011



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 (inc. Search & Screen)
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 - Advisor Rankings Merger & Acquisition Transactions in Insurance Brokerage 1999-2011

Rank	Firm	1999 - 2011 # of Deals	2011 # of Deals
1	Marsh, Berry & Co. Inc.*	346	35
2	Dowling Hales	176	27
3	Reagan Consulting, Inc.	138	12
4	Mystic Capital Advisors Group, LLC	125	13
5	Macquarie Capital Advisors Grp., LLC	43	4
6	B.H. Burke & Company, Inc.	24	4
7	Sica Consultants, Inc.	20	-
8	Bank of America Merrill Lynch	19	1
9	Keefe Bruyette & Woods, Inc.	17	1
9	Philo Smith & Company	17	3
11	Harbor Capital Advisors, Inc.	16	-
12	North Bridge Advisors, Inc.	15	1
13	Sandler O'Neill & Partners, L.P.	14	2
14	Optis Partners, LLC	11	5
15	Business Management Group, Inc.	9	-
16	Curtis Financial Group, LLC	8	-
16	Gill and Roeser Holdings, Inc.	8	1
16	Nexus Group, Inc.	8	1
19	Manhattan Group	6	4
19	Merger & Acquisition Services, Inc.	6	1
21	Austin Associates, LLC	5	-
21	Boenning & Scattergood, Inc.	5	-
21	Garland McPherson & Assoc., Inc.	5	-
21	Lazard Freres & Co., LLC	5	-

Completed Transactions in the United States
Whole deals as reported by SNL Financial, January 15, 2012

***MarshBerry has closed 29% of total advised deal flow since 1999**

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