

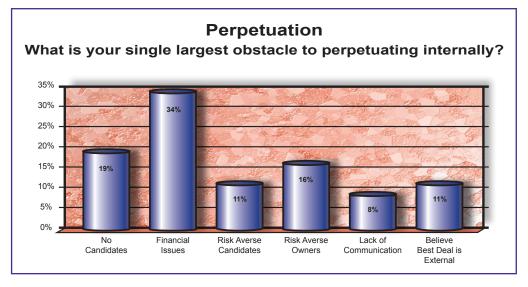
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Roadblocks to Perpetuation

Several obstacles exist relative to internal perpetuation. The graph below outlines the primary reasons cited by agency owners:

No Candidates: Many agency owners do not contemplate their own exit strategy and end up surrounded by either 1) a lack of capable individuals, or 2) capable employees who were never identified, engaged and groomed by the owner.

Financial Issues: Not only is it important to build a strong balance sheet to sustain the on-going needs of the business, but also to



fund perpetuation. If the agency is not profitable and the balance sheet is weak, perpetuation is very difficult, even if you have capable candidates.

Risk Averse Candidates: The reality of going hundreds of thousands, or even millions of dollars in debt is not for everyone.

Risk Averse Owners: perpetuations are often funded partially, or in full, by the retiring owner holding a personal note. While many owners have willing and able perpetuation candidates, the retiring shareholders themselves become risk averse when faced with the prospects of continued risk assumption.

Lack of communication: The opportunity, expectations and responsibilities were never outlined in the interview process. A capable candidate may have the desire and wherewithal, but not know if the opportunity is available, what they have to do if they are interested, and if they are interested, what the funding options are.

Believe the best deal is external: An external sale would eliminate minority and marketability discounts commonly applied in internal perpetuation valuations. In addition, sellers may be able to benefit from synergies. If you can perpetuate internally, but chose to sell, owner(s) can realize even more value.

There are many obstacles to perpetuation, but they can all be overcome with proper planning. In next month's issue, we will look at how the current economic conditions have impacted organizational perpetuation plans.

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Agency Fair Market Valuation Valuation Assessment

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Recruiting

Position profile, search, screen, hire Compensation development plan Technical and sales training year one

Agency Peak Performance EXchange (APPEX)

Over 115 Agencies Over\$1.1 Billion Revenue

Bank Agency NetworK (BANK) Over 25 Banks

Over\$1.0 Billion Revenue

Total Agency Sales Culture (TASC) Network

Over 35 Agencies Over \$1.1 Billion Revenue Nation's leading organic growth agencies Enhanced new business production and retention strategies

Royal Sun Alliance (RSA) Summit Brokers **Improvement Network**

Canadian agencies affiliated with Royal & Son Alliance Insurance Company

Standard Partner Services

State of the Industry Research CEO Peer Exchange / Networking Semi-annual Conferences Semi-annual Consultation Regimented Benchmarking Services MarshBerry.com MarshBerry Letter Priority Consulting Opportunities Exclusive Programs
Distance Learning Groups (DLG's)

Acquisition Planning Deal Return Modeling Strategic Options Analysis Alternative Buyer Comparison

Preparation

Sale Preparation Management Offering Memorandum Development Strategic Pitch Book Design Candidate Profile Creation

Representation

Buy Side Representation Sell Side Representation Letter of Intent / Negotiation Creative Deal Structure Alternatives

Analytics

Agency Fair Market Valuation Market Comparables / Benchmarking After-Tax Return Optimization IRR. ROI and EPS Analysis

Execution

Diagnostic Due Diligence Confirmatory Due Diligence Intangible Asset Allocation - GAAP Rep Fairness Opinion Definitive Agreement (Best Terms / Conditions)

Post-Deal Management

Post-Closing Integration Goodwill Impairment Testing Peer to Peer CEO Exchange Eam-Out Maximization Consultation

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