7 Ways an M&A Advisor Simplifies the Process

Yes, you can go it alone. But there's a reason why successful sellers in all industries rely on advisors to guide them through the process.

In 2012, there were approximately 300 reported sales of independent insurance agencies and brokerages. We know from experience that many of these transactions and nearly all larger sellers—as in all other industries—turn to the guidance of an independent advisor when they're thinking of conducting a merger or acquisition. Is it really more prudent to engage an advisor than to simply go it alone?

M&A advisors can bring an extensive array of services to the table, but in the end, they generally fall into the following primary categories:

- Advocate for the seller in all aspects of the process
- Experience from other transactions with buyers and other sellers
- A dose of reality for the seller.

Most sellers only get one opportunity to sell the business they have spent years building: providing expert advice and services for their clients, advocating on their behalf in pricing negotiations and claim situations. When they finally decide to find the right buyer for their firm, it's time for the selling agent to become the client and call on an expert advisor for advice on how to sell the business, something they've probably never done before.

More so than in years past, the potential buyer group is vast and diverse:

- Publicly traded brokers, most very experienced in acquisitions and offering fair value and a predictable future for your firm, your staff and your clients
- Private equity backed buyers with money to invest, some with nearly as much M&A experience as the public brokers to those just getting into the insurance brokerage business
- Other privately owned firms in which a true merger or acquisition could accomplished, if the valuations, ownership or capital structure mesh well with the cultural fit of the firms.

Each firm, from whatever ownership category, will have a different personality, their own approach and biases to the acquisition process, and will be advocating on behalf of their own firm, not the seller's. This is a a subtle but significant point.

Along with acting as the seller's primary advocate, the advisor's functional responsibilities throughout the seller-representation engagement include:

1. Developing a thorough understanding of the seller's business by reviewing and analyzing various types of financial and operational information as well as face-to-face meetings with principals and key employees, as necessary, to learn as much as possible about the company and the people

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2 Preparing the "seller profile" report, including the pro forma income statement for delivery to the buyer universe based on the in-depth knowledge of the seller from Step No. 1. This standardizes the information requested by most potential buyers in a common format

3 Building a list of potential buyers with the client and making the initial marketing contacts and screening with the buyer group. All buyer discussions are subject to execution of confidentiality agreements to protect the interests of the seller's firm.

4 Responding to questions from the buyers' review of the profile, isolating serious candidates and coordinating meetings between prospective buyers and the client to expose the seller to multiple buyer organizations' management, staff and firm culture

5 Soliciting formal offers from interested buyers and summarizing key points of difference for the client. Because price is not always the sole driver of the selection for the seller, assisting with the objective (price and terms) and subjective (culture, fit, people, etc.) qualities of the potential buyers is always a critical aspect of this process.

6 Once the preferred buyer is identified, negotiating the most attractive deal terms possible, keeping other buyers in wait in case something comes up to quash the deal.

7 After agreeing to final terms, assisting the seller's other advisors regarding purchase and sale documents, buyer's due diligence and general project management of the formal closing process. The advisor will also create separation and a buffer between seller/subsequent employee and buyer/subsequent employer on difficult or contentious matters through the negotiation process. It is good to have both a lightning rod and shield throughout the process.

Throughout this process, the advisor is continually establishing reasonable expectations on the part of the seller, whether it's purchase terms, contractual issues, timing or other matters. There is a plethora of slightly to materially inaccurate anecdotal information floating around the agent-broker M&A universe. The advisor can sort through fact and fiction for their clients, providing guidance on industry customs and practices based on extensive experience and knowledge of the M&A market.

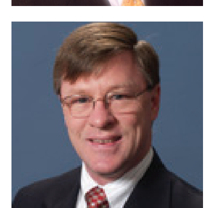
The critical starting point and key driver of value is the pro forma income statement. Experienced advisors collaborate with their clients to establish the pro forma based on the in-depth knowledge of the seller. The advisor will also identify unique characteristics in seller's operations that can be incorporated creatively into the negotiation of price/terms, all for the benefit of the seller. Generally, buyers will not have the same level of knowledge of the seller, and will not be able nor are necessarily motivated to drill down as deep as the advisor to find incremental value for the seller.

Buyers by nature will also be more aggressive in their pricing and terms when there is an advisor involved because they know someone else is advocating for the seller, and because there may be other potential buyers in the mix. Although most buyers will approach the acquisition opportunity in an attempt to be fair with the seller, they are still first and foremost working for the best interests of their own firm. Using an advisor will help ensure the price and terms of the transaction are the best available for the seller.

Selling the business can be extremely disruptive to the ongoing operations of selling insurance and taking care of clients. It is a very time consuming and arduous task for the inexperienced seller to effectively negotiate his way through the transaction steps on top of maintaining the business focus. Many buyers prefer transactions where the seller has engaged an independent advisor because they are more familiar with the various stages of the transaction process.

When it comes to selling your business, likely the largest asset in your portfolio, an advisor's impact on the value of the transaction for their client can be material, in price, terms and contract language. Moreover, agency principals can minimize the distractions from running the day-to-day operations of their business, which usually is a full-time job for most of them.

As a smart person once said, given enough time, he could probably make his own car, if he was so inclined. But since time is such a limited resource, why would any of us choose to invest it so heavily in something we aren't intimately familiar with? There are plenty of people who know how to build a house or make a car—or help you sell an insurance agency. These firms or individuals can bring tremendous value and ease of mind to their clients, generally far in excess of what they are paid for their services. Why would anyone not want to take advantage of their expertise and wisdom when dealing with such personal financial matters? AA&B



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