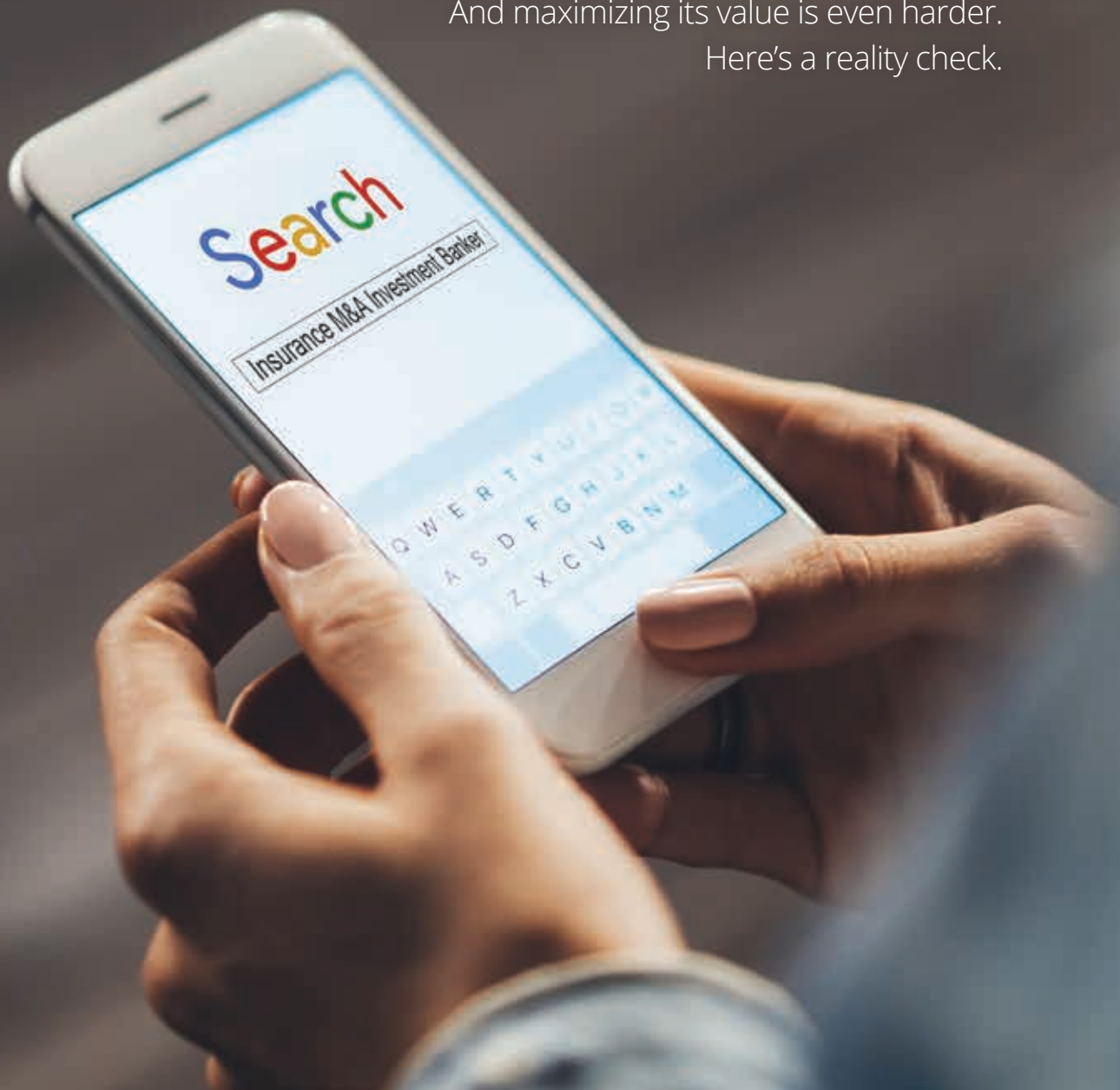


What Am I Worth?

Everything in our society has a value —
but valuing a privately-held business is complex.
And maximizing its value is even harder.
Here's a reality check.



What am I worth? What is the value of my business? How much could I get if I sold my business today?



By **Brian Ambrosia,**

Vice President

440.220.5430

Brian.Ambrosia@MarshBerry.com

**These are questions
that are reeling through
owners' minds in
today's vibrant merger**

**& acquisition ("M&A") market,
where buyer demand, jaw-
dropping multiples and record
numbers of deals are piquing the
interest of privately-held business
owners that might have never
considered selling before.**

But the reality is, even if these questions aren't top of mind for some insurance agency owners who may truly have little or no interest in entertaining deals, all agency owners should understand what their business is worth.

Unfortunately, there is a great deal of misinformation and oversimplification regarding independent agent and broker valuations. "It ain't what you don't know that gets you in trouble. It's what you know for sure that just ain't so." Samuel Clemens (aka Mark Twain) said it, and firm owners have learned this lesson the hard way for generations. What you think you know about your business's value could negatively impact how much you actually realize from its eventual sale. Consider the reasons why homeowners hire a realtor to represent and sell their homes for them. An agent helps them price the home appropriately, so the owner doesn't leave any money on the table or ask so much that their listing is blacklisted.

In the current M&A environment, there are plenty of sellers who think they know their value and feel they can handle a deal without an advisor. They're not hiring a "realtor" to guide them through accurate valuation, due diligence and deal negotiation because the booming M&A market deceives them into believing they simply can't go wrong. We have seen many cases where a buyer has made them an offer that exceeded

what they thought their business was worth but the offer was in fact below market. Based on our experience, firms that believe they "know their value" are usually misinformed. This can be a risky position for an owner who is selling their most valuable asset. Even if selling is not on the radar, a clouded view of value can interfere with making strategic business decisions.

As a society, we put a value on everything, and some things are easier to value than others. Property can be valued by consulting the Multiple Listing Service (MLS). Publicly traded stocks are easy to value because they are traded on open markets. Even personal property like automobiles and jewelry can be easily valued. Privately-held businesses, however, are much more challenging to value. That's because there are a range of variables that impact value, and lots of misconceptions about what real value means and, most importantly, how to maximize it.

Want to know what you're really worth? Let's dig in.

Here's What Doesn't Determine Your Value

You may have heard the term "fair market value." The IRS defines fair market value as the price at which a property can change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts.

While that sounds good in theory, it's not really applicable in today's M&A market, where it's difficult to conceive a scenario where buyers and sellers are "not under any compulsion" to close a deal. Buyers have piles of cash they are looking to deploy and are feverishly competing for deals in a never-ending effort to grow. Sellers, who otherwise may not even be looking to sell, are selling to capitalize on the premium valuations being paid in today's market, diversifying their assets, and forming partnerships to position themselves to maximize their potential. So, be sure not to confuse your agency's "fair market value" with what it would be worth in an external sale.

Another common mistake is assuming you know your company's value because Firm ABC sold for X amount — and Firm XYZ sold for even more, and since your business is larger, well then you must have a greater value. Countless times, when asked, “How do you know your value?” we hear owners compare their firms to others that recently sold. The size of your business is important, but there are many other, equally important factors that influence how buyers price deals.

The oversimplification of valuation is a great disadvantage. And, because of the sheer number of transactions that are taking place, there is lots of noise about who sold for what and who bought this for that. Owners tend to talk about multiples of revenue. Buyers, on the other hand, are concerned with and make offers based on multiples of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Sellers often speak of the multiple they received from a sale, and they often exaggerate or do not specify the multiple they received at closing vs. on an earn out several years later.

Not to mention, there are plenty of firms who have buyers knocking on their doors, which can also skew their perception of value. Suddenly, they are in “high demand” and must be worth more, right? Not necessarily. Insurance agencies of all shapes and sizes get calls gauging their interest in selling. Just because you are too doesn't help you determine what your firm is actually worth.

All of these scenarios create a complicated stew. It's no wonder that owners have ideas about their worth. But getting an accurate understanding of value is critical, whether or not you are thinking about selling. Knowing your true value helps you identify areas of your organization that need improvement and opportunities for growth. You can plan for the future with knowledge of where you actually stand today.

How M&A Skews the Picture

We estimate that approximately 50%-60% of the transactions that are closed in the insurance distribution sector are publicly announced. The rest are private transactions that are not announced to the public.

With 580 publicly-announced deals closed during the calendar year, 2018 was a record-setting year as far as the number of transactions.¹ Comparatively, there were 188 deals that were made public for the entire year of 2009. Of the 580 that were closed in 2018, 283 of them closed in the first half of the year. The first half of 2019 — during which 280 transactions closed — was equally frenetic and suggests that we are poised to repeat 2018's performance.

Top 3 Things to Know When Looking to Sell

1 A true assessment of the value of your business.

An honest and accurate assessment of what your business would be worth on the external market will help ensure you don't leave any money on the table. Value drives smart decision-making and can help you plan for goals you want to achieve down the road.

2 Identifying the characteristics of an ideal partner.

The financial terms of a transaction are important. But finding a partner that is a fit culturally with you and your staff is equally, if not more, important. There are dozens of active buyers in the insurance distribution space. Chances are there's one out there that is an ideal partner.

3 Who is going to guide you through the process?

Wise owners realize that their expertise is running a business, selling their knowledge to the industry, and delivering excellent service. They partner with professionals to help them determine accurate value.

This unprecedented M&A activity is prompting firms of all sizes to consider their value and how they might capture opportunity in this high-demand market. Valuations are inflated, resulting from all-time highs of the multiples on which firms are trading. Still, value is not based on hearsay or “wins.” And, buyers knocking on your door don't mean your firm is worth more.

The problem with today's active M&A environment is that so many owners feel informed about value — but are they really? You might come to conclusions about what you're worth based on what you're seeing in the market but by doing so you could end up selling yourself short. Value is a common cocktail party conversation, a discussion that's

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buzzing at tradeshows and meetings. It's talked about behind closed doors and out in the open. But the issue is, value is often not talked about accurately.

So, what are you really worth?

Of course, we'd need to know more about your business before assessing its value but rest assured that it will be worth your time and effort to have your business assessed by an expert. Being informed about value drives smart decision-making, plain and simple. Knowing what you're worth today can help you plan for goals you want to achieve down the road. An honest and accurate assessment of your firm's value in the market will help ensure you don't leave any money on the table if or when you do decide to sell.

Wise owners realize that their expertise is running a business, selling their knowledge to the industry, and delivering excellent service. They partner with professionals to help them maximize the value of their asset. Just like the homeowner who enlists a realtor to maximize their return on a piece of real estate, savvy business owners align with experienced advisors to discover their real worth and maximize their value in a transaction. ■

*All transactions are announced deals involving public companies, private equity backed brokers, private companies, banks as well as others including private equity groups, underwriters, specialty lenders, etc. All targets are U.S. only.



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Second Look Services

MarshBerry's Second Look Service can help keep buyers and sellers of insurance brokers out of trouble through a comprehensive deal review process.

In today's high-paced, fast moving M&A market, it is easy to leave value on the table. Reviewing Merger & Acquisition (M&A) transactions before it is too late is imperative to confirm that pricing, terms and deal structure are properly evaluated. MarshBerry provides buyers or sellers with the benefit of having the industry's top ranked adviser¹ looking out for their best interest. The success of a transaction is often measured years after the deal closes. There are steps you can take today to solidify long-term success.

MarshBerry's Second Look Service is tailored to each deal, including a review of any or all of the following:

- ✓ Income Statement Pro Forma
- ✓ Balance Sheet Pro Forma
- ✓ Working Capital Requirement
- ✓ Letter of Intent or Term Sheet
- ✓ Structure Alternatives
- ✓ Post-Closing Compensation
- ✓ Earn-out Provisions and Alternatives
- ✓ Purchase Agreement Language
- ✓ Intangible Asset Amortization
- ✓ Accretion/Dilution, Return on Investment and Internal Rate of Return Modeling (for Buyers)
- ✓ Industry Comparables
- ✓ Indemnification Provisions
- ✓ Buckets and Baskets
- ✓ Conditions to Closing
- ✓ After-Tax Proceeds

Regarding the above items, Marsh, Berry & Co., Inc. and MarshBerry Capital, Inc. do not provide tax or legal advice.

Tax and legal professionals should be consulted separately before making any decisions that may have tax or legal implications.

¹S&P Global Market Intelligence, data pulled as of March 6, 2019; showing the top five advisers with the largest number of deals in 2018 (three-way tie for fourth place).