INS Capital Group

Why hire an M&A Advisor?

The decision to hire an M&A advisor (more importantly the right M&A advisor) could be the most significant decision a seller makes as they look to exit their business. Many agency owners feel they are qualified to handle the sale of their agencies themselves, but for most deals, that is not the case. Understanding the market to ensure they are getting the best price, structure, and buyer for their agency, while also continuing to run their business to achieve maximum results, is simply too much for most owners. An M&A advisor typically handles only 5-6 deals each year because of the time each deal requires. How can a business owner, who already has a full-time job, expect to correctly navigate the M&A process without dropping the ball? The expertise and experience a seasoned M&A advisor brings to the table often makes or breaks whether a deal closes. Nine times out of 10 the decision comes down to the cost of using an advisor but a good advisor will pay for themselves.

Even professionals hire professionals

One of the largest insurance lenders in the country was recently acquired by a public bank. The lender employed approximately 75 people, a large portion of whom had done nothing but handle acquisitions for years. Their staff includes some of the best M&A professionals in the country (CPA's, attorneys, bankers, underwriters, etc), so they obviously didn't need to hire an investment banking firm to help them in their sale, right? Wrong. If a company with that type of expertise felt the wisest course of action was to hire outside help, why wouldn't your average business owner?

Risks of going at it alone

It's ironic insurance agents are in the business of helping their clients eliminate or greatly reduce risk, yet often fail to understand the risk of trying to sell their agency by themselves. It's no different than one of your clients with major holes in their insurance coverage ignoring your advice and being exposed to an unnecessary amount of risk. Here are a few risks posed to an agency owner when going through an acquisition:

1. Selling for less than the agency is worth
2. Unsuspectingly entering into an exclusivity agreement with a buyer
3. Wasting countless hours and resources speaking to buyers that aren't serious acquirers
4. Overvaluing their business and never selling it
5. Maintaining confidentiality throughout the exit process
6. Agreeing to terms with a buyer who is unable to secure financing or otherwise close the deal
7. Negotiating poorly and being forced to sign a one-sided purchase agreement
8. Not having an outlet between the themselves & the buyer when things gets difficult

Our team has been involved in over 150 insurance agency acquisitions in the past 10 years, and many of those were working on behalf of a buyer. Two common occurrences we see when sellers represent themselves include; 1) the buyers get a great deal and 2) the transaction is a nightmare to complete (a few nearly falling apart all together). When a seller has representation, it is the exact opposite. Prices are steep, but fair, and there is little worry about getting through due diligence and negotiating the purchase agreement because experienced professionals are involved to help navigate the inevitable twists and turns that happen during transactions.

Good advisors pay for themselves (and then some)

As mentioned earlier, the primary reason sellers don't seek help is because of the perceived cost. When you look at the value provided by an advisor during the exit process, that perception is proven inaccurate. An advisor's network of buyers and lenders allows them to cast the widest net possible when searching for qualified buyers. This process allows the advisor to find a strategic buyer for the agency, rather than a buyer who will acquire the agency only if the price is right. Strategic buyers have inherent advantages other acquirers do not, which helps them increase the top line and profitability of the seller's firm, allowing them the option to pay more than the average buyer.

Without fail, over the course of every transaction, 95% of the buyers say the price is too high and the deal won't cash flow. The other 5% (who will be the final pool of candidates the seller chooses from), often comment the projections are spot on, maybe even a little conservative given their plans for the agency. Allowing a seller to pick from a pool of strategic buyers, rather than the other group, will increase the amount they receive at closing. Not only is the final figure higher than the seller's initial estimates, it's normally high enough to pay the advisors success fee, ***and still come out ahead***. In addition to the financial rewards, you have the assistance of a professional to navigate the acquisition process, the comfort of knowing you didn't leave money on the table and that your business' legacy is in the best hands possible.

Not only will a good advisor ensure their client is getting the best price for the agency, they also can present the seller with buyer options they never would have considered by representing themselves. In the last three transactions we've completed, the sellers ended up choosing a buyer that was well outside their network. In each case, the seller decided those buyers were much better equipped to take their business to the next level, while treating their customers and staff in the same manner the seller would have. Each of those clients made comments like, "I'm so glad you introduced me to them." or "They are perfect for my agency and I never would have even thought to call them." Simply put. You don't know what you don't know.

A deal gone south

Sellers who focus their attention on dealing with the numerous requests of buyers, run the risk of having their business decline. That exact scenario happened to a seller we spoke with in Georgia two years ago. They listed the agency through an online marketplace for acquisitions and spent

months dealing with the inquiries from the website. They selected a buyer, signed an exclusive Letter of Intent and assumed they would close within 60 days. Instead, the acquirer was turned down for financing, tried to "flip" the deal to an "affiliate" of theirs (the Letter of Intent stated the buyer, or an "affiliate" of the buyer would be the acquiring entity). The affiliate was a friend of the original buyer who had never purchased an agency before. He spent three months calling every lender in the country to get financing, which was unsuccessful because he lacked the resources and experience to do a deal of that size. Over the course of six months the seller spent so much time dealing with the buyer's (and lender's) requests, the top line of his agency dropped by 15%. When he called us to do a valuation on his agency and assist him in the sale, his value had decreased by $400,000, which was not enough to allow him to retire. Two years later he's still working to get his agency back to the level it was when he first began the process.

Summary

The decision to sell your agency is likely the most important professional decision an owner makes outside of the initial decision to become a business owner in the first place. As highlighted earlier, electing to take that journey alone can lead to disastrous results. If the primary reason a business owner would elect to take that risk is money, rest assured an experienced M&A advisor not only doesn't cost you money, but increases your odds of maximizing the value of your firm while giving you multiple choices for who will carry on your agency's legacy.

About INS Capital Group

INS Capital Group, LLC is an M&A and Capital Solutions advisory firm specializing in insurance industry. Over the past 10 years, our advisors have consulted on over 150 insurance transactions representing over $250M in transaction values. Our clients have included Retail Agents, MGAs and Program Administrators. To find out more visit our website, www.inscapitalgroup.com, or contact us at info@inscapitalgroup.com.

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