

HALES & COMPANY
INVESTMENT BANKERS

Integrity, Value, Results



*The Buy Side
Transaction Process*

The Buy Side Transaction Process

Tips and Strategies for Executing an Acquisition.

If done properly, acquisitions can be a useful tool to drive growth and take advantage of economies of scale.

Many business owners and principals in the insurance distribution industry are curious about the acquisition process and the steps involved with implementing an acquisition strategy. The following document is provided as a general overview intended to help familiarize those who are exploring making an acquisition.

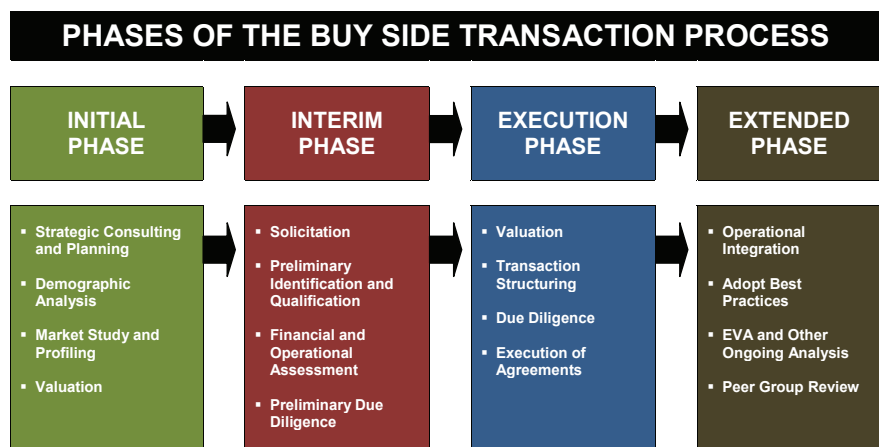
This process applies whether the acquirer is an insurance broker or agency, an employee benefits operation, a managing general agent, or a related insurance distribution entity. While the type of business being evaluated for

acquisition will change from opportunity to opportunity, the underlying process and principles involved with executing a successful acquisition strategy principally remain the same.

For purposes of discussion, the acquisition process is broken down into four phases: Initial, Interim, Execution, and Extended, which are set forth be-

low. Within each phase, several key steps are noted and can serve as a preliminary checklist for those embarking on the process.

The successful purchase of an insurance distribution entity is one that requires careful thought and planning. It is important to carefully consider each step in the following areas:



The Initial Phase

Below is an illustration of the opening stage in the process, The Initial Phase.

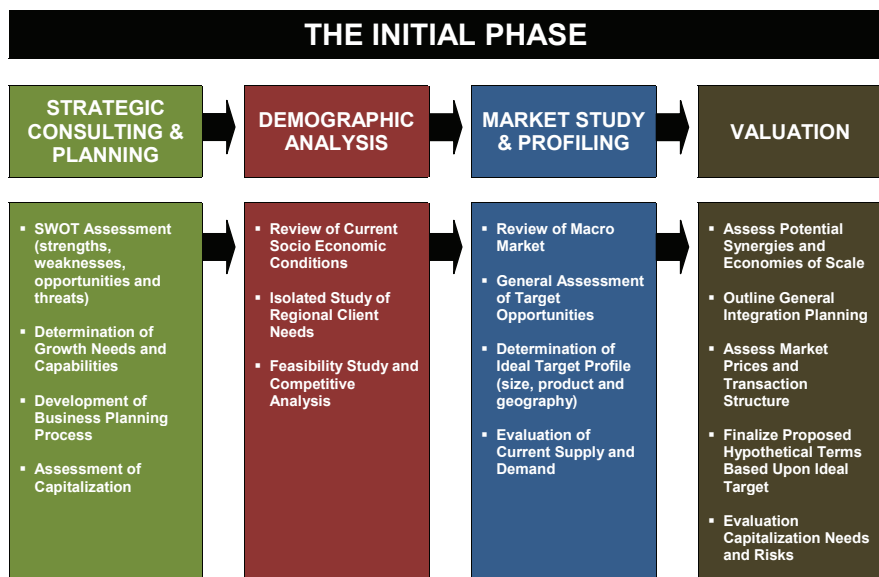
Some key steps in the initial phase involve determining shareholder goals, understanding the typical prices paid for a business, and performing research on the acquisition marketplace.

This phase sets the tone for how well the remaining steps in the process are executed. Being well prepared and informed will help to minimize challenges and unpleasant surprises as one moves along in the process.

The following graphic highlights some areas to consider in prepa-

ration for making an acquisition. Discussion of these areas with other executives and employees involved with the process will

also help to bring out other points of interest and objectives that would be important in an acquisition.



The Interim Phase

The illustration below is of the next sequential set of events in the process, The Interim Phase.

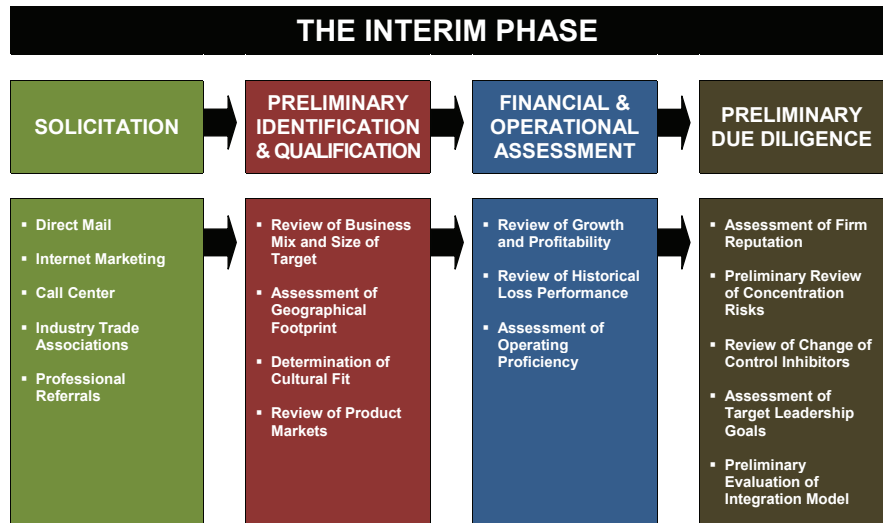
Some key steps in the interim phase include soliciting and contacting targeted sellers, performing initial assessments and qualifications, setting up initial meetings and evaluations, and doing preliminary due diligence.

It is important to note that this phase also may include preliminary negotiations of the transaction on a high level as well as employment terms and certain role definitions within the acquiring entity.

Also important is the ability to articulate to a prospect the positive benefits of selling their busi-

ness. This is where the initial phase is important because an acquirer will already have prepared a list of positive attributes (i.e. entrepreneurial environment, expansion and growth opportunities, strong financial standing, etc.) that would entice an owner

to sell their business. It is important to note that there are differing motivations for selling a business and that listening carefully to what a target is trying to accomplish will help to determine whether the business would be a good fit.



The Execution Phase

The illustration below represents the sequential set of events in the process, The Execution Phase.

One of the first key steps in the execution phase involves determining valuation tolerance for an offer. Armed with the information gathered during the initial phase, an acquirer can confidently put together an offer that is fair and enticing to the seller without running the risk of overpaying.

It is important to note that some sellers have unrealistic expectations about the value of their business and that sometimes it is better to walk away rather than overpay for an acquisition.

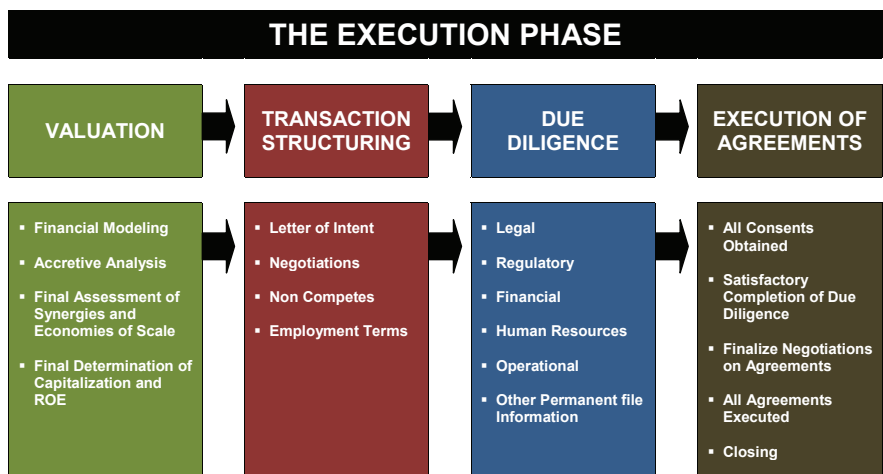
Again the initial phase is important, because an acquirer will know how much it is prepared to offer based on various financial

metrics of the target. If the target accepts the preliminary offer in the form of a letter of intent, then other steps in the execution phase fall into place.

Structuring of the transaction, performing formal due diligence, and executing formal documentation pertaining to the transac-

tion are some of the key steps within this phase.

This is the most challenging phase of the entire process as professionals such as lawyers, accountants, and consultants converge on the transaction and refinement of all deal terms are negotiated for the final time.

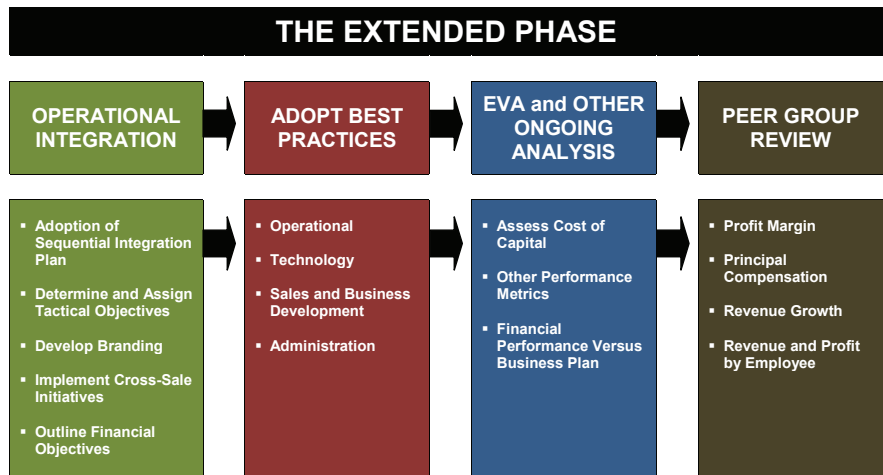


Extended Phase

The illustration below is of the sequential set of events in the process, The Extended Phase.

Several key steps critical to the ongoing success of an acquisition are highlighted below. Often, they are overlooked as many industry professionals consider the acquisition complete at the time of closing.

It is important to remember that in reality, the acquisition is simply beginning and in order to be successful, ongoing assessments must be made from a financial, tactical, and operational perspective.



Most acquisitions among privately-held firms actually decrease shareholder value. It is

vital that acquirers are aware of these issues and points in order to create long term success.

HALES & COMPANY
INVESTMENT BANKERS

We Invite You to “Profit from Our Experience”

www.HALESGROUP.com