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*The Sell Side
Transaction Process*

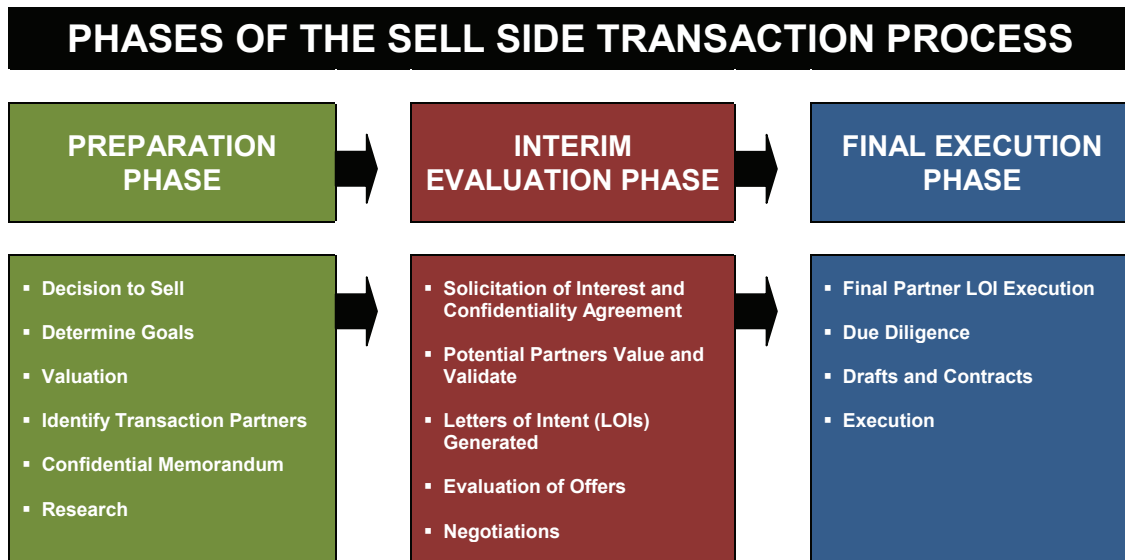
The Sell Side Transaction Process

Tips and Strategies for Executing a Sale.

Whatever the motivation may be, the owner or principal of an insurance distribution entity may decide that they would like to explore the sale of their business. Many are curious about the steps involved with selling a business and what is entailed in order to successfully complete this process. The following section is provided as a general overview intended to help familiarize those with this process.

This outline applies whether the business involved is an insurance broker or agency, an employee benefits operation, a managing general agent, or another type of insurance distribution entity. Included are basic principles and steps typically followed throughout the process that aid in the successful consummation of a transaction. The three broad phases of the process are Preparation, Interim Evaluation, and Final Execution, which are set forth below. A decision to sell is not always easy. Owners and princi-

pals must fully understand the financial implication to the sale as well as acknowledging the potential changes that lie ahead. Owners and business executives involved with the sale must remain apprised of the market dynamics which impact valuation, obtain the most favorable terms, fully understand the tax implications of the transaction, as well as have a clear grasp of post-transaction events and changes so that they are well prepared.



The Preparation Phase

Four key steps in the Preparation Phase involve determining shareholder goals, understanding the value of the business, performing research on the acquisition marketplace as well as developing

the confidential memorandum. This phase sets the foundation for all of the remaining stages of the process. Active discussion of goals among the owner(s) and key business executives will help to facilitate ideas about how to accomplish certain objectives, who the ideal

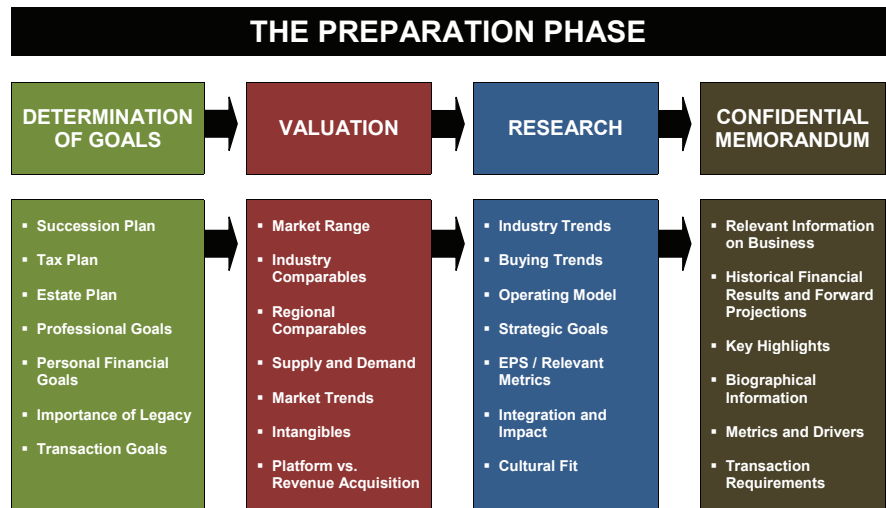
transaction partner(s) would be, what amount of financial consideration would be needed, and other relevant issues important to this group. Performing research and being aware of the typical values offered in the marketplace will help during negotiations with a potential

acquirer as well as help to ensure that fair value is being received for the business.

Another key aspect in this phase is the preparation of a confidential memorandum. This book resembles a combination of an annual report and marketing brochure. Within this piece contains a general overview of the business, historical financials, and positive attributes that would be enticing to an acquirer. Having organized financial statements will aid greatly in the preparation of the confidential memorandum. It is important to note that it is common practice to adjust the financials for any excess expenses that are not expected to continue post-transaction. Examples include ex-

cess compensation for owners and principals, extra fringe benefits such as country club dues or vacation trips, and non-critical business expenses.

Adjusting for these expenses has the effect of increasing profitability for the firm, which will enable the owner(s) to obtain a higher value for their business in a transaction.



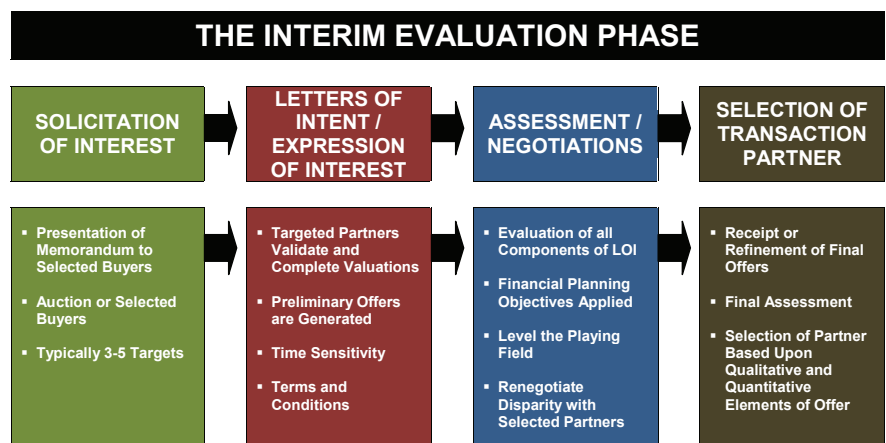
The Interim Evaluation Phase

The Interim Evaluation Phase is essentially the period of time when the seller of the business goes out to market and contacts potential acquirers. The Preparation Phase previously discussed is important because by this time a list of viable acquirers has been already prepared and agreed upon. In order to keep matters confidential when talking with a potential acquirer, only high level information is revealed such as amount of revenues, general geographic location, and current lines of business. If the potential acquirer is interested in learning more about the business, they usually agree to sign a confidentiality agreement that allows them to receive the confidential memorandum.

After receiving the confidential memorandum, the potential acquirer

may then want to set up a conference call or physical meeting to talk with the owners and key executives. These initial calls and meetings serve as a way for both parties to get to know each other and answer any questions that may arise. Afterwards, initial negotiations, reverse due diligence, receipt of initial offer(s), renegotiation of salient items contained in the initial offer(s), evaluation of all offer(s),

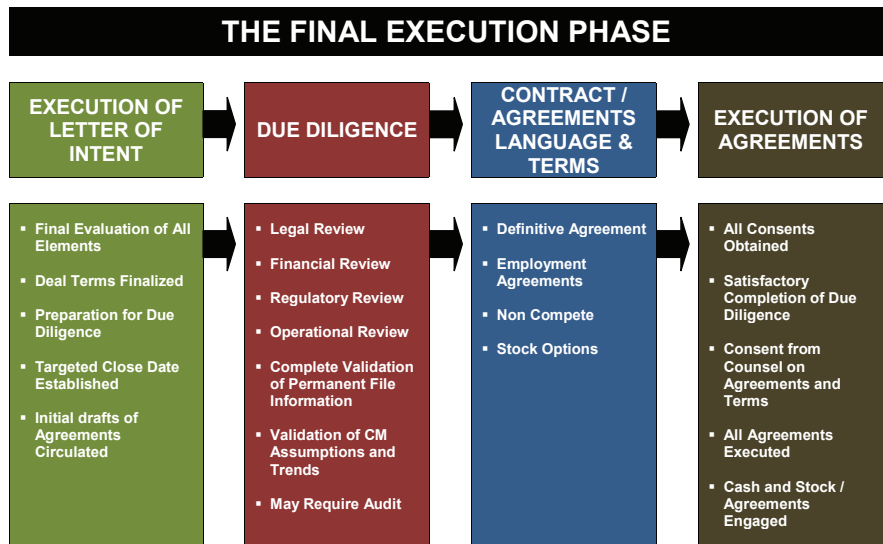
and selection of the transaction partner occurs. Again, the Preparation Phase is important because the seller will be armed with information about the going value for their business as well as typical transaction structures involved. It is important to note that this phase also includes negotiations of post-transaction employment terms as well as role definition within the acquired entity.



The Final Execution Phase

This phase is typically the most daunting out of the entire process as the number of professionals converging on the transaction increases and refinement of all deal terms are negotiated for the final time.

While the whole transaction process may seem intimidating, the rewards will be substantial to those who have a clear understanding of their objectives and are fully informed about the process. Preparation is key and even if one is not ready to sell now, being cognizant of the issues and factors involved will help to make the process smoother once it is undertaken in the future.



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