



2010 Outlook – M&A and Beyond

2009 was the least active year for M&A in the last decade. Compared to 2008, announced deals in the brokerage sector were down 45% and 55% amongst bank owned firms. Where do we think 2010 is going to shake out, and how does that affect the independent agency owner?

Is there Life after the Great Recession? In a thought piece published in May 2009, *State of M&A: Dead Calm After the Perfect Storm?*, we provided our analysis of the state of the marketplace that is now reinforced by an additional six months of market observations as reflected in the year end data. We also recently updated the current state of the M&A environment in a Video Report for *Business Insurance* magazine that you may find interesting as well. With the depth and breadth of the economic malaise of the last 12-18 months, the heretofore very active “buyers” continue to be extremely cautious.

Some industry prognosticators are forecasting a return to almost normal levels of M&A in 2010, perhaps more out of hope, hype and trying to lead the pack than real economics and finances. There continues to be glimmers of hope across the economy, but the pace and diversity of the recovery is lagging. Although the stock market has had a tremendous run since mid-March, with several benchmarks up nearly 50%, any optimism created has not yet brought unemployment down or investment activity up to any significant degree. Finally, as you are painfully aware, the property-casualty market remains soft and the impact of the healthcare reform effort is a big unknown.

As you navigate your way into 2010, you may have concerns regarding the lingering impact of the “Perfect Storm” of the economic crisis, the soft property-casualty market and the near-term uncertainty due to healthcare reform. We do not have the proverbial crystal ball nor do we have all the answers. However, you may find our experience base and exclusive focus in the insurance distribution sector provides a fresh and unique perspective.

Thus, if you are an acquirer, we believe a cautionary approach is prudent as you consider the impact of an acquisition on your firm. If a seller, recognize the impact earnings compression due to restrained organic revenue and profit growth has on agency values that many owners have yet to fully accept. However, any pent up demand among buyers needing to grow revenue and earnings through acquisition may help fuel deal activity and some price firming.

As a result of the above, this may also be a good time to review your agency valuation and/or valuation formula in your shareholder agreement to be certain it continues to accurately reflect the value of your firm. An independent analysis and valuation will help avoid the inadvertent surprise from a potential material gap between an out of date formula value and the current appraised value.

OPTIS Partners is an investment banking and financial consulting firm with extensive insurance distribution industry experience. Our expertise lies in providing agents with Appraisals of Fair Market Value for shareholder formula, ESOP's, estate planning or perpetuation purposes, as well as a broad range of financial services to our clients with an emphasis on:

- Merger & Acquisition representation of Buyers and Sellers, including due diligence reviews
- Financial performance review, including a review of trends and internal controls
- Ownership transition and perpetuation planning
- Quality control, E&O loss control and process improvement

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