Managing General Agents' Association

MGAA

Mergers and Acquisitions

Optimising your outcomes

At some stage most senior executives in MGAs will confront strategic change through M&A activity. Often this will involve selling a business, an area where Resolution Partners excels.

M&A is an art not a science and avoiding mistakes is key if you want to optimise your outcome. Numerical analysis is vital in insurance M&A, although strategy and tactics also matter a lot. There are few short-cuts but experience is a big help: here are our ***Top Ten Tips*** for success.

1. Plan ahead

It may sound obvious, but **planning ahead** is a major contributor to successful M&A. The acronym Prior Preparation and Planning Prevents Poor Performance is never more applicable than in an M&A situation.

Assemble your team, brief your people, clarify roles, seek external advice where internal resources are inadequate. Make sure all the bases are covered.

2. Identify your goals and objectives

Life can get pretty intense in an M&A environment, and it's important to **know what matters to you** at every stage. Is value paramount? Or speed? Achieving a clean break? What about secrecy? Protecting your staff? Your preferences will have a bearing on your approach and tactics to the whole process.

As a buyer, don't be the person on a **'fishing trip'** who hasn't worked out what matters to them. Be careful to avoid acquiring that reputation as memories can be long.

3. Think about external factors and parties

External factors can hugely affect your outcome. Some are **outside your control** – unexpected actions by third parties, for instance – but many can **be predicted**.

So think hard about who your **counter-parties** are; ideally you will already know them personally. Look at their circumstances and work out what they will and won't be doing, and how you can best use their likely actions to your advantage.

Don't be caught out by **political** or **regulatory change**, for example, by a Budget, referendum or election.

And pick your time with care: for example, the refreshing effect of any **increased premium levels** after the recent hurricanes may lead to more companies put up for sale.

4. Strike while the iron is hot

Once a process has begun, it's important to **maintain momentum**. A stalled process can be hard to restart. Counter-parties get distracted by other projects, there may have been an erosion of trust, and data starts to get stale. So there is a moment – or moments – in most processes where taking definitive action can mean the difference between success and failure.

In sell-sides, people often talk about '**competitive tension'**, which is the beneficial effect of having several buyers competing for the deal. The concept is simple, but knowing when to commit and close things down takes skill.

5. Be flexible

While having a clear idea of your goals is important, so too is keeping an **open mind** and **being responsive**. A counter-party may propose something you hadn't expected; it might turn out to be a blessing in disguise. An event might occur which means your tactical plan needs to be changed, and it could be costly not to respond to it.

6. Know your numbers……

Probably the single biggest lost opportunity and disappointment in company sales happens when data turns out to be **poorly prepared, incorrect or stale.** This undermines both value and confidence in the process.

It is vital to know what your numbers – especially your profits - would be **'in the buyer's hands'**. You want to capture the value of everything you have, and so you need to **re-engineer** your numbers so you know, and can show, exactly how much income and profit your buyers can expect your business to generate. Often it **takes several months** to properly prepare the answers.

You should show both elements of the profits of the MGA, **distribution** and **underwriting**. There may also be **costs** to be saved or **commissions** to be avoided, so show them.

Re-engineering your insurer's **loss-ratio data** may be hard, especially if you have multiple classes and carriers, but it must be done with precision if you, rather than your buyer, are to benefit fully from the value of your portfolio: this can be one of the **bigger components of value** for an MGA.

Similarly, you may account for **premiums** differently to your buyers, so these may need to be recast, and **insurers' expenses** broken down and matched to actual activity.

And last, your business may create **enhanced growth opportunities** for your buyers, so spell these out.

7. …..and know what you're worth

Value is usually the biggest single question in any M&A transaction. It's the one aspect which can be **objective**, although determining value can be pretty subjective.

There is a big difference between **value** and **price:** value is what an asset is worth, and price is what is paid to get it. **Value** and **affordability** are also crucially different.

An array of **valuation methodologies** is available, but probably the most common approach for insurance intermediaries is a **multiple of adjusted profit**. Clearly, both the multiple and the profit to which it is applied need to be very carefully assessed and negotiated.

We aim to **capitalise every element** of the seller's *'in the buyer's hands'* profits at a multiple that is applicable to the buyer, and use **'competitive tension'** to close gaps if there is a preferred buyer whose price is not the highest.

It's easy for a seller to think they **know who will pay most**, but be prepared for surprises. MGAs tend to think their carrier is the logical buyer, but someone else might pay more for the opportunity to **displace the incumbent**. One of the recurrent features we see is a **wide range** between highest and worst offers. It is not unusual for the highest offer to be double the lowest.

The scope to improve the value element of a deal can therefore be high: we regularly achieve values which are **multiples of premiums** rather than just commissions.

8. Culture, culture, culture

If there is one issue that matters as much to us as value, it is **culture** and **cultural fit**.

It's a truism, but businesses are only the sum of the people in them, and every business develops its own unique culture. It is of paramount importance that there should be an understanding of cultural aspects of a deal, and ways found to **harmonise culture** as the two businesses come together.

There are a number of tools to use in this area, including extensive **due diligence** before the deal is consummated and deploying **incentives**, not only financial, after the deal closes. Next to value, this can be the biggest single point of focus in a deal and is often a significant differentiator between success and failure.

9. Stay calm under fire

Leading on from the need to meld cultures post-deal, it's important to keep a **sense of proportion** and avoid aggressive language and behaviour while a deal is negotiated. When someone gets riled, the deal often turns out to be unsuccessful because the process itself is usually something of a **pressure cooker**, and adding unnecessary heat can be harmful. Keep calm!

10. It doesn't end at Completion

It's too often the case that a buyer's 'deal team' **breathes a sigh of relief** when a deal closes and hands over to an integration team. The seller, too, can **lose sight** of the integration benefits and revert to their pre-deal comfort space. It can be a disaster if the **hard-won understanding** that led to the specific terms of the deal is lost, especially for a seller if there is **performance-related deferred consideration** at stake.

Both buyer and acquired company owe it to each other not to lose sight of these elements. A common mistake is for a buyer to **impose themselves unduly** on its new purchase, leading to **distraction** from doing the day-to-day business and a **loss of identity** and motivation.

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Please feel free to get in touch. Resolution Partners is a highly experienced, hands-on strategic and M&A advisory team. We offer a very personalised approach and have advised on over 60 transactions, including many insurance-related sell-sides. We welcome any enquiry, at any stage of your thinking.

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