PRIVATE EQUITY CAPITAL: HOW THE ROLES OF PE FIRMS AND FOREIGN INVESTORS AFFECT BUYERS AND SELLERS

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Today, entities around the world recognize what early investors knew all along: the brokerage business is a smart place to put their money. A low-interest rate environment has generated an influx of capital from private equity firms, foreign investors and sovereign wealth funds streaming into the United States, all seeking out greater returns. What these entities have discovered is that, despite economic conditions, brokerage firms, with their relatively recession-proof business model, continue to deliver above-average financial returns year-over-year — and they want a piece of the action.

What this has done is create an investment environment with more buyers targeting the same industry, which has significantly elevated the valuations of the underlying brokerages.

In addition to the traditional players, smaller PE-backed companies have come onto the scene, with the goal of building up a string of acquisitions and then either selling them or recapitalizing to continue building forward. Instead of approaching these acquisitions for the long-term gains, the goal is to turn them in three-to-five years, make their money and move on.

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If you're an agency owner who's thinking about selling, you're in demand. It's a sellers' market.

But, with so many additional buyers in the ecosystem today, it becomes more critical to look beyond the dollar signs when vetting offers, and match the buyer to what you want your "life after the sale" to actually look like.

If you're a buyer, you've got more competition. You'd best be prepared to tell your story, explain your approach and articulate your differentiators, because you won't be the only firm knocking at the brokerage's door. Sellers have become much savvier consumers. Middle-market bankers and advisors have done a much better job of educating their clients, not only on valuation but on the kind of value proposition each type of buyer offers.

It's no longer just a financial transaction.

MATCHING SELLER MINDSET TO BUYER VALUE PROPOSITION

Every seller is at a different stage in his or her life and career. The seller who's seeking an immediate retirement will be more focused on purely up-front considerations in a transaction and will be less motivated by strategic integration, protecting the firm's legacy or enhanced career opportunities for their employees. In this case, the choice is fairly simple — go with the highest up-front offer to the quick-turn investor.

If the seller wants to stay with a business but needs a little more structure, the best choice is the PE firm that's known for moving its acquisitions into one, standardized way of doing things. In many ways, this is a transaction of dollars for culture. If the buyer has that structure and the seller would rather be out selling than running a business, this is going to be a stellar match.

The greater challenge, and the opportunity that requires the most vetting, is the brokerage owner who wants to take the business to the next level, but still protect the existing culture, position and staff. As the seller is seeking a long-term relationship, he or she has to connect with a buyer who's seeking the same — and has the methodologies and desire to enhance the existing agency, without turning it into a generic corporate entity.

SELLING WITHOUT SELLING OUT

Finding that kind of buyer takes a little more due diligence than the other options. But by comparing investors' capabilities in these key areas, sellers can zero in on the best choice and eliminate buyers that are more focused on seeking out shorter-term opportunities.

CROSS-SELLING OPTIONS

The prospective buyer's portfolio should be strong enough to help the acquired agency capitalize on its established relationships by selling those customers more products. That means a P&C firm might seek out a buyer who could bring a benefits line to the table.

REGIONAL POSITIONS AND OTHER HR OPPORTUNITIES

An acquisition could also bring different opportunities for both principal and employees, like regional management positions. If these exist and are readily filled by acquired company personnel, the seller will typically offer up this information and take an interest in the acquired company's personnel very early in the negotiation process.

INTEGRATION PROCESS

Selling means moving to a centralized CRM, a new email and family brand, which is great — unless that onboarding takes so long that it disrupts business.

Buyers should be able to articulate their onboarding process, as well as how involved the acquired principal will be in guiding that transition. The onboarding process should take months, not years, and it should be flexible enough to happen in a way that's best-suited to each acquired agency.

CHANGE MANAGEMENT SUPPORT

From an employee perspective, the word "acquisition" almost always triggers fear. "Will I lose my job?" "What do my benefits look like?" Those questions, and fear of the unknown, can keep staff members up at night and bring the most agile brokerage firm's productivity to a standstill.

A buyer who's interested in the seller's staff will not only discuss change management, but will have tools in place to help employees and customers understand, and get excited about, what's to come. Most importantly, the acquiring company should put the owner in the driver's seat of the change management strategy, including the buyer's level of involvement in the process.

PRESERVING THE EXISTING CULTURE

Yes, insurance is a business, but for brokerage owners, it's more than that. It's personal. Not only is their name often on the door, but their personalities are infused throughout every aspect of the company — from service to community involvement to employee development. Their culture is their strength, their differentiator and the reason their agencies have come so far.

The best way to ensure that a buyer values a seller's culture is to take a look at that investor's other acquisitions. Overarching branding and technology will change, but the foundational elements of the way the seller operates shouldn't have to.

THE BOTTOM LINE

No question — a new acquisition era is upon us, fueled by an influx of foreign capital and far more interest in the insurance industry than any time in the past. Just remember that as a seller, you have options. As a buyer, you have to more effectively target firms that fit your way of doing business.

The good news is, there's something for everyone. The key is taking time to look beyond the dollar signs to find buyer/seller relationships that match all involved parties' mindsets and goals.