

Ready or Not

M&A opportunities abound in today's market.
A "sale-ready" brokerage can enhance value.

| FIRST INSURANCE | M&A: "Sale ready" |

Joe Micallef has good news for sale-minded brokerage owners: the world is their oyster. Mergers and acquisitions (M&As) are often the only way for businesses to grow in a soft market, giving sellers an advantage, says Micallef, CEO of First Insurance Funding of Canada. "Owners know that if they put up a 'For Sale' sign, they'll have people banging on the door." The catch? Brokers might jump into a deal before they're really ready.

Careful preparation can add real value to a brokerage — and be the cornerstone of a good succession plan. Micallef should know: with almost 20 years experience funding M&As in the insurance industry in Australia and Canada, he has seen many acquisitions that have gone right, but also a few that have gone wrong. "It's one thing to manage a good shop," he says. "It's another to ensure that it's sale-ready." Here, he shares five best practices to do just that.

1 KEEP PAPERWORK CURRENT

Micallef points to the housing market for sale-ready parallels. "When someone sells their house, they clean up and put on a pot of coffee." Brokers should aim for the same tidiness in their documentation. Financial reporting (including monthly results), and client records housed in the broker management system should all be current, he stresses. So should employee, carrier and other partner contracts, like leases. And, with payables and receivables updated (nothing should be out beyond 90 days), "someone should be able to come in, look at your business and say, 'I'm ready to buy this,'" he says.

2 SHIFT CLIENT RELATIONSHIPS

Owners may have good client relationships, but if they want to sell, those ties, and the vendor's mindset, should evolve. "[Vendors] should position themselves as an owner-investor rather than an owner-operator," Micallef says. That means ensuring that producers own the client

relationships. "If [clients] rely on you as the owner, it will impact the acquisition and your succession plan."

3 PREPARE FOR A FINANCE APPLICATION

Most buyers need financing to complete an acquisition, and vendors can help them get it. Finance companies see things in black and white, regardless of any goodwill between the buyer and seller, Micallef notes. That underscores the need for spotless financial and client-base records. "Do you want to make it easy for them to borrow money?" he asks. "If you can, it will ensure that the acquisition is seamless, as well."

4 KEEP YOUR TEAM IN THE LOOP

A brokerage might be sale-ready, but are staff members? Keeping a sale under wraps could affect morale once news gets out, triggering resignations or client defections, warns Micallef. That can make for "a potentially disastrous transition," he says.

Owners can avoid this pitfall by sharing the succession plan with their senior management team and possibly their employees. That will keep staff engaged and reassured. Openness can have other benefits: a buyer may emerge from within the ranks, Micallef adds. "If you start positioning early, you can better groom your senior management team for success."

5 KNOW YOUR POST-SALE ROLE

Some might think a sale allows them to move to cottage country immediately, but that's usually not the case. Many acquisitions require owners to stay for a transition period, in some cases, as a salaried employee. "You have to accept that you have new management and a new role," says Micallef. "In order to maximize client and staff retention, [the new owner] may want you involved beyond the sale date. Be clear about your role or responsibilities post-sale." ■