

## MEASURING AND MAXIMIZING THE VALUE OF YOUR AGENCY

*Sponsored by Demotech, Inc.*

*Serving the Title Industry for more than 25 years*

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## Size and survival are independent



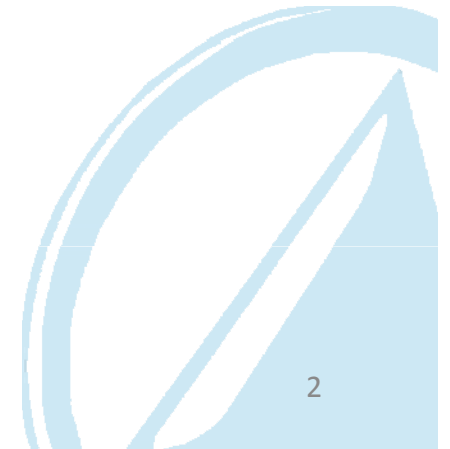
DRAGONFLY:  
300 MILLION YEARS OLD



T-REX:  
EXTINCT

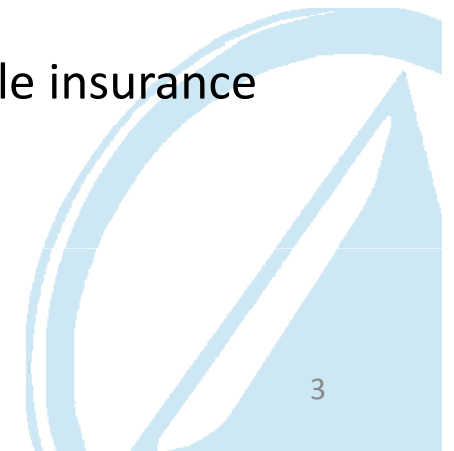
**Nature knows size and survival are independent.**

Demotech, Inc. had to prove that to the insurance industry.



## WHY DEMOTECH, INC.

- Publisher of “Performance of Title Insurance Companies”: Includes all publicly traded Title underwriters and most of the regional and local Title underwriters.
- Demotech has been reviewing and rating Title underwriters since 1992
- Demotech was the first company to review and rate the entire industry
- Leading provider of Title industry financial data
- Reputation and experience in the industry is unmatched
- Proprietary benchmark data and analysis
- An independent appreciation of the value proposition of Title insurance



# THE CORNERSTONES OF MEASURING AND MAXIMIZING VALUE

## Today's Agenda

### Valuation

#### Valuing Your Firm

- What creates value
- Traditional valuation concepts and major components
- Review & analysis of financial history – corporate as well as industry
- Valuation methods that measure your firm's unique strengths
- Benchmark - with industry and historical valuations

### Exit strategy

#### Planned Exit or Retirement

- Getting ready for exit
- Understanding the major milestones
- Positioning and timing for exit
- Transition of leadership

### Merger or Acquisition

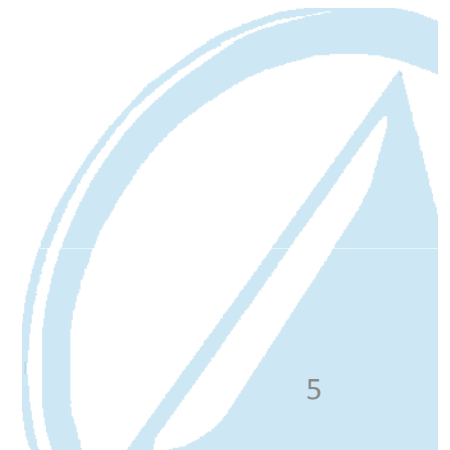
#### Representing Buyers or Sellers

- Understanding of the Title industry for highest and best value
- Industry activity and contacts
- Prospecting for buyers or sellers
- Marketing and positioning
- Closing the deal



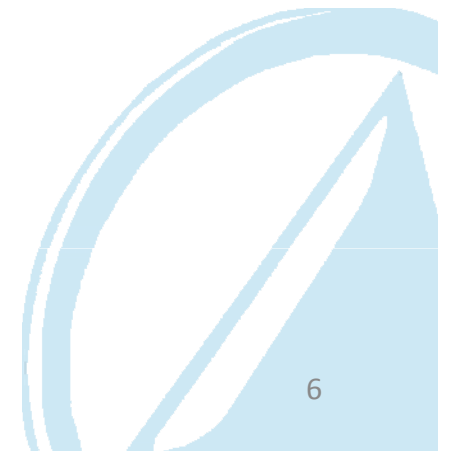
Maximizing the value of your agency

# VALUING THE TITLE AGENCY



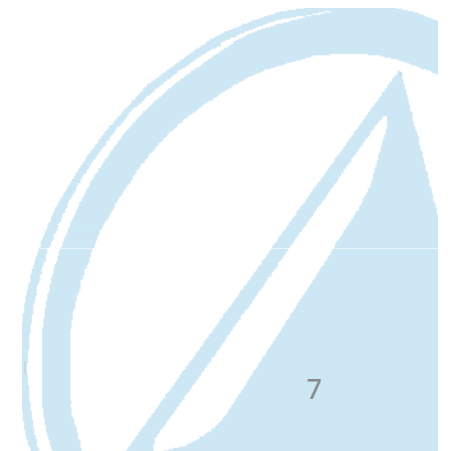
## VALUATION FOR WHAT?

- Retirement
- Exit
  - Planned
  - Urgent
- Estate planning
- Managerial transition
- Employee stock ownership



## VALUATION FOR WHO?

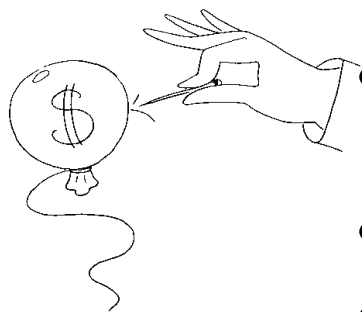
- Owner / operator buyer
- Strategic buyer
- Financial buyer



## How Value is Measured

### All Buyers

- Profitability
- Growth rates
- Industry niche
- Competitive advantage
- Management
- Comparables
- Financial markets
- Customer concentration
- Regulatory landscape
- Technology
- Operational processes



### Strategic Buyers

- Operational synergies
- Complementary marketing, sales and distribution
- Expansion of customer base
- Horizontal or vertical integration

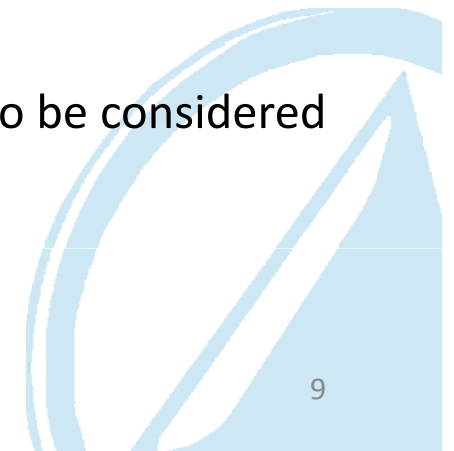
### Corporate / Institutional Buyers

- Fund culture
- Fund charter
- Exit mechanism
- Financing
- Existing portfolio of clients



## MAJOR COMPONENTS OF VALUATION

- Competitive marketplace
- Recent sales or comparables (if any)
- Historical valuations and models
  - **Private company comparables** are recent sales of “like” companies; the preferred yardstick for all valuations if you are “like” everyone else
  - **Public company comparables** are typically not applicable for small to medium sized firms
  - The **discounted cash flow analysis** extrapolates value by projecting forward gross profits and net cash flows and discounts them back to current periods
  - **Leveraged buy out model**, used primarily by financial buyers, who are constructing financial models to calculate how much debt a business can carry yet produce a financial breakeven
- Gross revenue valuation – a multiple of gross revenues
- EBITDA valuation – a multiple of the adjusted bottom line
- Forward looking projections require *objective* documentation to be considered credible
- Gross profit valuation – values the company on gross profits



## Industry Aggregate Loss Ratio by Channel (in \$ Millions)

	Direct Operations			Non-Affiliated Agency			Affiliated Agency		
Period	Direct Premiums Written	Direct Losses Incurred	Loss Ratio	DPW	DLI	Loss Ratio	DPW	DLI	Loss Ratio
2002	\$ 2,616	\$ 151	5.80%	\$ 7,056	\$ 368	5.22%	\$ 3,292	\$62	1.91%
2003	\$ 3,576	\$ 197	5.53%	\$ 9,250	\$ 359	3.89%	\$ 4,166	\$104	2.49%
2004	\$ 3,303	\$ 197	5.98%	\$ 9,402	\$ 398	4.24%	\$ 4,015	\$ 104	2.56%
2005	\$ 3,678	\$ 239	6.52%	\$ 10,084	\$ 560	5.56%	\$ 4,327	\$ 115	2.67%
2006	\$ 3,849	\$ 186	4.84%	\$ 10,107	\$ 568	5.63%	\$ 3,787	\$ 115	3.05%
2007	\$ 3,905	\$ 337	8.65%	\$ 8,579	\$ 786	9.17%	\$ 2,973	\$ 173	5.82%
2008	\$ 2,782	\$ 288	10.35%	\$ 6,022	\$ 778	12.93%	\$ 2,194	\$ 207	9.43%
2009	\$ 2,419	\$ 238	9.88%	\$ 5,659	\$ 613	10.83%	\$ 2,216	\$ 145	6.56%
3 <sup>rd</sup> qtr 2010	\$ 1,709	\$ 212	12.41%	\$ 4,185	\$ 415	9.93%	\$ 1,652	\$ 132	7.96%
<b>Total</b>	<b>\$ 27,840</b>	<b>\$ 2,050</b>	<b>7.37%</b>	<b>\$ 70,349</b>	<b>\$4,849</b>	<b>6.89%</b>	<b>\$ 28,626</b>	<b>\$ 1,156</b>	<b>4.04%</b>

## Example: Individual State Loss Ratio by Channel (in \$ Millions) North Carolina

	All Operations		
Period	Direct Premiums Written	Direct Losses Incurred	Loss Ratio
2002	\$ 94,379	\$ 10,851	11.50%
2003	\$ 125,191	\$ 11,030	8.81%
2004	\$ 132,484	\$ 17,544	13.24%
2005	\$ 144,844	\$ 17,751	12.26%
2006	\$ 170,131	\$ 17,375	10.21%
2007	\$ 177,655	\$ 26,327	14.82%
2008	\$ 125,956	\$ 51,072	40.55%
2009	\$ 112,604	\$ 22,212	19.73%
Total	\$ 27,840	\$ 2,050	16.08%

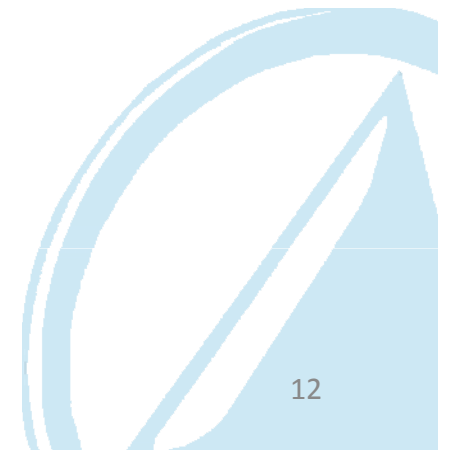
### The Potential Affects of Loss Ratio's On Valuation

Scenario 1	\$ 3,000,000	\$ 30,000	1.00%
Scenario 2	\$ 3,000,000	\$ 482,400	16.08%
Scenario 3	\$ 3,000,000	\$ 600,000	20.00%



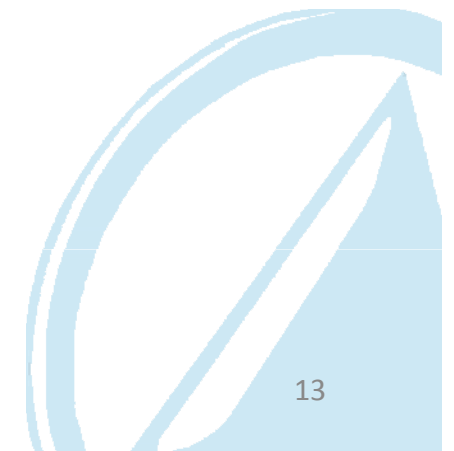
Preparing you and your agency for the future

## **EXIT STRATEGY**



## Types Of Exiting Agency Owners – Which Are You?

- Get me out **now** for the most value
- I am **electing** to keep working
- I am sticking around to exit at a later date for a higher value
- I am ready and well prepared to exit
- Not ready and need more information



## Rules of the Road

- **Start the Process Early**

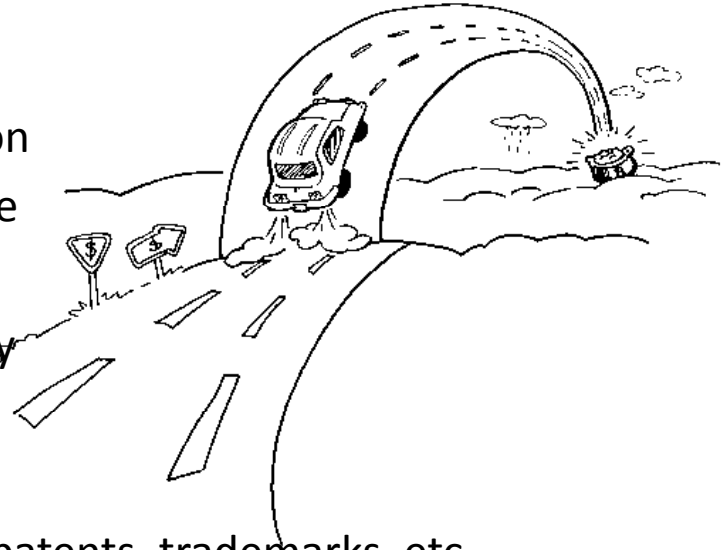
- 3-5 years before the sale is not uncommon
- Put your *Investment Memorandum* on the shelf and update it annually
- Have the Investment Memorandum ready for serendipitous opportunities

- **Get Your House in Order**

- Financials, operations, contracts, leases, patents, trademarks, etc.
- Make sure that everything is assignable to the buyer and be prepared for extensive due diligence
- Execute a non-disclosure agreement with every professional involved in the process

- **Buyer's Point of View**

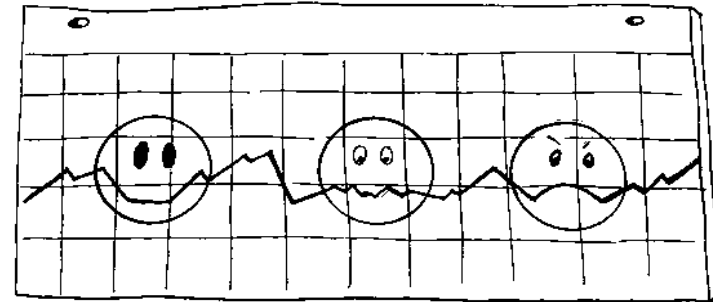
- Buyer cares about stable revenue streams and growth potential
- Take time to understand your potential buyer's point of view, interests, and motivations



## Rules of the Road [continued]

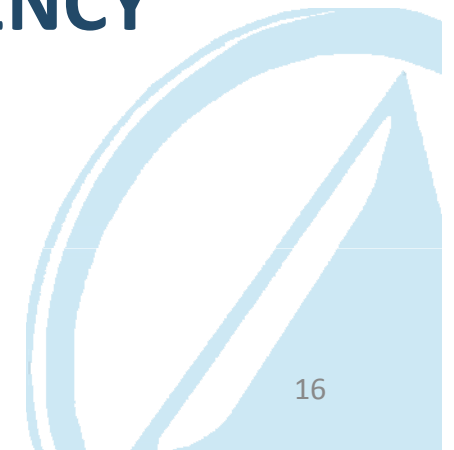
- **Make Yourself *Less* Central to the Business's Success**
  - If all of the key decisions revolve around you (the owner), the value of the company will be limited without the owner and, therefore, the business is less attractive to a buyer
  - Identify or hire key staff to be leveraged as an internal resource
- **Remain Focused on Running and Growing Your Business**
  - Keep the sales process confidential so that you do not endanger relationships with key clients, employees, or partners whose departure could threaten a transaction or the internal operations of your business
- **Get Professional Assistance**
  - Valuation, due diligence, and the marketing of your business
  - Without competent advisors, you decrease your chances of selling your business at its maximum price





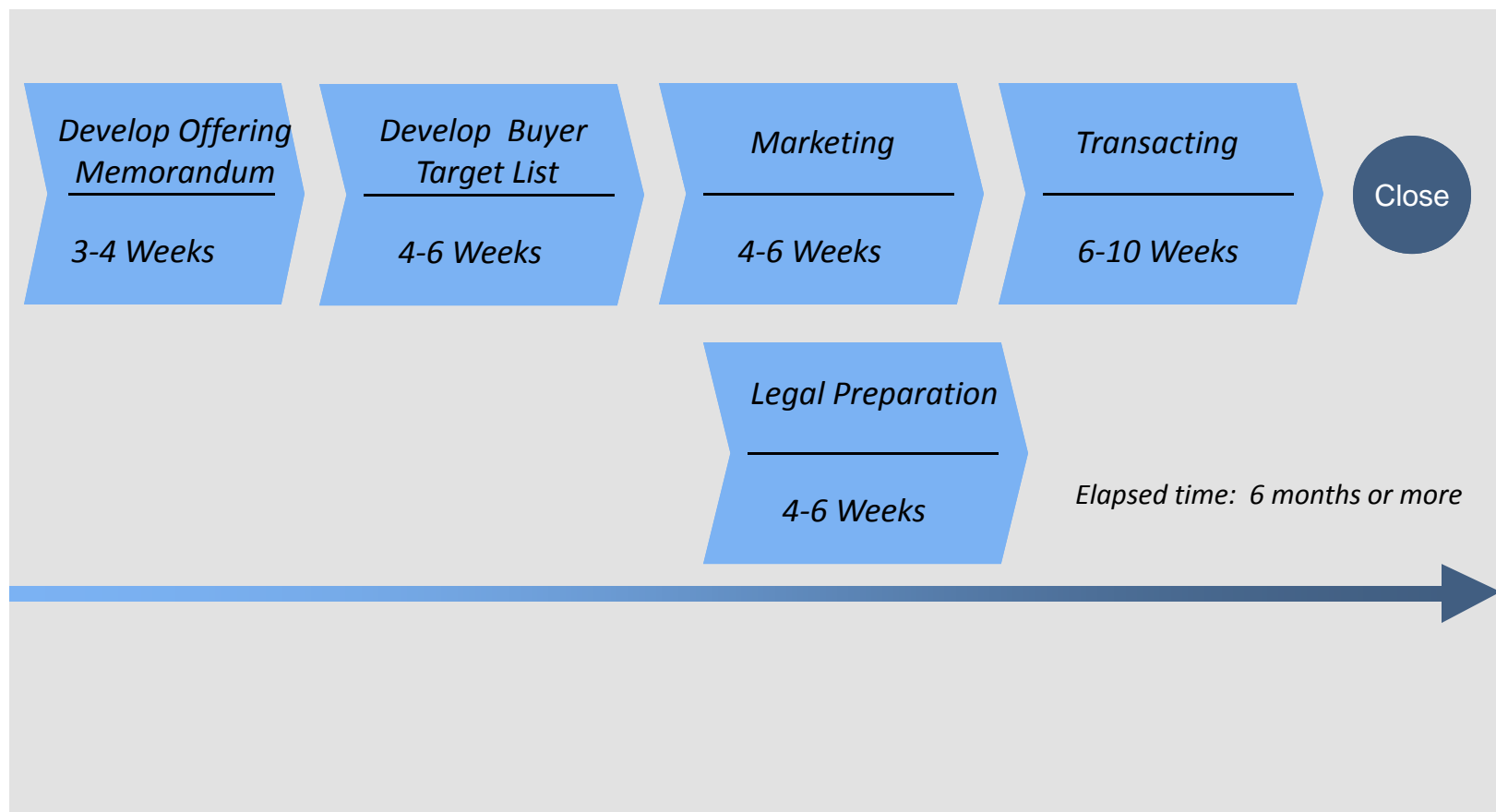
MAXIMIZING THE VALUE OF YOUR LIFE'S WORK

## MARKETING AND SELLING YOUR AGENCY

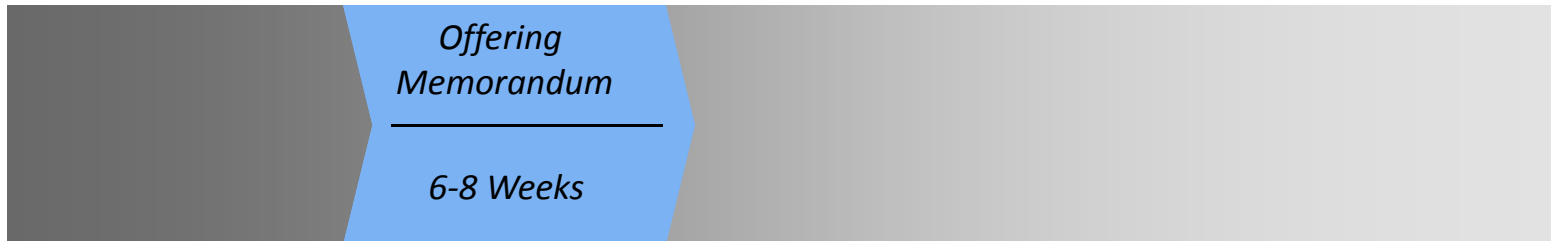




## OVERVIEW OF THE PROCESS – ASSUMES A VALUATION HAS BEEN COMPLETED



## YOUR OFFERING MEMORANDUM



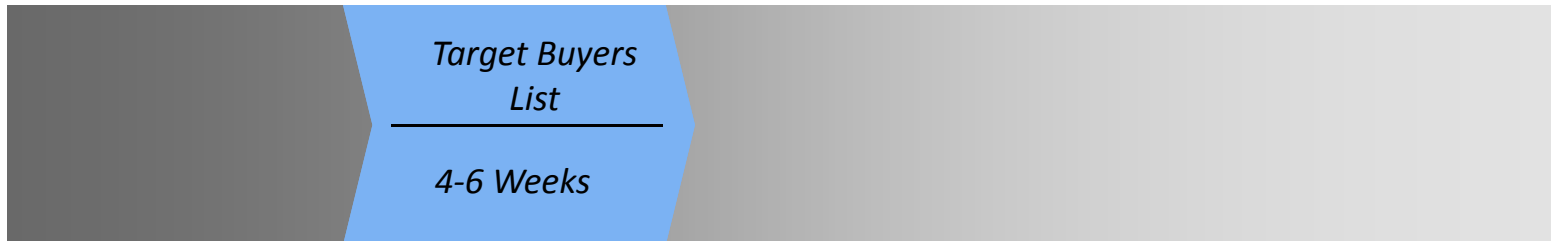
### *Activities*

- Authoring detailed Investment / Offering Memorandum and Executive Summary
- Preparing a detailed financial *pro forma*
- Compiling back-up material in “data room”

### *Deliverables*

- Offering Memorandum and Executive Summary
- Data Room – Have your documentation ready and available for presentation to serious, qualified buyers

## UNDERSTANDING AND QUALIFYING BUYER'S

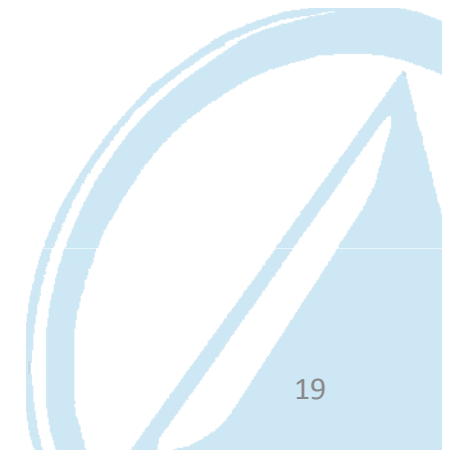


### *Activities*

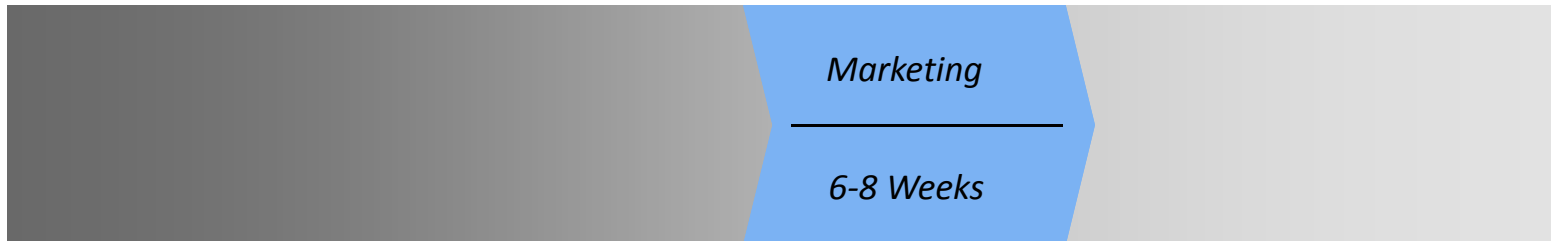
- Prepare a potential buyer list
  - Strategic investors
  - Financial investors
  - Owner/operators
- Multiple sources
  - Briggs / Demotech network
  - Industry analysis
  - Proprietary databases
  - Management interviews
  - Your input

### *Deliverables*

- Buyers' List for your consideration



## MARKETING AND POSITIONING YOUR FIRM

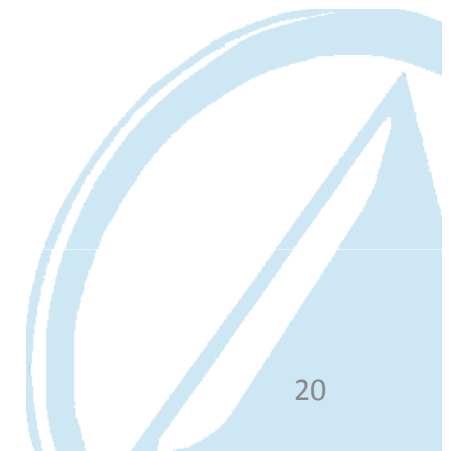


### *Activities*

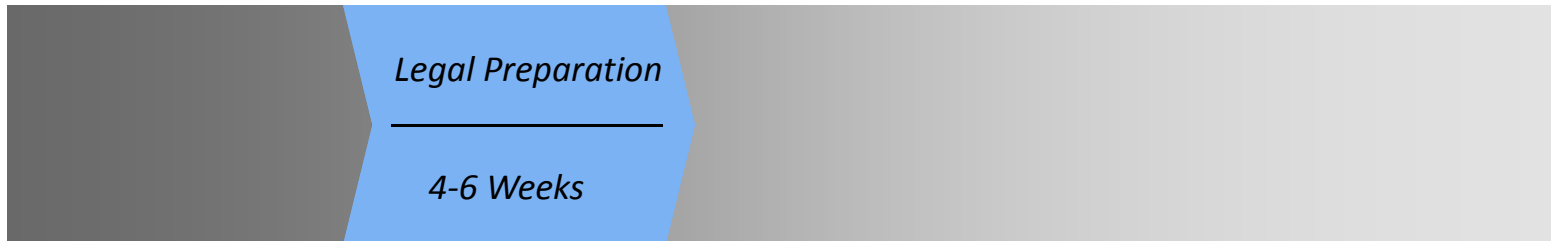
- Contact potential buyers
- Deliver Confidentiality Agreements and distribute Offering Memorandum
- Conduct initial management presentations
- Select “finalists” and “runners up”

### *Deliverables*

- A qualified buyer and a back-up plan



## LEGAL PREPARATION

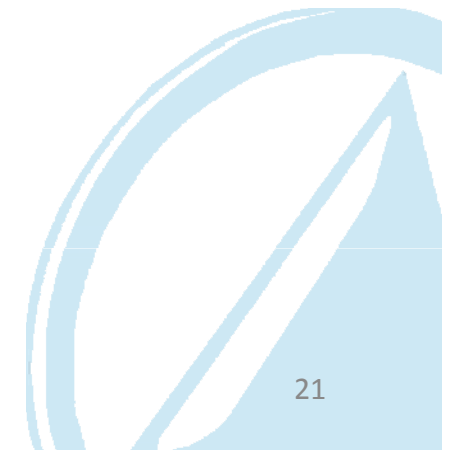


### *Activities*

- Assemble corporate charter, shareholder agreements and other legal documents
- Obtain necessary consents from other shareholders
- Prepare Non-disclosure - Confidentiality Agreement

### *Deliverables*

- Legal dossier for Data Room
- Confidentiality Agreement
- Consents



## TRANSACTIONING

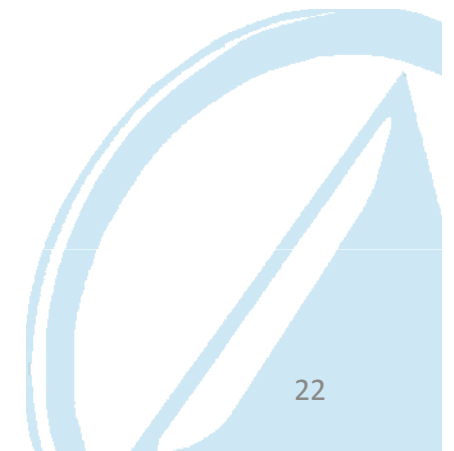


### *Activities*

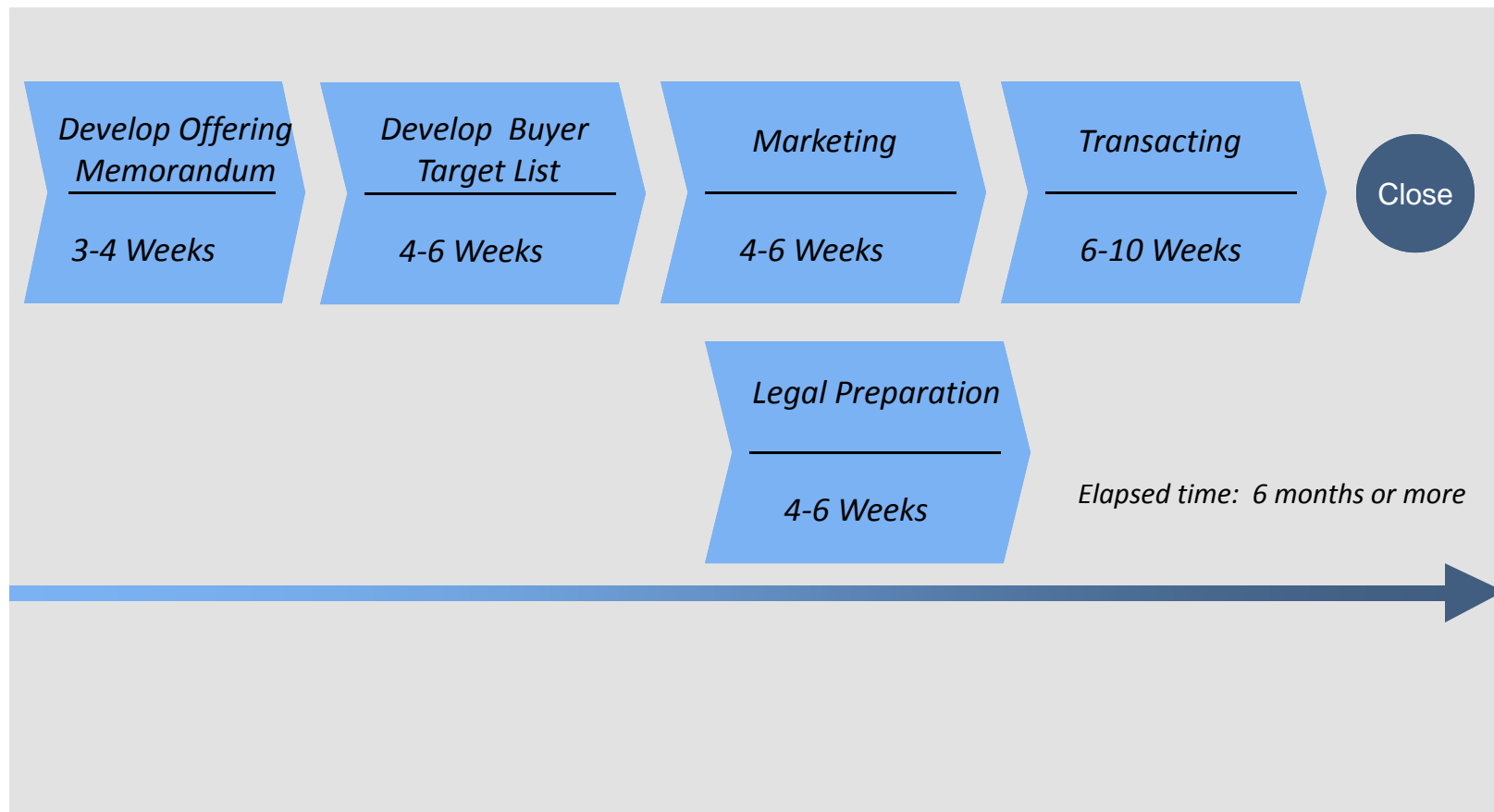
- Negotiate definitive Purchase Agreement
- Complete *due diligence*
- Finalize financing and other documentation
- Close

### *Deliverables*

- Closing

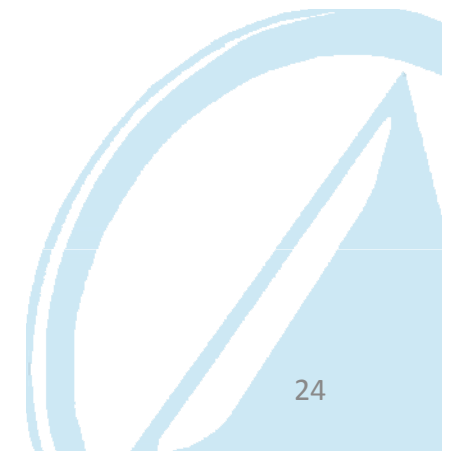


## OVERVIEW OF THE PROCESS – ASSUMES A VALUATION HAS BEEN COMPLETED



GENERAL DISCUSSION

**QUESTIONS?**





PLEASE CONTACT ELLEN M. STEINLAUF [ELLEN@BRIGGSCAPITAL.COM](mailto:ELLEN@BRIGGSCAPITAL.COM) OR  
908-309-6091 OR TO JPETRELLI@DEMOTECH.COM FOR FURTHER  
INFORMATION OR TO RECEIVE A COPY OF THIS PRESENTATION

**THANK YOU FOR YOUR TIME TODAY.  
WE APPRECIATE YOUR ATTENDANCE.**