A Guide to Purchasing or Selling a Brokerage

Your Best Insurance is an Insurance Broker

2014

Prepared By Insurance Brokers Association of Ontario

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1. Executive Summary

There are many questions that should be asked when you are preparing to buy or sell an insurance brokerage. In fact, even if you are not considering either at the present time, there are many steps which you could start to take to place you in a better position for when you are ready. It is never too early to start succession planning.

Buying or selling is a very big decision and often people do not know where to begin. You should start to plan now.

The brokerage is your business and you have the final decision on to whom you decide to sell or who you want to buy. It is the IBAO's opinion that keeping the brokerage business in the independent brokerage channel by selling to another broker is best for you, your staff and your clients.

If you require any assistance on any parts of this information package, the IBAO will be pleased to help you.

Before you contemplate buying or selling your brokerage you should consider the following questions.

1. Are you at a point in time where you want to carefully and discreetly explore the mechanics of buying or selling a brokerage? The IBAO can help arrange use of a team of seasoned insurance professionals or a mentor to be of assistance.

2. Have you ever attended a succession planning seminar or conference? If so, what is the most important thing you learned?

3. Have you discussed the purchase or sale with members of your family and your partners, if applicable?

4. Would you consider selling your brokerage to your staff?

5. How would you rank the importance of your clients and your staff after the sale is completed? Do you feel that the best decision for your staff and clients is to keep the business in the broker channel?

6. Would you consider an acquisition over time? For example, would you consider a vendor take back or some other form or financing to assist the purchaser?

7. Have you any thoughts about the characteristics such as size, mode of operation, location and structure of the entity to which you would like to buy or sell?

8. Have you considered speaking to a few of your largest clients about the sale or growth of your brokerage? What do you think their reaction would be?

9. Have you talked to your accountant about the preferred method to buy or sell your brokerage? Should you sell on an Asset Basis or Share Basis? What are the tax implications to you on each type of transaction?

Think Beyond The Transaction:

You should not underestimate the magnitude of the change this will bring to your lifestyle or the emotional strain that an expansion or sale can cause. It is important for you to consider the following:

1. What do you want to do when the deal is done?

2. Do you want to continue to be actively involved with the brokerage after the expansion or sale? If so, in what capacity and for how long? Would you consider working for an additional 12 or 24 months?

You should realize that many purchasers prefer that the other owner retires immediately; however, there are certainly times when it would be advantageous to have the owner remain tied to the business. For example, the brokerage may insure a niche class of business and it would be of the utmost importance for them to stay on for a period of time in order to help with the transition of the business to the next phase. You should also realize that when a purchaser buys a brokerage, the new owner will most likely implement change as soon as possible. In many situations you may not want to accept these new changes, however, change is inevitable once the brokerage is sold and you should be prepared whether you are a purchases or a seller.

3. Do you see yourself as a mentor to the purchaser of your business? Are you prepared to mentor the staff from the brokerage you purchase?

4. What is your gut feeling about the transaction? Is it a good fit? Do you share a similar business philosophy? Are you comfortable working together?

5. When will you inform your staff?

Communicating With Your Staff:

There are differing opinions regarding the appropriate time to inform the staff that the brokerage has been sold or is growing. The benefit of informing staff early in the negotiations is that you eliminate the risk of information being disclosed by a third party. While this option keeps an open line of communication between management and staff, it also has disadvantages. There is risk in informing your staff in advance in the event that it does not go through. It can create fear and uncertainty among employees and word may spread to insurers which can affect your bargaining power. The decision on whether staff should be informed in advance or on the day of the sale should be discussed and agreed upon between you and other stakeholders. In any case, you need to have a formal staff communication plan in place. It is natural for staff to be concerned about their future so care must be taken to have proper reassurances made to guard against losing personnel.

Preparation for Appeal:

There are many factors to consider to prepare yourself and your brokerage for the change. Your preparedness can make your brokerage more appealing.

1. **Human Capital:** You are probably familiar with the business principle that a business is only as good as its people, their ideas, their experience, the way they do things and their attitude as they do them. Your employees through their commitment and hard work improve business value and make it possible for your organization to reach its goals. Make a list of everything that you have done to recruit, retain, develop, reward and increase performance. Create a log of your employee’s strengths, experiences, expertise, education and designations.

2. **Employment Agreements:** Ideally, every employee will have a signed contract with the brokerage outlining vacation entitlement, salary, benefits or perks, job responsibilities and reporting structure. It is recommended that a non-covenant or non-solicit clause be

included in each agreement. The purchaser will want to ensure that employee(s) do not resign to work for a competitor, start their own business or solicit current clients for a certain period of time. The new purchaser should honour all contracts currently in place and you will need to come to an agreement on who is responsible for severance liabilities for any staff not kept in a purchase.

If a vendor sells a brokerage and the owner or staff is no longer involved in the business, it could significantly impact the continued success of the brokerage, especially for those located in a community outside of a major city. Often, clients of brokerages in smaller communities develop a long-standing personal relationship with the staff or the owner. A change in ownership or staff could persuade clients to shop their insurance elsewhere. You should be aware of this risk.

3. **Employee Benefit Plans:** The employee benefits from both brokerages must be reviewed in detail. Investigate how your benefits package compares to that of the other. In most situations, the benefits plan of the new owner will be implemented and if this results in a reduction in coverage for staff, it must be taken into account when negotiating.

4. **Remuneration:** Pay scales must be discussed. If there is a significant difference in pay scales, you may need to negotiate an agreement. This is a critical point which will impact employee retention.

5. **Dividend:** Typically, brokerage owners can either be paid a dividend or a salary. To stay true to the principle of complete disclosure, earnings paid by dividend will need to be reported to the purchaser separately as these figures will not appear in the financial statements. The purchaser will need this information to complete their analysis.

6. **Broker Management System (BMS):** A close look at your brokerage management system will happen. If the purchaser has a different broker management system in place, it can be expected that the other will need to change. The cost of conversion could be large and staff will need to be trained in a different system.

7. **Ownership Structure of the Brokerage:** This is an important item. If there is a holding company, the purchaser should own all or a large percentage of the shares. You should check with your accountant or lawyer to be certain that everything is in order to enable the sale transition to go smoothly and to ensure that you have the best possible tax advantage.

8. **Analysis:** The purchaser should be provided with a detailed analysis of the purchased brokerage including the history, the present status as well as the future and potential opportunities available to it. It should also include information on the employees and management staff, both past and present.

9. **Operation Procedures:** Whether the purchaser or the seller, you should clearly describe your operation procedures in a formal, written document. It should outline standard items such as date stamping, work flow activity of new business, renewals and telephone calls. It should also include details of your office setup including an organization chart, internal underwriting guidelines and emergency procedures.

10. **Product Mix:** Whether the purchaser or the seller, you should perform a file analysis on your book of business. The analysis should outline the classes of business written in the brokerage, the split between commercial and personal lines, and the categorization of clientele based on a variety of demographics including age, ethnic background, gender, life stage, education and occupation. It should also include a list of programs, niche accounts, wholesale business, Facility business and names of the largest commercial accounts.

11. **Business Plan:** Whether the purchaser or the seller, you should update your current business plan to focus on future. The plan should include the geographical area of operation, premium and commission income projections and an exhibit of income and expenses for the next five years. This item is very important and if you have difficulty developing a business plan, the IBAO can provide assistance.

12. **Errors and Omissions:** The purchaser must be informed of any outstanding E&O claims. It is essential that you purchase tail coverage for your E&O policy. The average term for tail coverage is

three to five years; however, it would be prudent to purchase the maximum coverage available.

13. **Financials:** Numerous brokers have their year-end financial statements prepared on a Notice to Reader basis to save on expenses; however, the purchaser may require financial statements on a Review Engagement Basis. You will need to come to an agreement as to who is responsible for the costs of preparing additional statements.

14. **Personal Expenses:** The seller should identify and remove all personal expenses from the brokerage before they put the brokerage up for sale in order to make it more profitable. This could include automobile expenses and home, boat or life insurance. If they do not wish to remove their personal items, a list of all personal expenses must be given to the purchaser and arrangements made to transfer all expenses by the closing date of the transaction.

15. **Insurers:** The relationship with the insurers should be reviewed before you buy or sell a brokerage. This includes the relationship between the insurer and the brokerage as well as the insurer's relationship with the purchaser. Should the insurers be kept up to date in the sale of the brokerage? An insurer may cancel its contract after the sale of the brokerage if the new owner has a poor relationship with that particular company. It would be prudent to ask a potential purchaser whether an insurer has ever cancelled a contract. The same is true for contracts with wholesalers. A downside to advising the insurer of a sale in advance revolves around the issue of confidentiality. It would be wise to address this issue in the initial contract with the insurer and endeavor to have the CEO sign a confidentiality agreement.

16. **Offices Leases:** You should review the office lease and how it will affect the transaction. Can the brokerage move from the present location or does the present lease have many years left before being renewed? Can the lease be terminated and if so, what is the penalty, if any? Will your brokerage stay at the same location as a branch or will it be moved into a corporate combined office? It is very important to speak with the landlord early in the process to ensure that they agree to transfer the lease to the purchaser.

17. **Owned Office Building:** Who owns the building where the brokerage is located, and under what name? This situation could become very complicated in the sale of a brokerage as the vendor may want to sell the brokerage and the building whereas the purchaser may only want to buy the brokerage. It may be helpful to separate the building and the brokerage to make the transaction less complicated.

Disclosure & Transparency:

Once you have completed the preceding steps you are ready to proceed with the actual purchase or sale. The purchaser will want to review the operation in detail. This is sometimes an uncomfortable step for some vendors. Consider the process of buying a car: you would not consider buying a car without looking under the hood and the same applies for the purchaser. The purchaser must be fully informed. The following is a list of documents that will be requested by the purchaser (this may not be a complete list and this will vary by purchaser). The seller should be able to provide the following information immediately to show a potential purchaser how professionally they operate their brokerage.

1. Five year financial statements
2. Monthly accounts statements including aged accounts receivables statements
3. All lease agreements such as property and office equipment
4. Five year broker experience reports: these documents should provide written premiums, earned premiums, policy in force (PIF) counts, loss ratios and retention ratios
5. Insurance Company contracts
6. Producer agreements
7. Employment agreements
8. Detailed ownership structure: provide a list of who owns the shares, whether there are different types and whether or not share owners work in the brokerage. Providing a copy or your original articles of incorporation will achieve this
9. Details of any outstanding or prior lawsuits

10. New business reports

12. The purchaser may wish to perform a file audit for structure, organization and documentation. This may have to be done after business working hours if the staff is not aware that the brokerage is up for sale

13. The percentage of accounts that are Agency billed and Direct billed

14. Cost estimate for replacing the broker management system

15. A list of any other brokerages or any other businesses they own that are related to insurance

16. A copy of the E&O application and policy, the Fidelity Bond and the office insurance package: indicate whether there have been any claims in the last three years

17. RIBO reports for the last three years

18. The name and address of their corporate lawyer and accountant

19. Names of key personnel that have left the brokerage in the last five years

20. Information on any niche market accounts: the person looking after this business may be required to stay on and help the purchaser to learn niche products like farm, marine, equestrian, aviation and transportation business

21. Comfort letter: it would be in the sellers best interests to obtain a comfort letter from the purchaser during this process. This letter should be from the purchaser's financier indicating that the purchaser is able to obtain financing. It also shows that the potential purchaser is serious about purchasing your brokerage. It must be noted that many purchasers will not entertain such a request

22. Purchase agreement: once the purchaser is satisfied with their review, the next step is the purchase agreement. This can be either a Share Purchase Agreement or an Asset Purchase Agreement. This will be prepared by the purchaser's lawyer. It is essential that both lawyers review this document in detail. We suggest that you work with your lawyer closely as this can

become a very lengthy process if the lawyers are not given strict guidance by the vendor and the purchaser.

23. Closing date: you must come to an agreement with the other party on a closing date. Some vendors choose their fiscal year end but this will vary and may require negotiation with the purchaser.

Note: this may not be an exhaustive list of the purchaser's requirements

It is very important that the seller and the purchaser work together and that there is full disclosure by both of you. No one should hold any information back.

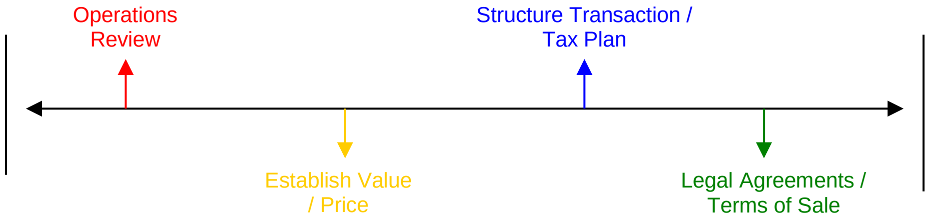
The above information was obtained with the help and support of members of IBAO.

2. Introduction

These guidelines ‘highlight’ critical events and activities in the purchase and sale of an insurance brokerage.

Buying and selling an insurance brokerage is a time consuming and complex process. The key elements of the process which are covered in these guidelines are presented in the following timeline. It is noteworthy that the process is likely to be anything but linear. Changing market conditions, a breakdown in negotiations, issues arising from due diligence or problems encountered in implementing a mutually acceptable tax structure can cause some back and forth discussions between the stages set out in the timeline.

Key Elements Timeline



These guidelines provide information to assist both the buyer and seller:

1. Operational risk factors a vendor should improve or reduce and a purchaser should assess when determining transaction price.
2. The mechanics and issues of establishing a value which provides the basis for negotiating price.
3. Considerations for structuring a transaction are discussed with illustrated examples.
4. Legal agreements which bring written form to a purchase and sale and associated legal issues.
5. Discussion on the significance of using professionals to assist in completing a purchase and sale of a brokerage.

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3. Operations Review

From the vendor's perspective it is important to review the operational and financial status of their brokerage before it is put up for sale. Brokers engaged in "best practices" design and carry out actions to ensure their business is "Sale Ready" and will present well under the scrutiny of a purchaser's due diligence.

From the purchaser's perspective, an operations review of the seller's brokerage consists of operational and financial due diligence. Such a review identifies issues/risks which may ultimately affect price and the terms of the transaction.

In the context described, emphasis would typically be placed on the following factors:

Value / Risk Driver Checklist

- Is business planning and goal setting routine? ☐
- Are staff competent? ☐
- Is growth in commission income developed organically? ☐
- Are operating costs controlled? ☐
- Does the brokerage select and target preferred clients? ☐
- Does the staff routinely work at increasing average account size? ☐
- Is the retention ratio by line of business at benchmark levels? ☐
- Is the collection of accounts within 60 days? ☐
- Are the premises sufficient or under-utilized? ☐
- Does the brokerage own and control its customer lists? ☐
- Are management and systems in place and up to date to sustain future income stream? ☐
- Is the financial position stable with adequate working capital and appropriate levels of term debt? ☐
- Is market breadth appropriate to the insurance needs of preferred clients? ☐
- Is staff compensation appropriate to support growth and profitability? ☐
- Are clientele managed and serviced to reduce E&O exposure? ☐

How these factors can affect value is described below.

Planning

Business plans should be prepared annually. As brokers continue to experience significant changes in their industry, it is the business planners who will survive. Business planners will determine how to allocate business resources efficiently to take advantage of changing market conditions.

Employees

Successful brokerages have programs to hire, train and adequately compensate quality staff. Well-paid, highly competent employees generally handle higher workloads and cost a reduced percentage of commission income relative to less competent employees. Operational improvements, workflow and automation can also significantly influence employee productivity.

Growth

Knowledgeable brokers continuously develop and implement sales plans to foster growth in commission income. These marketing plans could include new business sales to existing clients, enhanced commission rates, up-selling insurable values, and cross-selling to existing clients.

Consistent growth in commission income demonstrates a brokerage's sales capability and an ability to preserve market share. Maintenance of market share represents the potential to generate sustainable levels of pre-tax net income, which enhances value.

Profitability

Operating costs should be controlled. However, continuing investment is needed to foster growth. These somewhat conflicting goals require disciplined operational management in the key functional areas of a brokerage: finance, sales, human resources and organizational control.

Quality of Business

Managing the quality and placement of insurance protects the brokerage's relationship with its insurance markets, reduces E&O exposure and enhances the potential for superior levels of contingent profits.

Successful brokerages have a system of frontline underwriting that is monitored and controlled. All potential risk exposures are addressed prior to policy issuance and updated on a regular basis. Preferred clients are profiled and a policy is established for those who do not satisfy this profile.

Manage Business Mix

Brokers should develop strategies to increase average account size through new production. For example, commercial accounts have higher average commissions per account and can contribute to relatively higher profit margins. Alternatively, servicing a large number of smaller accounts has the advantage of dampening the effect of an account loss. To encourage new production and maintain cost efficiency, management must ensure compensation for handling renewals is reduced, or eliminated from producers not active in the process. Customer service representatives should be paid for processing renewals.

Retention

A brokerage's account retention ratio is a prime indicator of profitability and future income stream. It is more profitable to renew existing accounts than to acquire new business. Less sales and service time is required and satisfied clients often refer new business.

Improvement in the retention ratio can be accomplished by ensuring good service levels. For example, this could mean sending timely renewal notices, providing prompt responses to customer queries or requests, communicating with customers on a regular basis (newsletters) and training staff. Customer service surveys can identify client concerns, resulting in regular positive changes (e.g. rate or coverage issues). Follow-up calls to lost accounts can help track client needs and present opportunities to re-solicit business.

Credit and Collections

Brokers should establish proper credit and collection practices for outstanding agency billed accounts which should be received within 60 days from the effective date of the policy. Because of the requirement to pay carriers within 30 to 60 days, receivables outstanding beyond 60 days represent poor billing and collection procedures.

Clients should be encouraged to pay on time. Good practices for agency bill personal lines accounts include pre-billing renewals 30 days in advance of the effective date, a second notice 10 days prior to the effective date and a third notice 10 days after the effective date with a notice of intention to cancel. Cancellation should occur within 50 days of the effective date. For new personal lines business, payment should be received in advance of the effective date of the policy.

Commercial lines accounts should be billed on binder, with a second notice sent within 10 days. Again, cancellation should occur within 50 days of the effective date.

Brokers can also reduce the risk of collection problems by moving personal lines clients to direct bill plans and placing commercial lines clients on monthly financing plans.

Location

Ensure premises are utilized efficiently and the lease is flexible or its term is appropriate for space needs of the brokerage and a potential purchaser at the time of the sale.

Captive Markets

For unique programs and specialty lines contracts with insurers and clients, brokerages should have contract clauses that allow for the sale or transfer of the business at their discretion. First rights of refusal or requirements to obtain approval to transfer the business could affect the value at the time of a sale.

Employment Arrangements

Producers should have employment contracts outlining compensation structure and the ownership of client lists and business. Ownership should be reinforced and protected with non-competition, non-solicitation, and nonacceptance agreements. These arrangements preserve the value of a brokerage's business.

Size

The size of a brokerage should ideally reflect a level of commission income sufficient to maintain an experienced staff operating under the direction of a general manager. Other senior staff can assume quasi-management roles in their areas of responsibility (e.g. a senior personal lines customer service representative may also act as a personal lines manager).

Brokerages of this size may generate commission income of $1,000,000 to $1,500,000. By virtue of their size, these brokerages begin to develop the management and systems capability that support future income streams. As such, the potential value of these brokerages may be enhanced and they become attractive acquisition candidates.

Financial Position

Brokers should maintain strong balance sheets. A brokerage should have sufficient short-term assets (cash or near cash) to meet its current obligations as they come due.

Liquidity, or the availability of cash, gives brokerages the flexibility to invest in growth, purchase capital assets to improve productivity and take advantage of business opportunities such as acquisitions. Although they may have marketing and sales ability, cash deficient brokerages will not likely achieve their growth or productivity targets.

Insurers

Brokerages should have contracts with a stable number of insurance markets to provide insurance coverage that matches targeted customer requirements.

A successful brokerage should have most of its premium volume spread amongst three to four established standard carriers. This level of concentration helps to satisfy the volume requirements of carriers and can assist a broker in obtaining contingent profits or volume bonuses. It also reduces the risk of dependence in the event of a market cancellation.

Producer Compensation

A producer compensation structure should be designed to encourage growth and profitability, and be based on sales effort and service work performed. Brokers often overpay producers on the renewal of an account for service, while paying support staff to actually do the work.

Errors and Omissions

Managing the quality and placement of business with documented policies and procedures reduces E&O exposure.

4. Establish Value

Use

Prior to a transaction both the buyer and the seller should calculate a notional valuation of the brokerage. Notional valuations represent estimates of value based on judgments and assumptions without actually exposing the brokerage for sale on the open market. Values determined in market transactions are referred to as prices. Prices may differ from notional values for many reasons and may vary, for example, as a result of the relative negotiating skills, personal financial positions and employment relationships between the parties to the transaction.

Notional valuation calculations include reviewing a brokerage's operational risks and establishing an initial value from which to negotiate a transaction price.

Methods

In valuing a business, the particular method applied and the factors to consider vary in each case. Historically, there are two generally accepted methods that are employed in the insurance industry to value property and casualty insurance brokers: (a) The earnings capitalization method; and (b) the multiple of commission income method. Most valuators employ both methods, using one to verify the results of the other.

Earnings Capitalization Method

The earnings capitalization method focuses on the valuation principle that an asset is worth what it can earn and reflects the value of a future income stream at a given valuation date. One basic approach to calculating value using this method involves a detailed determination of maintainable pre-tax net income, the pre-tax rate of return or capitalization rate required by an investor, and a calculation of the value of redundant assets. Once these factors are estimated, the value of a brokerage may be calculated by applying a capitalization rate to maintainable earnings in the form of a multiplier and combining the value determined with the fair market value of redundant assets. A template to calculate the value estimates is illustrated in Figure 2. A template for determining maintainable earnings is illustrated in Figure 3.

Figure 2: Fair Market Value

EARNINGS CAPITALIZATION METHOD			
FAIR MARKET VALUE **AS AT DATE**			
	Ref.	**Low**	**High**
Maintainable Earnings Before Interest and Tax (Figure 3)	(A)		
Pre-Tax Earnings Multiple (1)	(B)	6.7	5.0
Capitalized Earnings Value	(C=AxB)		
Add:			
Net Realizable Value of Redundant Assets (2)			
Fair Market Value of Land and Building	(D)		
Excess Working Capital (3)	(E)		
Fair Market Value of Common Shares	(F=C+D+E)		

Notes:
(1) Pre-tax benchmark earnings multiples determined using the inverse of 15% and 20% capitalization rates.
(2) Redundant assets and liabilities, defined as assets and liabilities that are excess to, and therefore do not influence, the going concern value of business operations.
(3) Working capital in excess of a 1:1 ratio.

Determining the maintainable pre-tax net income involves making "normalizing" adjustments which would typically include adjustments for the following income and expenditures: non-recurring events, non-economic items (e.g. excessive owner remuneration or vice-versa), revenues and expenses relating to redundant assets (e.g. investments not used in operations) and non-cash items (e.g. amortization of capital assets). In addition, revenue and expense adjustments may be made to reflect synergies anticipated by a purchaser. A template to use to calculate maintainable earnings is illustrated in Figure 3. If maintainable earnings are trending upward, the most recent year could be selected as representative of future earnings for valuation purposes.

Figure 3: Maintainable Earnings Before Interest and Taxes

EARNINGS CAPITALIZATION METHOD						
MAINTAINABLE EARNINGS BEFORE INTEREST AND TAXES YEARS ENDED						
		2008	**2009**	**2010**	**2011**	**2012**
		$ %	**$ %**	**$ %**	**$ %**	**$ %**
Income before taxes	(A)					
Adjustments to income						
Non-recurring items:						
Gain/loss on sale of assets						
Moving expenses						
Acquisition costs (legal and accounting)						
Employee termination/settlement						
Litigation fees						
Other						
Non-economic items:						
Management bonuses						
Rent paid to non-arms length party						
Other						
Redundant asset earnings/expenses:						
Interest income on excess cash						
Interest expense relating to undercapitalization						
Other						
Non-cash items:						
Intangible assets, amortization						
Total Adjustments	(B)					
Maintainable earnings before interest and taxes (ME)	(A+/-B)					
Average ME ((2008 to 2012)/5)						
2012 ME						

The capitalization rate is the rate of return a particular investor requires in order to assume the identified risks of investing in a particular acquisition opportunity. The capitalization rate is a combination of a risk free rate and an equity risk premium. Typically, a long-term Government of Canada bond rate would represent an estimate of a risk free rate. For the past few years, this rate has averaged at 3.4%. Depending on the level of additional risk, the equity risk premium could, on average, amount to 11.6% to 16.6% on a pre-tax basis. Consequently, benchmark pre-tax capitalization rates have ranged between 15% and 20%. However, recent capitalization rates in market transactions have ranged between 12% and 14%.

The multiplier is the inverse of the capitalization rate (e.g. a 15% capitalization rate is a 6.7 times multiplier of earnings).

Redundant assets are those assets not required in the day-to-day operations of a brokerage, such as real estate or excess working capital. These assets are generally withdrawn from a brokerage prior to a sale transaction.

Multiple of Commission Income Method

The multiple of commission income method of valuing an insurance brokerage implies a balance sheet approach to value where the components of the customer list and the brokerage's other assets are valued. In general, most purchase and sale agreements formulate the calculation of price based on this method. Prices of different transactions are often compared using this method.

The primary focus of such a calculation is determining the fair market value of the brokerage's customer list using multiples of commission income. The fair market value of the customer list is combined with the net realizable value of the remaining net tangible assets of the brokerage to determine the fair market value of the shares.

Market transaction multiples of commission income may be used to calculate the value of the customer list. Current transaction multiples appear to reflect the presence of special purchasers in the marketplace and average approximately 3x commission.

Figures 4 and 5 illustrate how to calculate an initial estimate of value using the multiple of commission method.

Figure 4: Fair Market Value Using the Multiple of Commission Income Method

MULTIPLE OF COMMISSION INCOME METHOD

FAIR MARKET VALUE
AS AT DATE

Type of Business	Annual Commission Income (A)	Valuation Multiples: Current Market (B)	Valuation Multiples: Adjusted (1) (C)		Estimated Fair Market Value: Benchmark (D=AxB)	Estimated Fair Market Value: Adjusted (E=AxC)
Personal						
Automobile		3.00				
Property and Other		3.00				
Commercial						
Automobile		3.00				
Property and Other		3.00				
Group Life and Health		2.50				
Travel		1.00				
Other		0.50				
Facility/Sub-standard		0.00				
				(F=SUM)		
Net Realizable Value of Other Assets (Figure 5)				(G)		
Fair Market Value of Common Shares				(H=F+G)		

Notes:
(1) Adjust for risk factors or profitability differences particular to a brokerage.

Figure 5: Estimated Net Realizable Value of Other Assets

MULTIPLE OF COMMISSION INCOME METHOD		
ESTIMATED NET REALIZABLE VALUE OF OTHER ASSETS **AS AT DATE**		
	Ref.	
Book Value of Shareholders' Equity	(A)	
Adjusted for:		
Goodwill/intangible assets, net of amortization	(B)	
Fair value adjustment of other assets	(C)	
Estimated Net Realizable Value of Other Assets	(D=A-B+/-C)	

Market Transaction Multiples

Buyers and vendors should have an awareness of market transactions involving other brokerages prior to negotiating a transaction. This is sometimes difficult in the privately owned marketplace where data is not published. However, a general idea can be obtained from industry experts.

Current market transaction prices and information can help a vendor identify special purchasers that might pay more than notional value when negotiating a sale price. Purchasers on the other hand can use such information to determine the level of interest in the brokerage for sale and the amount of their bid to acquire.

Caution should be exercised in using market information because of the lack of detail on how price is determined, the structure of transactions or the uniqueness, particularly in terms of business risk, of every brokerage.

It is emphasized that no two sales transactions are the same. The terms and conditions of a transaction are numerous, complex and unique to each situation. Transaction terms can have an impact on price and, as such, adjusting price for the unique terms specific to the individual deal is critical in understanding the true price or multiple.

Consider the difference between two deals that both transact for 3 times commission revenue with commission revenue being $1 million. One deal is orchestrated by Mr. Black, a sale of shares with $3 million up front plus the contingent profit paid in the year following the sale for the prior insurance year. The other is put together by Mr. White, also a share sale priced at 3 times commission paid in three equal annual instalments with the same contingent profit payment arrangement.

Compare the impact of the payment terms. Any deferred payment should be discounted by a rate approximating what one could otherwise earn on that money. Selection of a rate is the source of great debate in valuation circles; however, a rate of 5 per cent is a reasonable starting point (and makes the calculation easy). The impact of Mr. White's transaction terms is a 5 per cent price adjustment for each year of payment deferral, therefore, the actual multiple calculated is 2.7 – not a monumental shift from 3.0, however, based on a $3 million transaction, that is roughly $300,000.

Finally, think about the effect of the contingent profit payment as a component of the purchase price. For Mr. Black his contingent profit payment materializes. Mr. White's business loss experience erodes because of shock losses which occur between the effective date of sale and the calendar year end and he does not collect.

Other factors or terms of a transaction should be considered when comparing transactions, for example, salary or consulting payments to the vendor for a defined period of time, not necessarily paid for work performed.

5. Tax Planning Structures

Introduction

As part of their corporate action plans, owners should review transfer structures that minimize corporate and personal tax and maximize cash flow, which ideally do not adversely affect the purchaser.

Some of the major considerations for structuring a transaction to transfer ownership are discussed below with illustrations.

Assets vs. Shares

Prior to considering a transfer structure, one of the first issues to be addressed should be whether to sell shares or sell the assets of the brokerage (primarily the customer list). Figure 6 compares the financial implications between the sale of shares versus assets.

Figure 6

Shares vs. Assets

	Assets	Shares SBC CGE	Shares No CGE
Corporate			
Proceeds	$ 750,000		
Bonus	(375,000)		
Capital Dividend	(375,000)		
After-tax Cash	0		
Individual			
Proceeds/Bonus	375,000	$ 750,000	$ 750,000
Capital Dividend	375,000		
Tax on Proceeds/Bonus	(172,500)		(172,500)
After-tax Cash	$ 577,500	$ 750,000	$ 577,500

Notes:

1. Potential alternative minimum tax depending on level of income of individual.
2. A portion of dividends equal to one-half of $750,000 or $375,000 can be paid out tax free through a capital dividend account.
3. No cost base to shares or assets.
4. 40% corporate tax rate.
5. 23% personal tax rate on capital gains and 46% personal tax rate on salary.
6. 33% personal tax rate on dividends.
7. No refundable dividend tax on hand.
8. No paid up capital.
9. Only asset of company is customer list having a fair market value of $750,000.

The comparison demonstrates, based on the simplified assumptions presented, that the ability of the vendor to utilize the $750,000[1] small business corporation capital gain exemption ("SBC CGE") makes the sale of shares attractive because of tax savings of up to approximately $172,500 per exemption.

In contrast, the sale of the customer list is more costly to the vendor, as it could attract both corporate tax, upon the sale of the list, and personal tax, upon withdrawal of the net funds. There is no exemption on gains relating to the sale of assets.

From the purchaser's perspective, it is generally more advantageous to purchase assets rather than shares because of the availability of tax write-offs on assets acquired, including goodwill. In a share transaction, the purchaser assumes all the liabilities of the brokerage. It is therefore imperative that all potential liability issues, including E&O exposures, breaches of non-competition agreements, employee dismissals, potential for corporate tax reassessments, etc. are dealt with by agreements between the parties prior to sale.

Capital Gains vs. Dividends

Figure 7

Sale in 2012 – Proceeds Received at Time of Sale

Tax Paid by Vendor

Sale of Shares for $1,000,000			Sale of Shares for $750,000, Redeem $250,000		
Proceeds	(A)	$1,000,000	Proceeds	(A)	$750,000
CGE		(750,000)	CGE		(750,000)
Capital Gain		250,000	Dividends		250,000
Tax (23%)	(B)	(57,500)	Tax (33%)	(B)	(82,500)
Cash from Sale	(A-B)	942,500	Cash from Sale	(A-B)	$917,500

Assumptions:
1. 2012 Federal and Ontario personal tax rates used.
2. Shares of brokerage are valued at $1,000,000.
3. Brokerage shares are owned by one shareholder and have nil cost base.
4. Vendor has $130,000 of income from other sources in year of sale (salary, investments, etc.)
5. All funds paid in year of sale.

[1] The lifetime small business corporation capital gains exemption relating to the sale of qualifying shares of a small business corporation is currently $750,000. The March 21, 2013 Federal budget proposes to increase this exemption for tax to $800,000 effective for the 2014 taxation year and to index the exemption to inflation for years after 2014. The new limits apply to individuals who have previously used the exemption.

The top marginal tax rate on dividends is currently about 33% as opposed to 23% if the proceeds in excess of the $750,000 are taxed as capital gains.

Figure 7 presents a numerical example of the amount of tax paid on a share sale compared with a share redemption. If the vendor is in the top tax bracket, he or she would choose to sell shares in order to maximize net proceeds upon sale.

Further, if shares are sold, a tax deferral can be claimed on any unpaid portion, if the purchase payout is five years or less. However, payouts in excess of five years will be fully taxed by the fifth year, even if all of the proceeds are not received. A similar type of reserve cannot be claimed on the redemption of shares.

Internal Sale to Employees

Figure 8

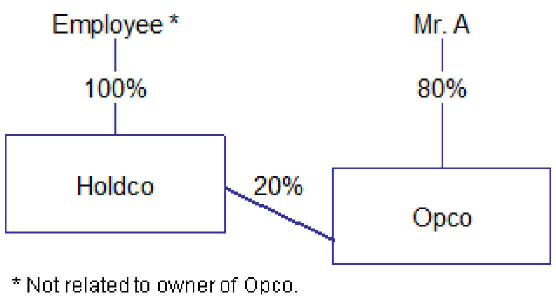


Figure 8 is an example of an internal sale to employees, as opposed to family members in which the employees will initially fund the arm's-length purchase through a loan, presumably from an insurance company or a bank. In this situation, the employees incorporate a holding company ("Holdco"), borrow enough money personally to purchase the shares of the operating company ("Opco"), and advance these funds to Holdco in return for common shares. Holdco then uses these funds to buy the shares of Opco.

In this scenario, Mr. A, the vendor, incurs a capital gain and can use the capital gain exemption that, as previously noted, results in tax savings of $172,500. The employee can deduct the interest expense on the borrowed funds personally, which could be offset by a salary or bonus from Opco. As long as Holdco owns more than 10% of the shares of Opco, Holdco can receive dividends tax-free from Opco. Upon receipt of the dividends, the funds could be distributed tax-free to the employee from Holdco, by way of a reduction in share capital. The funds distributed would be used to repay the loan. Mr. A could sell the shares to Holdco (the employees) over time under this arrangement.

Figure 9

Corporate Tax Rate Chart	
Taxable Income	**Combined Federal & Ontario Rates**
0 to 500,000	15.50%
500,001+	26.50%

Assumptions:

1) December 31, 2012 year-end of the corporation
2) All income is earned from "active business"

Using this structure, tax is paid corporately by Opco on profits used to fund the dividends. Significantly, because of the availability of lower tax rates to small business corporations, the level of cash for repayment of the loan is increased relative to a structure where a purchaser withdrew the funds from the brokerage personally and was taxed personally (see Figure 9: Corporate Tax Rate Chart).

This transaction will not work for family members, as provisions in the Income Tax Act do not permit family members or related parties to claim the capital gain exemption using the structure described. Consequently, proceeds received by the departing family members using this structure would be taxed as dividends and not as a capital gain. Suggested structures for sales to family are discussed separately under the heading below, "Transfer of Ownership to Family Members."

Transfer of Ownership to Family Members

As indicated above, family transfers cannot be structured as tax efficiently as the third-party transactions described at Figure 8. The provisions of the Income Tax Act governing related party transactions forces family or related-party transactions to be funded personally if the vendor wants to utilize the small business capital gains exemption. This situation requires that funds be withdrawn from the brokerage personally and taxed at higher, personal tax rates.

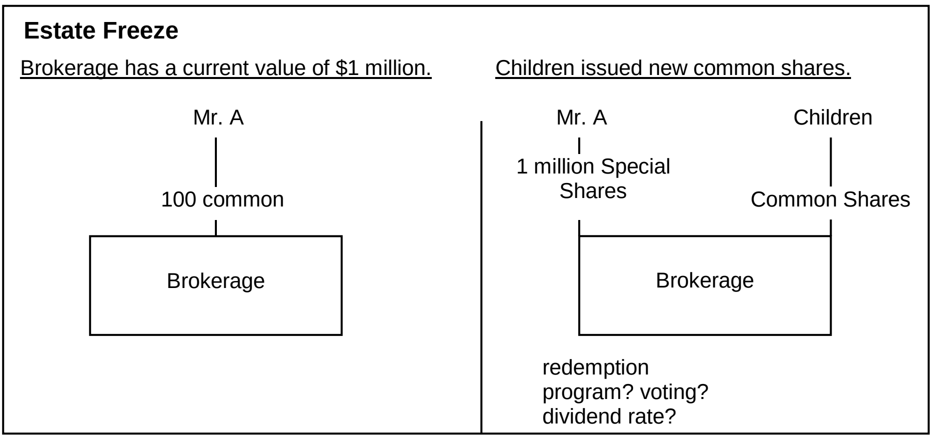
As an alternative to an outright purchase of the shares, an estate freeze of the shares is a common planning technique for family members to participate as shareholders in the brokerage. An estate freeze is a transaction or series of transactions undertaken to allow future growth in the value of a brokerage to accrue to younger family members active in the business.

In effect, an estate freeze has the potential to limit the value of a brokerage at the date the freeze is instituted to the existing shareholders. Usually, the freeze occurs at the point when the older generation plans to retire and the younger family members are ready to assume full-time management of the business.

Generally, estate freezes help to maximize the value of an estate to the freezor's (existing or retiring owner) beneficiaries as it limits the tax liability on death to the frozen value and avoids tax on the growth in value, subsequent to the freeze.

Figure 10 shows an internal family purchase that entails an estate freeze. In this case, the brokerage has a value of $1 million. The owner would exchange the common shares for special shares, which would be redeemable and retractable for $1 per share. Other share attributes, such as voting rights and dividend rates, as well as a program of redemption would have to be agreed upon. These attributes permit the retiring owner to maintain control over the management of the brokerage and receive a return on the unpaid portion of the special shares while they are being redeemed.

Figure 10



The children are issued new common shares and each year the brokerage redeems the shares owned by Mr. A. Mr. A's receipt of funds is treated as a dividend and not a capital gain for tax purposes. The children are not burdened with a large debt load owed to a lending institution and can purchase the special shares with the after-tax profits of the brokerage. These profits, depending on the amount, will generally be taxed at lower rates relative to a purchase structure that required withdrawing funds personally from the brokerage and, in effect, helps maximize cash flow available to fund the purchase.

The tax on dividends received personally can be greater than on capital gains depending on the timing and amount of dividends received. Again, the top personal tax rate on dividends would incur tax at a rate of approximately 33% and capital gains, 23%. These points highlight the complexity of family transactions as minimizing tax for the vendor may conflict with minimizing tax for the purchaser. Under the estate freeze structure presented, Mr. A is assuming a higher tax burden to assist his children, which, in effect, increases the cash flow of the brokerage.

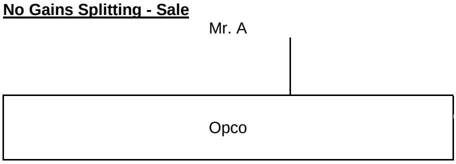
Capital Gain Splitting

Another way of minimizing tax is to split the capital gains exemption among eligible family members. Figure 11 presents an example that compares the sale of a brokerage for $3 million where the vendor did and did not utilize a capital gain splitting arrangement. When capital gains splitting was not used, the after-tax cash available is $2,482,500. When the vendor did split capital gains among family members, total after-tax cash was the entire $3,000,000.

Figure 11

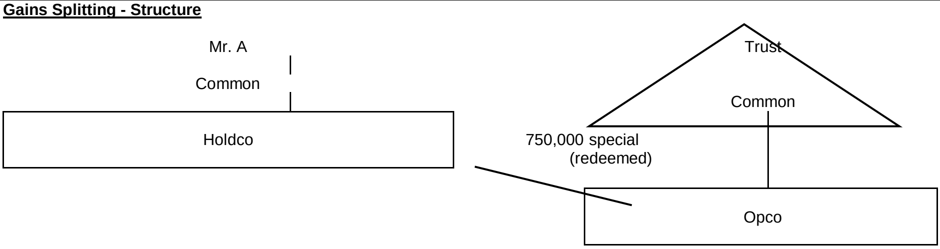
CAPITAL GAIN SPLITTING

No Gains Splitting - Sale



Proceeds	3,000,000
Cost Base	-
Gain	3,000,000
SBC CGE	750,000
Capital Gain	2,250,000
Tax	517,500
After-tax Cash	2,482,500

Gains Splitting - Structure



Gains Splitting - Sale

	Mr. A	Mrs. A	Child 1	Child 2
Proceeds	750,000	750,000	750,000	750,000
Cost	-	-	-	-
Gain	750,000	750,000	750,000	750,000
SBC CGE	(750,000)	(750,000)	(750,000)	(750,000)
Capital Gain	-	-	-	-
Tax	-	-	-	-
After-tax Cash	750,000	750,000	750,000	750,000

If, as in the example presented, Mr. A does nothing and sells his shares, proceeds from the sale of the shares would amount to $3 million. The capital gain on the sale using the full $750,000 capital gain exemption would amount to $2,250,000. Tax on the capital gain of $2,250,000 would amount to approximately $517,500. Consequently, after-tax proceeds would total $2,482,500. Alternatively, Mr. A could have changed the corporate structure and ownership of Opco to increase the use of the capital gain exemption prior to its increase in value to, for instance, $3,000,000.

To restructure Opco's ownership, Mr. A could exchange his common shares in Opco for their value at the time in special shares of Opco, say $750,000. These special shares could be transferred to Holdco in exchange for the common shares of Holdco. Subsequently, Holdco could redeem the special shares for a note payable, which Opco could repay over time.

Opco would have no value at the point the special shares were exchanged for common shares. Coincidently, common shares would be issued to a discretionary family trust whose beneficiaries were Mr. A, Mrs. A, and two children. Assuming the eventual sale of shares occurs when Opco has grown in value by $3 million, the proceeds would be split four ways at $750,000 each, and each of Mr. A, Mrs. A, and the two children could utilize the $750,000 small business capital gain exemption. As such, no taxes would be payable on this sale. Alternative minimum tax may be payable in the year a taxpayer uses his/her SBC CGE. Minimum tax paid can be recovered by carrying forward the refundable tax for seven years to apply against taxes payable in those years.

The use of a discretionary family trust can be a flexible tax-planning tool. Trust structures have been available for hundreds of years. To create a trust, a settlor (usually a grandparent) settles the trust with a precious coin or dollar bill, which is kept in a safety deposit box in perpetuity. The trustees of the trust generally include the parents, and sometimes one arm's length trustee, which may be a family friend or business advisor. The beneficiaries of the trust would include the parents and their immediate family. The trust would also be discretionary, in that the trustees would have the power to distribute income and capital of the trust in any manner. For example, income or capital could be distributed unevenly amongst the beneficiaries of the trust, or to the exclusion of certain beneficiaries. While current rules have imposed high tax rates on distributing income to minors, there are still advantages in using a discretionary family trust, including:

- When assets of the trust are sold, which may include shares of a brokerage, the gains from that sale may be distributed tax efficiently to the beneficiaries of the trust at the time of sale. Having this flexibility provides the ability to minimize tax and maximize cash flow by allocating gains to beneficiaries in a tax efficient manner.

  Other tax planning structures require the allocation of shares to immediate family members, prior to any sale of those shares. These arrangements are inflexible.

- Family trust arrangements also provide flexibility by having the parents or companies that they own as beneficiaries of the trust. Should income or capital arise in the trust at a particular point in time, and the parents do not wish to distribute such funds to family members, they can do so and allocate such funds to themselves or to a corporation owned by them. Again, this provides maximum flexibility and control.

Other

If tax-paid retained earnings have accumulated in the brokerage, it may be beneficial for the vendor to transfer these funds in the form of a tax-free dividend to a holding company. The excess funds can be invested by the holding company. This holding company would not be sold when the brokerage is sold and has the ability to defer tax on the funds transferred until the broker has retired and is, perhaps, in a lower tax bracket. The payment of excess cash from a brokerage to a holding company may also help ensure that the shares of the brokerage are eligible for the capital gain exemption. Note that these dividends cannot be paid to a holding company as part of the transactions leading up to the sale of the shares of the brokerage. As such, planning ahead is important. A typical plan would entail transferring shares of a brokerage to a holding company and redeeming those shares over time, using the excess funds referred to. The plan should be structured to ensure the holding company would no longer have any ownership interest in the brokerage at the time an owner is ready to sell.

A vendor who has had the brokerage for a period up to 1996 should also consider receiving a portion of the proceeds from the sale in the form of a retiring allowance, prior to ownership transfer. The amount of the allowance that can be rolled tax-free into an RRSP is specified in the Income Tax Act, and is determined by the number of years of a vendor’s employment prior to 1996. Further, the payments are deductible by the corporation. In order to qualify for the tax-free rollover of a retirement allowance, the vendor must cease to be an employee of the brokerage after the sale.

6. Legal Agreements

<u>Preliminary Legal Documents</u>

Confidentiality Agreement

If you are involved in a merger, acquisition or sale, you will be asked at an early stage to produce information to allow the other proposed participant(s) to assess the proposed transaction. If asked to produce such information, you should ensure that the contents of the documentation produced by you and the discussions between the parties are kept confidential. For example, as a vendor, your markets may not be aware of your intention to sell and your relationship with your markets may be irreversibly undermined if potential purchasers contact them without any advance notice. Information and documentation should only be released after the receiving party has signed a confidentiality agreement to expressly acknowledge (a) the confidential nature of the information and documentation and (b) the obligation to refrain from contacting any third party (including insurance markets) regarding the discussions and possible transaction.

Letter of Intent

After the parties have met and discussed the outline of a proposed transaction, it is common to document the discussions with a "letter of intent". A letter of intent can take different forms and can create ranging legal consequences. The purpose of a letter of intent is normally to create a record of the issues negotiated between the parties to ensure that the parties are in general agreement on the business issues so that neither party wastes additional time or expense on further unproductive discussions. Many letters of intent are stated to be for discussion purposes only and are expressed to be non-binding legally. It is important to stipulate that the letter of intent is not legally binding if that is the wish of the parties. If all of the basic issues are covered in a letter of intent and the document fails to state that it is for discussion purposes only, the parties may have unwittingly created a binding and enforceable legal agreement. This can create problems if the parties subsequently fail to reach accord on a final agreement containing all of the issues.

Even with non-binding letters of intent, the prospective purchaser will want the following binding terms – (a) that the vendor will "stand still" and will not "shop" the deal for a period of time long enough to allow the purchaser to conduct due diligence and to negotiate a binding agreement of purchase and sale, (b) a representation that the vendor is not bound by any legal prohibition or hurdle that would prevent the vendor from entering into a binding agreement (such as a right of first refusal).

Agreements of Purchase and Sale

Shares or Assets?

As previously indicated, the majority of sales involving general insurance broker corporations are currently structured as share sales rather than asset sales (sale of the book of business). The ability of the vendor to utilize the small business corporation capital gains exemption generally makes this alternative overwhelmingly attractive to the vendor and frequently dictates the choice. However, if the transaction is to be structured as a share sale, the risks to the purchaser are significantly increased. As a result, the purchaser's negotiations should focus on creating protection from liabilities which may arise or be disclosed following closing, and which were not intended by the parties to be assumed by the purchaser.

Determination of Purchase Price

Notwithstanding the method of valuation, most agreements involve purchase price calculations that are based on multiples of commission income. When applying the multiple, the parties will generally only include commissions for policies that are in force at the effective time of calculation, and will generally exclude (i) contingent profits, (ii) overrides and other non-recurring items, and (iii) non-owned business. The agreement should describe the source documentation that will be used for the final calculation or verification of the purchase price, and should allow a protocol for dispute resolution of such calculation.

Retention

Because the most significant value of the business to the purchaser is the revenue generated by the renewal of the book of business, purchasers should aim to define the purchase price as a multiple of commissions earned during a defined period (usually not in excess of 12 months) following closing. On the other hand, one of the main reasons that a vendor sells is to eliminate future risk. Therefore, a vendor should be cautious about permitting a sale based on retention unless the vendor is confident that the purchaser has the ability and diligence to ensure proper service of the files and maximum renewal of the policies. In the absence of a retention formula, or if the impact of retention is contractually limited, the purchaser should demand strong representations and warranties from the vendor (i) regarding historical production levels, and (ii) that the purchaser is unaware of any impending matters that will materially affect the revenue stream.

Also note that there are several different models of “retention”. For instance, if the transaction occurs during a period of premium and commission increases, attrition in policy count may be masked by solid overall commission results. As a result, the specifics of the retention arrangements must be negotiated in the context of the prevailing industry conditions.

Payment of Purchase Price

The market conditions will generally dictate whether the full purchase price is paid on closing or if the vendors will accept partial payment. In most cases, a portion of the price is held by one of the lawyers in escrow pending final review of the commission numbers and perhaps the final financial statements.

For the purchaser, business and legal efficacy always dictates payment of a portion on closing and payment of the balance over time. If the agreement permits, dragging payment into the future may enable a purchaser to setoff future payments against damages suffered or liabilities incurred as a result of misrepresentations. For the brokerage transactions that are structured as share purchases, a purchaser’s right of setoff against future payments is a safeguard against hidden or contingent liabilities which arise following closing. If the purchase price is based on retention, it is natural for the purchaser to delay payment as much as possible since the actual purchase price will only be determinable after the expiry of the retention period.

For the vendor, accepting partial payment on closing is problematic. In most cases, the purchaser will have borrowed to raise the amount payable to the vendor on closing and will have granted security from the brokerage operation to the senior lender. This puts the vendor into a very vulnerable position if the purchaser subsequently defaults in payment.

Financing

Aside from vendor financing, the two most frequent external sources of acquisition financing are from conventional lenders (including banks) and insurance companies. Loans from insurance companies will usually also involve some measure of control through techniques including rights of first refusal. The rights of first refusal are not uniform and should be examined carefully by the borrower's counsel.

Will Purchaser be able to Protect Customer List from Attack?

As a minimum, the purchaser will want to ensure that the vendor is prohibited for a period of time from soliciting the "sold clients" and also from accepting orders from such "sold clients" even in the absence of solicitation. In most cases, the purchaser will also want to prohibit the vendor from being involved in the industry for a period of time within defined geographical boundaries. While the courts are generally unwilling to enforce restrictive covenants that arise under employment situations, the courts are more willing to enforce reasonable clearly drafted non-competition and non-solicitation covenants against vendors that arise in agreements of purchase and sale. The vendor and purchaser must negotiate and define the activity that is prohibited, and the time during which, and the area within which, these covenants are to operate. Special care must be taken to formulate these provisions if a vendor is to remain with the purchaser following closing. There are additional techniques associated with restrictive covenants including "liquidated damage" clauses, and these should be reviewed carefully with legal counsel.

Employees and Producers

Hopefully, the selling broker has written agreements in place that were signed when the workers first commenced their services for the vendor broker. Both purchaser and vendor should review existing employment and producer agreements to determine what is being inherited and which workers (if any) are to be terminated by the vendor prior to closing. If agreements are in place, they may disclose ownership rights, termination rights, restrictive covenants and/or compensation terms etc. that are inconsistent with the vendor's representations and the purchaser's expectations. If there are no agreements, the parties will have to assess the risk involved with personnel (and possibly customers) leaving the brokerage following closing.

Other Issues in Agreement

Representations and Warranties. Agreements will include a lengthy list of representations and warranties that should be backed up by the vendor's indemnification if any of the representations are untrue.

Errors and Omissions Insurance Claims. The parties should establish the allocation of responsibility for pre-closing errors and omissions and the duration of the period of responsibility following closing (and deductibles relating to such claims) and tie this in with appropriate insurance policies of the vendor and purchaser (if applicable) which dovetail in protection.

Approval of Markets. It is in the purchaser's interest to insist that the agreement contain a condition that the vendor's markets (or perhaps those contracted markets with most substantial volume) will approve the transfer and that the insurance company payables are in good standing within the credit terms available.

Due Diligence. A period of "due diligence" should be available to the purchaser to inspect books and records including income tax assessments, insurance files, production reports, regulatory reports (e.g. RIBO), etc. and other appropriate investigations. Note that the parties, particularly a purchaser, should not rely upon representations and warranties as a substitute for performing their own due diligence.

Contingent Profits. The parties should clarify who will be entitled to future CPC receipts and how they will be characterized.

7. Use of Professionals

Most owners of insurance brokerages have not had the experience of selling their business, although many have been purchasers.

Both purchasers and vendors benefit from using professional advisors who can provide them deal experience and technical business, valuation, tax and legal expertise to transactions.

Advisors can provide purchasers and vendors a pragmatic and less emotional perspective of a transaction on many matters including analysing a decision to purchase or sell; whether the timing of the transaction is appropriate; assessing the strengths and weaknesses of the brokerage for sale; determining the tax implications of the transaction; explaining the use of and return on net proceeds after the transfer of a brokerage; advising on the pros and cons of ongoing employment as a non-owner; and explaining the terms of the purchase and sale agreement.

In addition, an advisor can act as a go-between or take tough positions in negotiations; help simplify the decision making process; diffuse volatile situations; explain complexities; assist in planning a purchase or sale transaction and in the integration process.

8. Caution

These guidelines are designed to facilitate understanding of the purchase and sale of a brokerage and are not intended to be applied in a specific purchase and sale transaction. We recommend the use of professional advisors to ensure the unique circumstances of a particular transaction are taken into account.

Notes:

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