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MBBI of Wisconsin 8th Annual
Private Equity Connection
December 4, 2018 | 11:30 AM - 5:00 PM
Potawatomi Hotel and Casino
Milwaukee, WI

MBBI Chicago Event
Holiday Networking and
Social Event
December 11, 2018 | 5:00 to 7:00 PM
The Drake Hotel
Oakbrook, IL

MBBI
Annual Conference
January 24, 2019| 11:30 AM - 8:00 PM
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mbbi MIDWEST BUSINESS BROKERS AND INTERMEDIARIES

MBBI Newsletter December 2018

Uncovering Hidden Value with Insurance

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Contributing Author: Joe Emerich Director Commercial Lines Division J. Krug

The J.Krug company is Risk Assurance Advisors and has been partnering with entrepreneurs, business owners, and executives to ensure they are identifying risk, and leveraging it as a rewarding part of their strategic, organizational, and financial plans. The company sees opportunities everywhere, by connecting a ROI within three key areas: Corporate Risk, Human Capital, and Executive Benefits. Joe is a member of the MBBI Board of Directors; Secretary; and serves on the Association Relations, Sponsorship, and Strategic Planning Committees. You can reach Joe jemerich@jkrug.com 847.818.7510.

Spotlighting two case studies the following addresses two underutilized methods where Buyers stand to differentiate from their peers and uncover hidden value from their insurance programs.

A Sophisticated Approach Offers Financial Reward for Buyers
A best-in-class approach for any buyer would be partnering with a Risk Assurance Advisor early in due diligence to facilitate an independent underwriting process. Building your deal team with a sophisticated advisor can enhance due diligence without creating additional burden to the process. The results unearth risks typically undiscovered in traditional due diligence, while also empowering the buyer's team to manage and negotiate around the identified risks and tailor a program in line with the buyers risk appetite. Ultimately the buyer receives a turnkey solution available to execute prior to closing, typically at a significantly reduced cost.

Case Study No. 1
A buyer looking to acquire a portfolio of retail operating companies engaged J.Krug Risk Assurance Advisors to assist in due-diligence

Normally a buyer's team is looking for no more than a certification of the seller's insurance program and the primary limits of the insurance policies they purchase. This low bar approach typically leaves many stones unturned, and potential value left on the table.

We enabled the buyer's intermediaries to request a proper set of documents and questions at the onset of the deal which enabled us to work independently during the due diligence process. This more thorough information request, working in concert with our underwriters, enabled us to complete a more comprehensive review of the risks the enterprise faced and design a solution in line with the seller's risk appetite.

After review of the operations and current insurance program the following was discovered:

- Fragmented and/or redundant risk transfer structure
- Insufficient Limits
- Self-insured risk exposures
- Above average market rates

By obtaining a complete set of information at early in the deal, it allowed our team to act diligently and turn around a benefit for the buyer to evaluate and potentially execute prior to closing. This benefit achieved the following: more efficient structure, expanded coverage, increased limits, overall spend reduction by 53%.

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The Midwest Business Brokers and Intermediaries (MBBI) association offers educational meetings, conferences and events to assist members in achieving and maintaining the highest levels of professional standards and qualifications. MBBI is comprised of business brokers, M&A intermediaries, investment bankers, attorneys, accountants, bankers, SBA lenders, valuation service providers, individual buyers, private equity groups, wealth managers and corporate buyers who collaborate to create the most valuable experience for respective clients. The united effort of educated professionals insures the highest standards, ethics and efficiency when buying, funding, and selling small and medium-sized businesses.

Midwest Business Brokers and Intermediaries Newsletter is published monthly. All MBBI members are invited to submit articles for publication. **MBBI.org**

Uncovering Hidden Value with Insurance

Conclusion | Case Study No. 1

In many instances Buyers come to the table looking to grow and protect their investment in a much different manner than the means used by the entrepreneurial seller. Similarly, the seller structures their risk transfer program in a way that would be incongruent to the buyer's investment philosophy. Yet, despite this fundamental opposition, it is common for the buyer to inherit the seller's program with little change, if any. In our case study J.Krug Risk Assurance Advisors helped improve and protect the buyer's potential return on investment. We successfully unearthed risks typically undiscovered in traditional due diligence and provided the buyer a turnkey solution available to execute prior to closing at a significantly reduced cost.

Now let's transition and address:

A Midwest Trend: Underutilized Leverage

An approach seen more popularly at costal Private Equity firms, yet unexercised in mid-west firms and Family Offices alike is to leverage the insurance spend across the portfolio. As acquisitions continue to expand the portfolio, it's often an overlooked strategy to take advantage of the leverage available through aggregating the insurance spend across the portfolio with one or few carriers.

Case Study No. 2

Here we address a private equity firm with eight portfolio companies. They take an opportunistic approach and remain industry agnostic but prefer manufacturing and process oriented businesses with $1mm-$10mm EBITDA. They focus on buyouts or recapitalizations of entrepreneur or generational family-led business, or management co-investment opportunities. They take a long term hold position in those companies to help execute long-term growth strategies, while partnering with the current management team, allowing them to retain control.

In discussion with one of the firm's managing directors we addressed how each of their portfolio companies maintained autonomy with their insurance programs. This approach encourages a fragmented structure with each company being insured with multiple insurance companies across the various policy lines they purchased. Additionally, depending on the policy, each company had multiple renewal dates throughout the year. Further, each companies' approach to managing their risk varied greatly and was not always in line with best practices. This philosophy leaves unrealized value waiting to be seized.

In aggregate the total insurance spend across the portfolio was approaching millions of dollars. The following were identified as strategic opportunities which would afford the firm significant leverage in the insurance marketplace.

- Consolidating the spend across the portfolio with a select carrier(s)
- Align all policy renewal dates
- Unify each companies risk management philosophy

In Conclusion | Case Study No. 2

By partnering with an experienced Risk Assurance Advisor to help exercise this underutilized leverage a firm stands to achieve the following results:

- Significantly reduced aggregate spend
- Cost stabilization
- Increased carrier competition
- Promote more favorable claim outcomes
- Reduced risk exposure
- Alignment of risk management philosophies for increased ROI
- Promote an additional ease of doing business for their operators