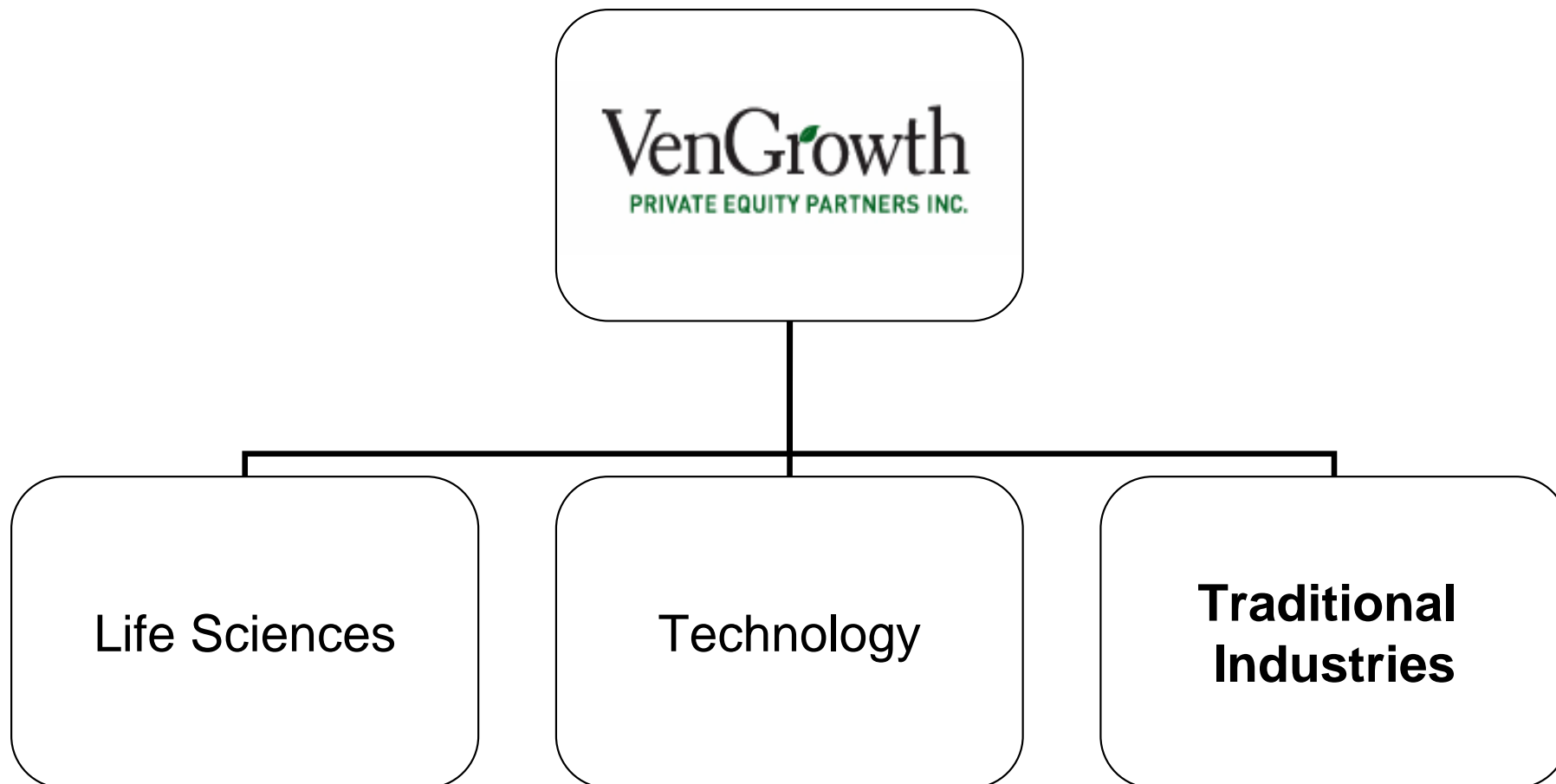




**Canadian Insurance M&A Conference  
May 3, 2007**

- Established industry leader for over 25 years
  - Over \$1 billion in AUM
  - Over 80 portfolio companies
- Most experienced investment team
  - Successful track record of transitioning company ownership through MBO's, LBO's, and Phased Exits
  - Over two decades specializing in venture capital and private equity
- Diversified fund raising platforms
  - Manages institutional and retail Funds



- VenGrowth has invested in manufacturing and service businesses since 1982
- Re-invigorated this effort in 2003
- Now a team of 6 dedicated professionals
- \$170 million under management

- Preferred investment size = \$3.0 million to \$12.0 million
- Established businesses, typically with sales in excess of \$10 million and EBITDA of \$1 million
  - financial services, manufacturing, distribution, health care
- Focus on pro-active, proprietary deal flow/non-sponsored transactions



## AT VENGROWTH



**Focus Group Inc**



## PRIOR



**CANADA BROKERLINK**

# WHAT PRIVATE EQUITY INVESTORS LOOK FOR . . .



**"You can't miss, Georgy."**

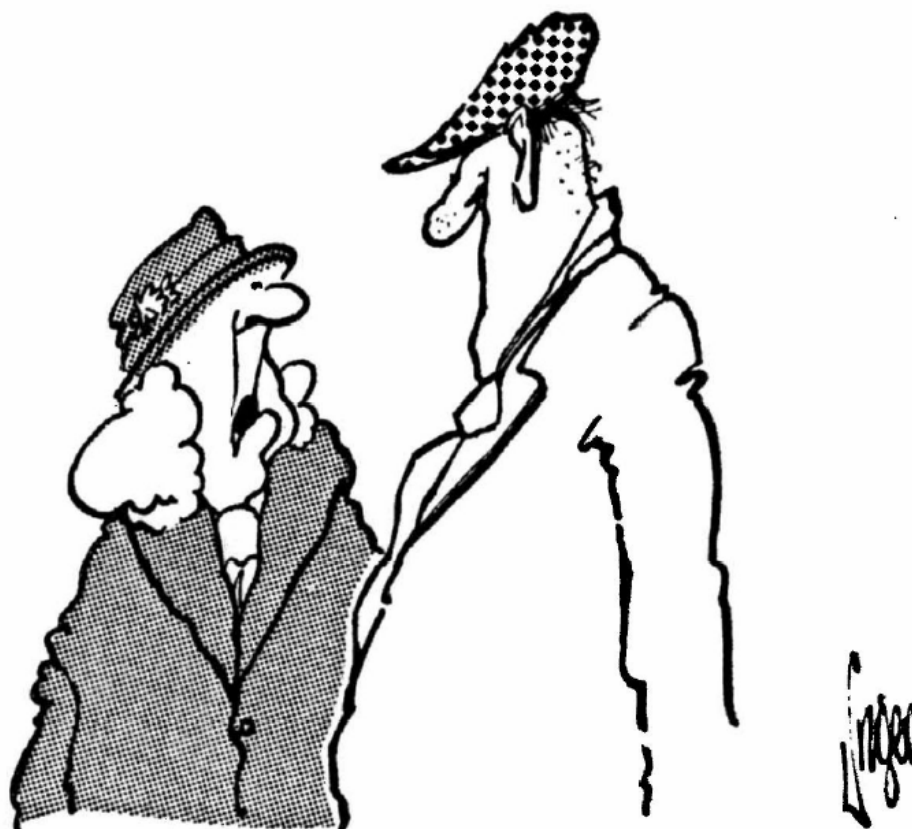
1. Cash flow
2. Proven management
3. Market niche
4. Out of favour market
5. Growth
6. Definable exit

## Record amounts of private equity available

### 2005 Statistics\*:

- The private equity market in Canada = \$60.9 billion
- New commitments of \$1.69 billion to buyout and mezzanine
- Good businesses are receiving good value

# PRIVATE EQUITY INDUSTRY DYNAMICS – THE BAD NEWS FOR ENTREPRENEURS



**"Why would I marry you for your money? There must be easier ways for me to get my hands on 45 bucks!"**

# PRIVATE EQUITY INDUSTRY DYNAMICS – THE BAD (?) NEWS FOR ENTREPRENEURS

- Most investors want companies with an enterprise value over \$50 million
- Generally need \$10 million of EBITDA (free cash flow)
- Smaller universe of investors looking for businesses with \$1 million - \$10 million in EBITDA
- Many entrepreneurs have not built for succession/sale

- Only 4% of private equity deals involved financial services sector in last 5 years
- Niche examples: reinsurance, specialty insurance
- Deep expertise in insurance investing now exist in the United States

## INVESTOR

Torquest Partners Inc.

Clairvest Group Inc.

GTL

TD Capital

## INVESTEE

GCAN Insurance Company

Warren Shepell

Pembridge Insurance Company

EGL Insurance

Vector Intermediaries Inc.

- Deeper private equity market
  - Over \$100 billion raised in 2006
- Dedicated insurance focused private equity pools
  - Century Capital Management
    - Investments of \$10 million to \$30 million
  - Aquiline Capital Management
    - New Fund (March 2007) of \$1.1 billion
  - Stone Point Capital
    - Over \$6 billion raised

# PRIVATE EQUITY - SPECIFIC CONSIDERATIONS IN INSURANCE

1. Organization/management depth
  - a) More than a sole proprietorship
  - b) Willingness to embrace a partner
  - c) Attracting new management talent
  
2. Key relationships
  - a) Customers
  - b) Markets
  
3. Regulatory
  
4. Accounting
  
5. Are 'synergies' real?

# THE FUTURE (?) – THE GOOD NEWS FOR ENTREPRENEURS

- Private equity will likely create a new consolidator
  - Hub #2 will likely surface
- U.S. specialists continue to look at Canada
- There is time to get ready for exit
- Assistance on succession planning is becoming more readily available

A well structured, sizeable, growing, niche-oriented insurance entity will attract premium values from private equity firms.

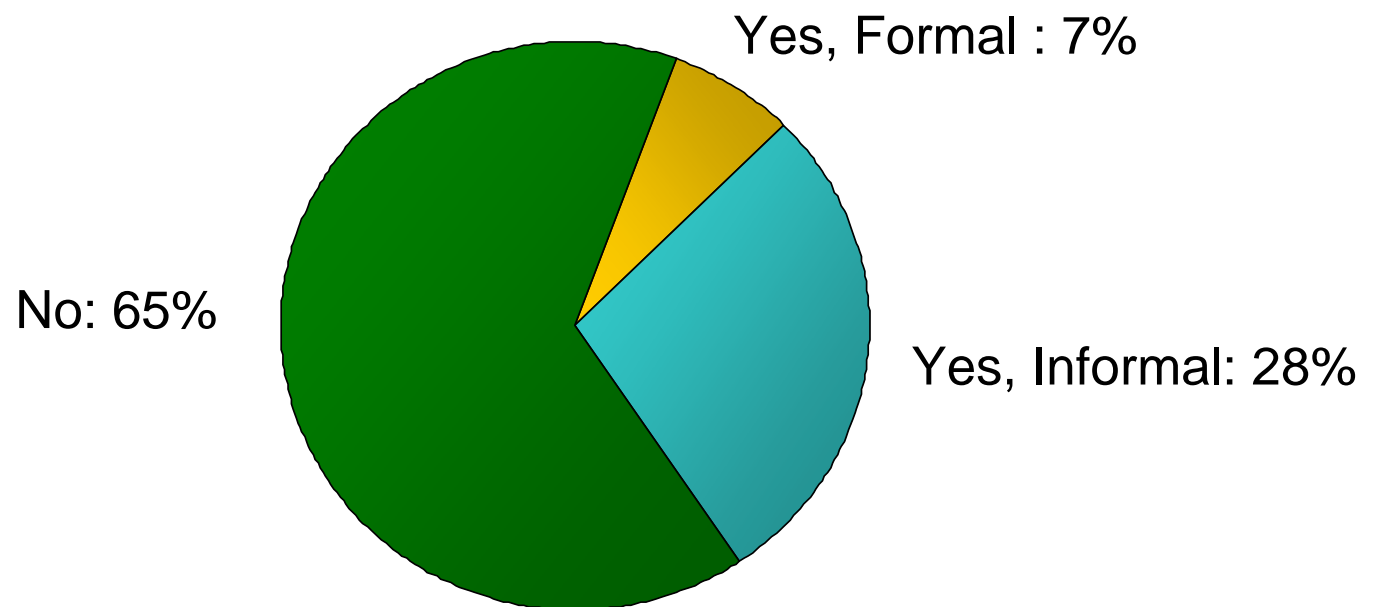
# Q & A

# APPENDIX

- The number of Canadian seniors has nearly doubled over the past 20 years, and will double again over the next two decades
- By 2010, \$1.2-trillion in business assets is poised to change hands as a direct result of retiring entrepreneurs
- Within ten years, more than 70 percent of entrepreneurs plan to retire
- 41% of all SME business owners intend to leave in the next 5 years (Canadian Federation of Independent Business)

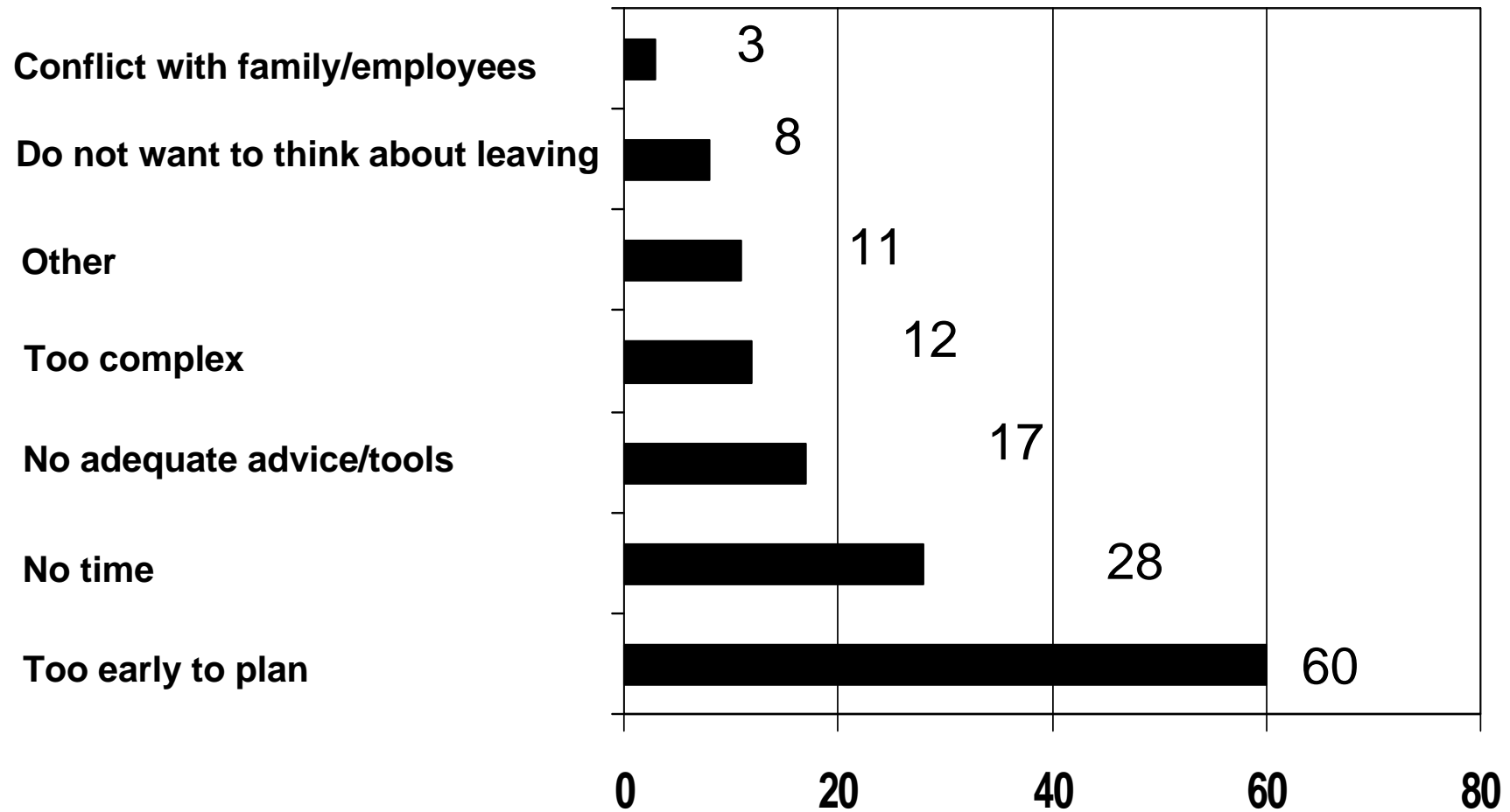
- Only one-third of business owners have a succession plan in place, the majority of which are informal
- Many succession plans are not adequately addressing “soft” issues and are providing little time for the training of successors
- Recent studies indicate that owners and their successors feel that they have benefited significantly from a well thought out succession plan

## % of respondents



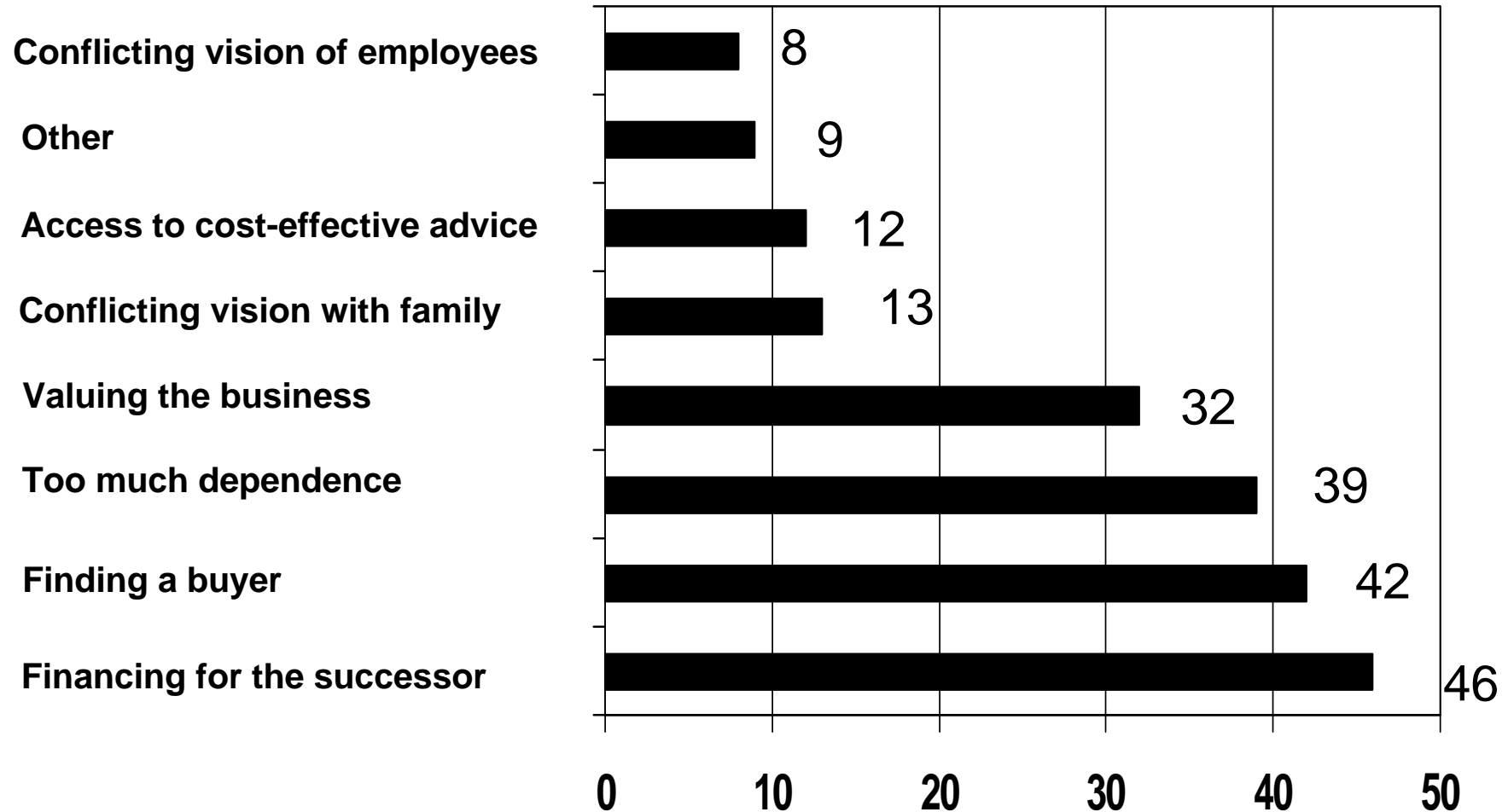
Source: CFIB

# WHY SMEs DO NOT HAVE SUCCESSION PLANS



Source: CFIB

# BARRIERS TO SUCCESSION: CURRENT OWNERS



Source: CFIB

## Five key questions every owner should ask themselves:

### 1. When do I want to exit the business?

- Establishing a timeframe is a critical step (18-24 months)
- Allows you to address issues such as, valuation, tax implications, training of senior management team, and possible successors

### 2. Who do I want to sell to?

- Transfer to active family member(s)
- Management Buy Out (MBO)
- Sale to a strategic purchaser (competitor)
- Sale to a private equity firm

### **3. Do I maintain some sort of interest in the business?**

- Owners can elect to phase their exit (Case Study)
- Maintaining operational control while reducing their equity holdings
- Act as a consultant, assist in special projects

### **4. What is my business worth?**

- Regardless of who the business is being transitioned to a proper valuation requires time and research
- May engage an outside valuator to assist in the process

## 5. Who can help?

- Start planning by consulting with you closest advisors
- May include: family, accountant, lawyer, and your management team
- Look to increase the circle of influence to include groups that participate in these types of transactions regularly: senior lenders (banks), private equity firms, and mezzanine finance specialists

## **Family transfer**

- Carrying legacy and providing for family members
- Can cause stress and discord if not handled correctly

## **Partial buyout / Phased exit**

- New ownership group provides capital and takes minority equity stake
- Reduce risk while retaining operational controls
- Introducing new skills what could drive business
- Secure upside that has been built over the years

## **Management buy-out**

- Ensures continuity
- Allows business to carry on with minimum disruption and uncertainty

## **Sale to outside interests**

- Eliminates many of the personal and family issues
- Establish fair and realistic price for business

## Choosing the right financial partner

- An understanding of the industry
- Focus and commitment to similar businesses of the same size
- Strong strategic network, including potential successors and corporate financiers
- Access to capital and ability to offer flexible financing options
- Experience in negotiating strategic sale of business