

Corporate M&A Advisor

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Capturing Hidden Value in Middle Market M&A Transactions—Life Insurance Settlements

Putter Co. is being courted by a private-equity fund. However, the parties are approximately \$5,000,000 apart on the value that the private-equity fund believes the company is worth versus what the shareholders want for the company. Putter Co. is owned by two 50% shareholders that are in their mid-60s. The company owns \$10,000,000 in life insurance on each shareholder to fund a buy/sell arrangement.

A creative, and often overlooked, solution to bridge the value gap and complete the transaction is to turn these life insurance policies into cash. Under the right circumstances, a life insurance policy can generally be sold for 20-30% of its death benefit. In this case, after getting the specifics on the life insurance policies and the individual shareholders, the private-equity fund was able to arrange a sale of each of the policies for a total of \$5,000,000. This extra cash was used to fund the value shortfall and complete the transaction.

There is a growing market for life insurance policies, and while the market is becoming more efficient, there are significant variations in the values offered for these policies. It is common to see opening offers for the policies almost double by the time the marketing has been completed. On a recent transaction, the first offer for a policy was \$1,000,000. The policy was ultimately sold for in excess of \$2,100,000.

When dealing with the sale of life insurance policies, it is important to work with advisors who deal directly with the funding sources and not through multiple intermediaries. Many hedge funds and institutions are coming into the market and are buying these policies. Industry estimates indicate that there were \$8 billion in life insurance settlements in 2004, \$12 billion in 2005, and it is projected that there will be \$15-16 billion in 2006.

Vedder Price is a thriving, full-service law firm with offices in Chicago and New York City. Our attorneys have experience working with the advisors, individuals and companies selling these policies. We also work with a large number of private equity funds on all aspects of their transactions, and can assist in finding creative and innovative solutions to consummate middle-market transactions.

Authors: Guy E. Snyder and Ernest W. Torain, Jr., Vedder Price, Chicago, IL. Mr. Snyder can be reached at 312-609-7656 (gsnyder@vedderprice.com) and Mr. Torain can be reached at 312-609-7558 (etorain@vedderprice.com).

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Chicago

222 North LaSalle Street
Chicago, Illinois 60601
312/609-7500
Fax: 312/609-5005

New York

805 Third Avenue
New York, New York 10022
212/407-7700
Fax: 212/407-7799

New Jersey

Five Becker Farm Road
Roseland, New Jersey 07068
973/597-1100
Fax: 973/597-9607

www.vedderprice.com

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