

PRESERVE YOUR LEGACY
WEBINAR SERIES PART 3

Acquisition Strategy

PRESENTED BY...



Angela Adams



Mike Mensch



Mike Strakhov



1

Why Acquire?

Strategic Reasons to Acquire:



- Economies of scale
- Growth, much faster than organic growth
- Part of your succession plan – buy bench strength
- Another partner's succession plan
- Geographic expansion
- Add needed markets
- Opportunistic / Fell into your lap
- Make more money / Return on Investment



Mike Strakhov

2

Why Acquire?

Organic Growth vs. Growth via Acquisition

Example – Goal to organically grow From \$1M to \$1.5M in revenue
It would take a \$1,000,000 revenue agency with a compounded annual growth rate (CAGR) of 5% between 8 - 9 years to get \$1.5M in revenue.

Year	Revenue	Retention	Renewal	New Comm Rev	YE Revenue	Growth	New WP (10% Ave Comm)
2016	\$1,000,000	0.9	\$900,000	\$ 150,000	\$ 1,050,000	5%	\$ 1,500,000
2017	\$1,050,000	0.9	\$945,000	\$ 157,500	\$ 1,102,500	5%	\$ 1,575,000
2018	\$1,102,500	0.9	\$992,250	\$ 165,375	\$ 1,157,625	5%	\$ 1,653,750
2019	\$1,157,625	0.9	\$1,041,863	\$ 173,644	\$ 1,215,506	5%	\$ 1,736,438
2020	\$1,215,506	0.9	\$1,093,956	\$ 182,326	\$ 1,276,282	5%	\$ 1,823,259
2021	\$1,276,282	0.9	\$1,148,653	\$ 191,442	\$ 1,340,096	5%	\$ 1,914,422
2022	\$1,340,096	0.9	\$1,206,086	\$ 201,014	\$ 1,407,100	5%	\$ 2,010,143
2023	\$1,407,100	0.9	\$1,266,390	\$ 211,065	\$ 1,477,455	5%	\$ 2,110,651
2024	\$1,477,455	0.9	\$1,329,710	\$ 221,618	\$ 1,551,328	5%	\$ 2,216,183
				\$ 1,653,985			\$ 16,539,846

Note: Does not account for exposure and rate increases



3

Acquisition Process

10 Step Acquisition Process:

1. Outline acquisition strategy
2. Set target search criteria
3. Identify potential targets
4. Contact potential targets
5. Perform the initial valuation process
6. Secure financing
7. Negotiate/execute LOI
8. Perform due diligence
9. Negotiate purchase agreement
10. Close & Integrate



4

Acquisition Process

Preparing for An Acquisition

- Financing
- Tools needed: NDA, LOI, deal analysis spreadsheet.
- Determining your ideal acquisition:
 - Revenue size
 - Location
 - Type of agency
 - Carriers
 - Employees
 - Timing
 - Structure



5

Acquisition Process

Deal Team

- Acquisitions = a lot of work
- Internal Resources - Capacity of existing staff
- External – Valuation / Attorney / Bank / CPA
- Put a process in place *before* the acquisition
 - that is repeatable
 - that has timeline
 - defines roles & responsibilities



6

Acquisition Process

How to Find Sellers

- Online
 - www.agencyequity.com
 - www.bizbuysell.com
 - <https://www.facebook.com/groups/910668002423629>
 - Screen Scrape
- Trade Associations
- Carrier Reps
- Make it Known You're Interested in
- Good Old Fashion Networking and Marketing
- Contact M&A and Broker Intermediaries
 - For current opportunities
 - To prospect on your behalf



Have Your Elevator Speech Prepared and Ready to Go!!

- Why are you a good option for agents to consider?
- Value Proposition to Sellers



7

Acquisition Process

How to Find Sellers

- **Who is the competition?**
 - Private Equity Backed Buyer
 - National Brokerages
 - Regional Brokerages
 - Local Brokerages
 - Licensed Agents
- More buyers than sellers
- Difficult for the average buyer to find and secure deals

Price
Competition



8

Acquisition Process

How to Find Sellers

- **How to Increase Your Chances of Success:**
 - Target Smaller Agencies (<\$1M in Revenue)
 - Know What You Can Afford
 - Understand the Process
 - Be Flexible When Structuring a Deal
 - Move Diligently on Opportunities
 - Hire a Professional to Assist in the Search



Acquisition Process

Prior to Making an Offer

What to request upfront:

- 3 years of financial history
- 3 years of commission & contingent income by carrier
- Active Book of Business summary
- Loss reports for top carriers
- Employee roster including salary and job description
- Agency Valuation (if available)



Acquisition Process

Making an Offer

Letter of Intent (LOI):

- Short, non-binding offer letter
- Outlines *deal terms* – covered on next slide
- Outlines timeline & requirements:
 - Due diligence period & requirements
 - Third party approvals
 - Closing requirements (e.g. E&O tail quote)
 - Estimated closing date
 - Exclusivity period – typically 90-120 days



11

Acquisition Process

Making an Offer

Deal Terms:

- *Structure* – stock or asset purchase
- *Price* – fixed or formula-based
- Terms:
 - *Cash* at closing
 - *Escrow* hold back – amount & length
 - *Seller note* – length, interest rate, & other requirements/terms
 - *Earnout* – length, performance requirements
- Seller employment or transition requirements



12

Acquisition Process

Financing the Deal

- How to Pay for it
 - Sources
- Bank Financing
 - Know the credit requirements
 - Information necessary
 - Timeline / Process
 - Down Payment, if any



Acquisition Process: Conducting Due Diligence



Acquisition Process: Conducting Due Diligence

Due diligence components:

1. Financial
2. Operational
3. Legal

The diligence process can:

- Vary from a few weeks to a few months.
- Be overwhelming.
- Make or break the success of a deal!



Acquisition Process: Conducting Due Diligence

Financial Due Diligence

• Verifying Revenue:

- Tax returns and P&Ls
- Bank statements & reconciliations
- Carrier statements
- Management system reports
 - Production by carrier, LOB, client, & producer
 - New/lost business
 - Customer invoices and AR/AP reports



Acquisition Process: Conducting Due Diligence

Financial Due Diligence

- **Verifying Expenses:**

- Tax returns and P&Ls/balance sheets
- General ledger
- Bank statements & reconciliations
- W2s, 1099s, and payroll reports
- Invoices
- Agreements (employment, leases, etc.)



Acquisition Process: Conducting Due Diligence

Financial Due Diligence

- **Process:**

- Prove the revenue
- Prove the expenses
- Create a pro forma (annual & monthly)

- **Be sure to:**

- Project payroll off current comp plans.
- Pay attention to revenue trends & concentration risks.
- Be conservative.



Acquisition Process: Conducting Due Diligence

Financial Due Diligence

What to watch out for:

- Inaccurate financial data
- Non-recurring income
 - Contingency income
 - Policy fee income
 - One-time policy commissions
 - Non-agency income
- Client & producer concentration



Acquisition Process: Conducting Due Diligence

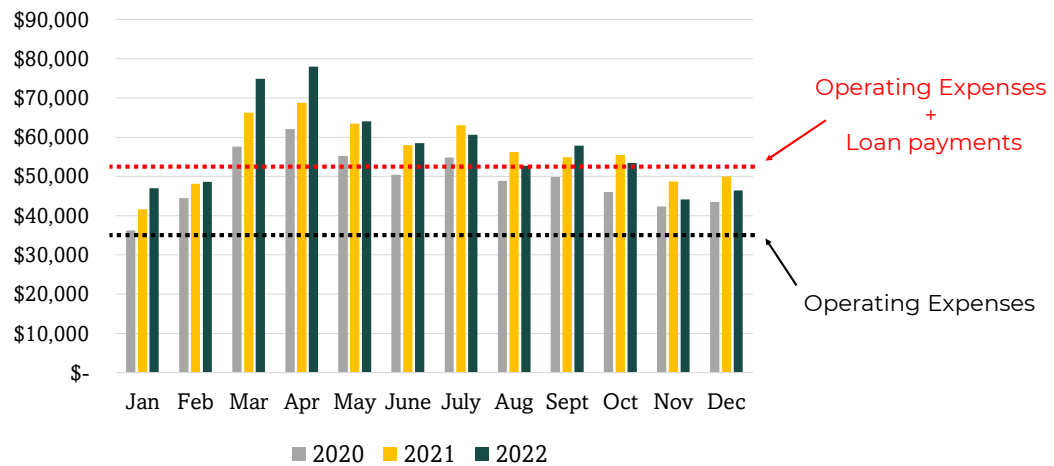
- Triangulate the revenue
- Target should be > 95%
- Direct bill = Easy
- Agency bill = Nightmare

TTM Revenue Verification				
Company	AMS	Bank	Carrier	Difference
Carrier 1	\$ 236,521	\$ 232,368	-	\$ (4,153)
Carrier 2	\$ 109,562	\$ 107,952		\$ (1,610)
Carrier 3	\$ 80,694	\$ 81,685		\$ 991
Carrier 4	\$ 78,254		\$ 80,236	\$ 1,982
Carrier 5	\$ 43,685	\$ 42,785		\$ (900)
Total Top 5	\$ 548,716	\$ 464,790	\$ 80,236	\$ (3,690)

Source	Total	% Verified
P&L	\$ 686,277	79.4%
Tax Return	\$ 704,368	77.4%

Acquisition Process: Conducting Due Diligence

Monthly Revenues



Acquisition Process: Conducting Due Diligence

Employee Payroll Adjustments

Staff	Function	Benefits	Employee Payroll					
			W2	Base	Bonus	Com.	New Base	Pro Forma
1 Robert	PL Sales	Y	\$ 65,340	\$ 45,000	\$ 4,000	\$ 16,340	\$ 48,000	\$ 68,340
2 Gene	PL Sales	Y	\$ 58,650	\$ 45,000	\$ 4,000	\$ 9,650	\$ 47,000	\$ 60,650
3 Sally	PL Sales	Y	\$ 52,058	\$ 44,000	\$ 3,000	\$ 5,058	\$ 46,000	\$ 54,058
4 Joan	PL Service	N	\$ 42,000	\$ 38,000	\$ 4,000	\$ -	\$ 44,000	\$ 48,000
5 Kallie	PL Service	N	\$ 12,500	\$ 32,000	\$ 2,000	\$ -	\$ 32,000	\$ 34,000
TOTAL			\$ 230,548	\$ 204,000	\$ 17,000	\$ 31,048	\$ 217,000	\$ 265,048

- Project *current* employee compensation.
- Adjust payroll taxes and true-up benefits.
- Watch for improper employee classification (1099 vs W2).

Acquisition Process: Conducting Due Diligence

- Analyze expenses with pivot tables from GL:

Type	Date	Num	Name	Split	Amount
Credit Card Charge	4/1/2022		ATT	AMEX	\$ 122.80
Credit Card Charge	4/12/2022		Microsoft	AMEX	\$ 1.99
Credit Card Charge	4/16/2022		Adobe	AMEX	\$ 15.89
Credit Card Charge	4/21/2022		Spectrum	AMEX	\$ 187.97
Credit Card Charge	4/24/2022		Comcast	AMEX	\$ 374.48
Check	4/25/2022		Comcast	PNC	\$ 196.16
Credit Card Charge	5/1/2022		ATT	AMEX	\$ 122.43
Credit Card Charge	5/12/2022		Microsoft	AMEX	\$ 1.99
Credit Card Charge	5/12/2022		Precision Roller	AMEX	\$ 82.34
Credit Card Charge	5/16/2022		Adobe	AMEX	\$ 15.89
Credit Card Charge	5/20/2022		Spectrum	AMEX	\$ 187.97
Credit Card Charge	5/24/2022		Comcast	AMEX	\$ 374.48
Check	5/25/2022		Comcast	PNC	\$ 196.16

Row Labels	Sum of Amount
Adobe	\$ 151.00
2022	\$ 151.00
Qtr2	\$ 71.55
Qtr3	\$ 47.67
Qtr4	\$ 31.78
ATT	\$ 1,244.08
2022	\$ 1,244.08
Qtr2	\$ 367.66
Qtr3	\$ 497.25
Qtr4	\$ 379.17
Comcast	\$ 5,741.84
2022	\$ 5,082.44
Qtr2	\$ 1,637.90
Qtr3	\$ 1,949.43
Qtr4	\$ 1,495.11
2023	\$ 659.40
Dell	\$ 6,208.85

Acquisition Process: Conducting Due Diligence

Calendar Year 2022						
	Source:	P&L	%	Adjustment	Projected	%
Revenues						
Commission Income P&C	\$	656,319	94.4%		\$	656,319 94.0%
Contingency Commissions	\$	37,653	5.4%		\$	37,653 5.4%
Miscellaneous Income	\$	1,500	0.2%	\$ (1,500)	\$ -	0.0%
Interest income						
Total Revenues	\$	695,472	100%	\$ (1,500)	\$ 693,972	100%
Expenses						
Compensation of Officers	\$	120,000	17.3%	\$ (120,000)	\$ -	0.0%
Owner's salary						
Salaries & Wages	\$	230,548	33.1%	\$ 34,500	\$ 265,048	38.2%
EE comp. projection						
Repairs & Maintenance	\$	22,003	3.2%	\$ (12,500)	\$ 9,503	1.4%
One-time repair						
Rent	\$	48,000	6.9%	\$ (12,000)	\$ 36,000	5.2%
Go forward rent						
Taxes & Licenses	\$	31,156	4.5%	\$ (6,541)	\$ 24,615	3.5%
Payroll tax adjustment						
Advertising	\$	26,985	3.9%		\$ 26,985	3.9%
Auto & Truck Expense	\$	2,250	0.3%	\$ (2,250)	\$ -	0.0%
Owner's expense						
Computer	\$	22,562	3.2%		\$ 22,562	3.3%
Dues & Subscriptions	\$	4,983	0.7%	\$ (1,500)	\$ 3,483	0.5%
Owner's dues						
Employee Benefits	\$	24,850	3.6%	\$ (6,850)	\$ 18,000	2.6%
EE benefit adjustment						
Insurance	\$	53,114	7.6%	\$ (32,295)	\$ 20,819	3.0%
Insurance allocation						
Janitorial	\$	3,285	0.5%		\$ 3,285	0.5%
Legal & Professional	\$	4,432	0.6%	\$ (4,432)	\$ -	0.0%
Owner's expense						
Meals & Entertainment	\$	5,894	0.8%	\$ (5,894)	\$ -	0.0%
Owner's expense						
Miscellaneous	\$	6,530	0.9%	\$ (6,530)	\$ -	0.0%
Split to Office Exp.						
Office Expense	\$	7,030	1.0%	\$ 4,350	\$ 11,380	1.6%
Annualized expenses						
Printing & Postage	\$	6,185	0.9%		\$ 6,185	0.9%
Telephone & Utilities	\$	19,395	2.8%	\$ (2,400)	\$ 16,995	2.4%
Owner's cell phones						
Total Expenses	\$	639,202	91.9%	\$ (174,342)	\$ 464,860	67.0%
Net Operating Income	\$	56,270	8.1%		\$ 229,112	33.0%
Pro Forma EBITDA						

Acquisition Process: Conducting Due Diligence

Cash Flow Projection						
	Jan	Feb	Mar	April	May	June
Income						
P&C Income	\$ 47,028	\$ 48,614	\$ 48,368	\$ 66,215	\$ 72,368	\$ 58,470
Contingency	\$ -	\$ -	\$ 26,500	\$ 8,653	\$ 2,500	\$ -
Total Income	\$ 47,028	\$ 48,614	\$ 74,868	\$ 74,868	\$ 74,868	\$ 58,470
Operating Expenses	\$ (36,434)	\$ (36,434)	\$ (36,434)	\$ (36,434)	\$ (36,434)	\$ (36,434)
Loan Payments	\$ (16,496)	\$ (16,496)	\$ (16,496)	\$ (16,496)	\$ (16,496)	\$ (16,496)
Cash Flow	\$ (5,902)	\$ (4,316)	\$ 21,938	\$ 21,938	\$ 21,938	\$ 5,541

- Create monthly projection off trailing 12-month period.
- For simplicity, take 1/12th of adjusted annual expenses.
- Subtract monthly loan payments.

Acquisition Process: Conducting Due Diligence

Operational Due Diligence

- Carriers
 - Relationship manager
 - Production/loss reports
- Employees
 - Organization structure
 - Employee handbook/procedures
 - Hiring & training process
- IT
 - Infrastructure
 - System procedures/workflows
 - Cyber security policies



Acquisition Process: Conducting Due Diligence

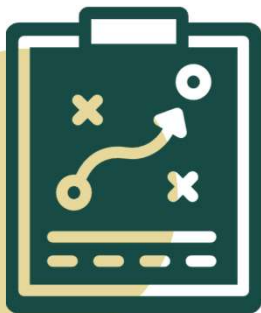
Legal Due Diligence

- Network contracts - Breakup fee & unwinding process
- Producer & employee agreements (all active) – Restrictions, rights & obligations
- Corporate documents & list of stakeholders
- Assets & liabilities
- Licenses & permits
- Insurance policies & claims history
- Third party agreements – landlords, carriers, vendors
- Past acquisition transaction documents (if applicable)



Acquisition Process: Integration

▶ Game Plan



- Have a Game Plan
- "Boots on the ground"

Acquisition Process: Integration



Live Date 3/1/2023

Pre Live Week

Days to live date	Date	Role	Task
-45	1/15/2023	Financial Analyst	Work with CPA or CFO . Get property list if Asset purchase . Detailed listings of assets or different types of returns
-45	1/15/2023	Financial Analyst	Accounting report card
-45	1/15/2023	Advisor	Onsite to Evaluate/Gather Information
-45	1/15/2023	Financial Analyst	Review sales agreement to understand how accounting needs to flow
-45	1/15/2023	Financial Analyst	Discuss Business Unit Setup for merger
-30	1/30/2023	Consultant	calls/emails with agency/Vertafore
-28	2/1/2023	Consultant	Security review
-30	1/30/2023	Consultant	Map conversion data
-30	1/30/2023	Consultant	Project Management
-25	2/4/2023	Consultant	Review ImageRight workflows with acquired agency, see if any special workflows need to be added
-20	2/9/2023	Consultant	Review acquirees database for spec apps, code issues
-18	2/11/2023	Consultant	Evaluate and Review for necessity of Vertafore Scripts on LOB and Carriers (merge only). Make recommendations for clean
-15	2/14/2023	Consultant	Test preview database
-14	2/15/2023	Consultant	Form Letter Review and copy
-14	2/15/2023	Consultant	Review action codes and doc types if using DOC360



29

Acquisition Process: Integration



Communication



- Communication w/ Stakeholders
 - Employees
 - Customers
 - Carriers



30

Acquisition Process: Integration

► Integrating



People &
Culture



Management system
& Accounting



Banking



Branding

31

Acquisition Process: Integration

► Integrating People



People &
Culture

- Avoid "Us versus Them" conflicts
- Get buy-in from both groups
- Take the best of each

32

Acquisition Process: Integration

► Integrating Systems



Management system
& Accounting

- This process can take months – start early
- Have people from both teams involved with data mapping
- Create Consolidated procedure manuals
- Getting Company Download and commissions redirected is frustrating

33

Acquisition Process: Integration

► Integrating Banking



Banking

- Many agencies conduct business with a bank they insure
- Re-directing commission EFTs for Direct Bill can take up to a year

34

Acquisition Process: Integration

► Integrated Branding



- Many agencies choose to use both for a period of time, then a new combined brand
- Paying an outside firm to develop new branding can avoid winners and losers

35

Questions?



36

Thank you for attending!



Angela Adams Consulting
Shining the light to your success

888.485.7779

www.AngelaAdamsConsulting.com
Consulting@AngelaAdamsConsulting.com



Agency Brokerage
Build value. Exit right.

321.255.1309

<https://www.agencybrokerage.com>
mmensch@agencybrokerage.com



LiveOakBank

614.361.9482

www.liveoakbank.com
michael.strakhov@liveoak.bank