

PRESERVE YOUR LEGACY
WEBINAR SERIES PART 2

Perpetuation Planning

PRESENTED BY...



Angela Adams



Mike Mensch



Mike Strakhov



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Perpetuation Planning

Attendee Stats:

AMS:

- 40% Vertafore
- 28% Other
- 14% Applied
- 12% EzLynx
- 6% Hawksoft

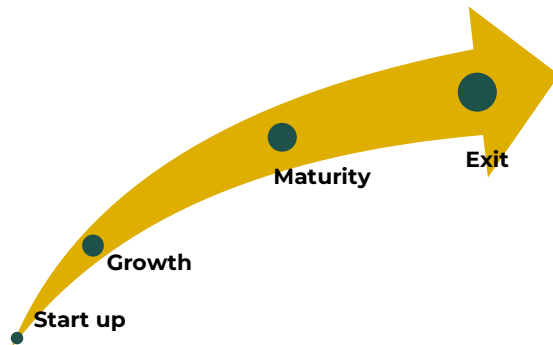
Exit timeline:

- 38% 5+ Years
- 24% 1-4 years,

Poll Results...

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Why plan your exit?



Most owners have plans for:

- Starting a business
- Training staff
- Marketing
- Retaining clients

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Why plan your exit?

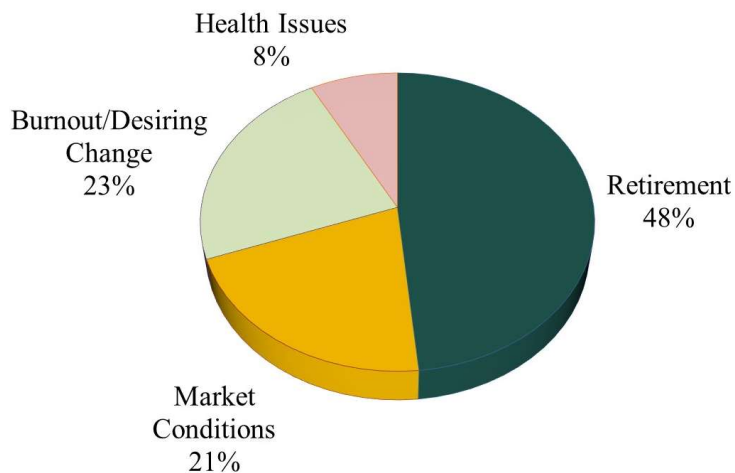
• Why plan your exit?

- ✓ Improve the value of the agency.
- ✓ Sell for the best price and terms.
- ✓ Minimize tax liability.
- ✓ Avoid a distressed sale.
- ✓ Ensure an overall smoother transition process.
- ✓ Protect your family.
- ✓ Protect your employees and customers.

➤ **You only get ONE chance to do it right.**

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Why do owners sell?



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What is your goal?



- ▶ What level of involvement do you want?
- ▶ Maximize payout to owner
- ▶ How important is it to you to protect current staff?
- ▶ Remaining a local independent agency
- ▶ Impact on family

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Perpetuation Planning: Your Goals

▶ What level of involvement do you want?



- *Will you succeed or fail at being a 'retiree'?*
- *Would you be a good employee?*
- *What are your dreams?*
- *Are you willing to bet your retirement on your agency's future success?*

Perpetuation Planning: Your Goals

▶ How important is it to you to protect your current staff?



- *With large firm acquisition, many functions will be moved to central center.*
- *Long tenured employees may have to interview for a position.*

Perpetuation Planning: Start Now

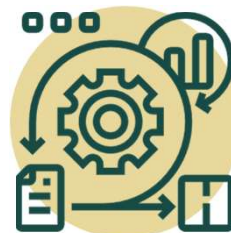
► No matter what you choose... start preparing ASAP!



Get financials
ready



Develop
Team



Establish and
implement
procedures



Manage Carrier
Relationships

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Perpetuation Planning: Get Financials Ready

► Getting financials ready



Balance Sheet
matters!



Reorganize Chart of
Accounts for easier
benchmarking



What personal expenses
are you running through
business?

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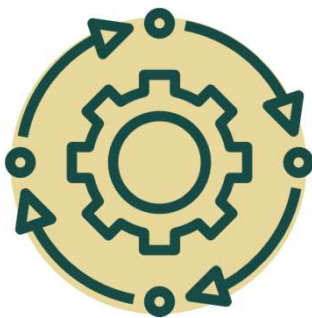
Perpetuation Planning – Team Development

- ▶ Internal Team
 - Producers
 - Agency Operations
 - Accounting
- ▶ Deal Team
 - CPA
 - Attorney
 - Bank

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Perpetuation Planning: Procedure Manuals

▶ Get procedures in place



Acquirers want to see procedures



E&O Protection



Will make you more efficient - increasing profitability

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Perpetuation Planning: Carrier Relationships



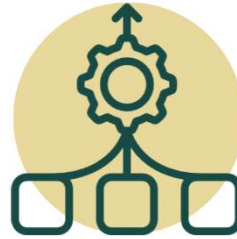
Manage carrier relationships



Do 80/20 analysis
on carriers



Evaluate your
carriers



Work to
consolidate now



Include other agency
leaders in carrier
relationships

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What are your options?



Sell to internal
staff



Remain a majority
shareholder



Merge with
another agency



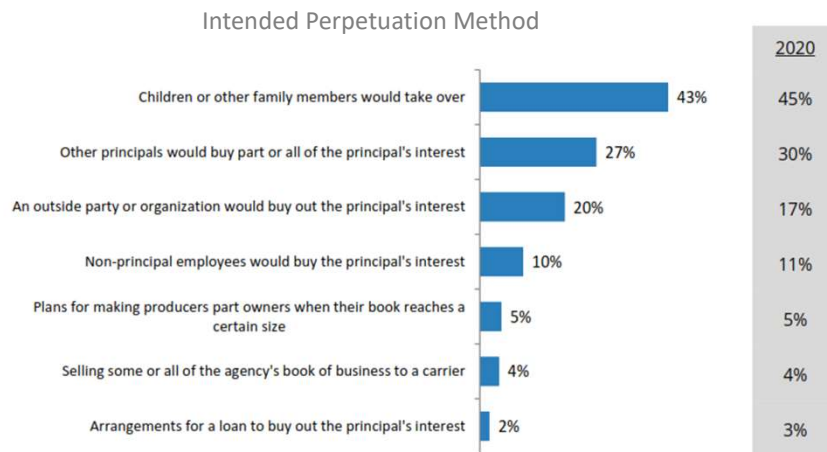
External Sale

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Sell to Internal Staff

More than eight out of ten (85%) agencies have some type of agency perpetuation tool or plan in place, comparable with 2020 (89%).

Source: 2022 Agency Universe Study – Big I & Future One



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Sell to Internal Staff



Sell to internal staff

- ▶ Identify Potential Internal Owners
- ▶ Prepare potential owners
 - Teach Agency Operations
 - Develop Carrier Relations
 - Develop Top Client Relations

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Sell to Internal Staff

Pros

- Protect Staff
- Local Ownership
- Opportunity for higher client retention
- Opportunity to stay involved
- Consistency for clients

Cons

- Longer Trajectory
- Lower Value for Agency

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What are your options?



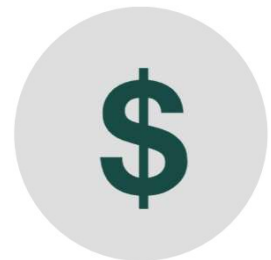
Sell to internal
staff



Remain a majority
shareholder



Merge with
another agency



External Sale

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Remain Majority Shareholder



Remain a majority shareholder

- ▶ Leadership Development
- ▶ Reduce day-to-day responsibilities
- ▶ Continuing Income Stream
 - Skin in the game
 - Give/Sell shares to key employees

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Remain Majority Shareholder: Leadership Development



Develop an internal leadership team to remain a majority shareholder

- ▶ You have to develop your people NOW
- ▶ Teach agency operation skills
- ▶ Formal Plan



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Remain Majority Shareholder



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Remain Majority Shareholder



Pros

- Stay in Control
- Protect Staff



Cons

- Retain Ownership stress
- Lowest Value for Agency
- Longer Trajectory
- Can cause family issues

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What are your options?



Sell to internal
staff



Remain a majority
shareholder



Merge with
another agency



External Sale

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Merge with Another Agency



Merge with
another agency

► Pros

- Can lead to future internal sale.
- Creates economies of scale.
- Yields synergy in talent.
- Keeps agency locally owned.

► Cons

- Needs long timeline.
- Must be willing to compromise.
- Not easy to unwind.

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Merge with Another Agency



Merge with
another agency

- ▶ Look for a ***Synergistic*** fit
 - Book of business synergies
 - Staffing synergies
 - Systems match
- ▶ Look for a ***Personality*** fit
 - Personal compatibility
 - Cultural compatibility
 - Goal compatibility

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Merge with Another Agency



Merge with
another agency

- ▶ **Stages of Merger:**
 1. "Dating"
 2. Planning
 3. Structuring
 4. Documenting
 5. Integrating
- ▶ **Challenges:**
 - Control disparity (unequal merger)
 - Managing emotions
 - Exiting

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Merge with Another Agency



Merge with
another agency

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What are your options?



Sell to internal
staff



Remain a majority
shareholder



Merge with
another agency



External Sale

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External Sale



External Sale

Pros

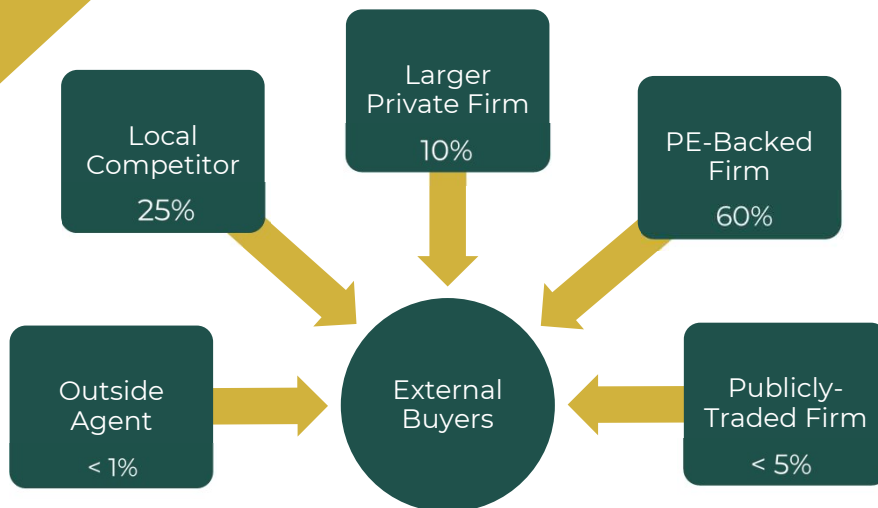
- Faster exit
- Higher sale price
- Higher probability of closing

Cons

- Loss of control
- Loss of agency identity
- Joining a larger organization

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External Sale – Potential Buyers



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External Sale – Potential Buyers



External Sale

Key buyer differences:

- Capital & debt capacity
- Synergies
- Risk tolerance
- Deal experience
- Process & deal terms

Be wary of:

- Bait & switch tactics
- Extended delays

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External Sale – Potential Buyers

Comparing External Buyers		
	Smaller Buyers	Larger Buyers
Acquisition Experience	Low to moderate	Moderate to high
Point of Contact	Principal	M&A team
Confidentiality Risk	Moderate	Low
Pricing	Moderate	Moderate to high
Terms	Cash + Seller note	Cash + Earnout
Seller Employment	No or short term	Yes
Upside Opportunity	None	None to high
Diligence Difficulty	Low to moderate	Moderate to high
Legal Process Difficulty	Low to moderate	High
Closing Timeline	60-90 days	60-90 days
Deal risk	Getting funds for closing	Passing diligence

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External Sale – Key Value Drivers

Value Drivers



Quality of
Revenue



Pro Forma
EBITDA



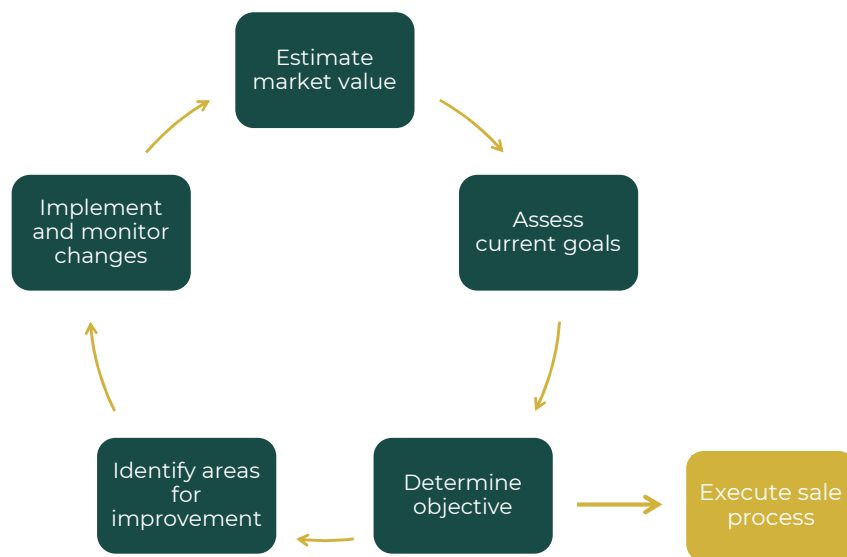
Growth rate



People

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External Sale – The Process



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External Sale – The Process



External Sale

Exit Timeline Goals

- > 10 Years: Grow the agency
- 5 – 10 Years: Replace yourself
- 3 – 5 Years: Get house in order
- < 3 Years: Minimize expenses

Best Practices:

- Evaluate ~5 years in advance
- Time the market
- Go to market

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Perpetuation Planning: Financing

How and when do you want to get paid?

- ▶ Structure of financing
- ▶ Sources
- ▶ Timing
- ▶ Bankability of your succession candidate



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Perpetuation Planning: Financing

Structure of financing

- ▶ Lender Financed
 - Credit requirements?
- ▶ Seller Financed
 - How much and for how long?
- ▶ Down Payment Requirement



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Perpetuation Planning: Financing

Structure of Financing - Example

CY 2021 Pro Forma						
	Source:	P&L	%	Adjustment	Recasted	%
Revenues						
P&C Commissions		\$ 1,674,542	84.0%		\$ 1,674,542	88.3%
L&H Commissions		\$ 101,396	5.1%		\$ 101,396	5.3%
Contingent Income		\$ 101,478	5.1%		\$ 101,478	5.3%
Fee Income		\$ 20,046	1.0%		\$ 20,046	1.1%
Miscellaneous Income		\$ 97,100	4.9%	\$ (97,100)	\$ -	0.0%
Total Revenues		\$ 1,994,562	100%	\$ (97,100)	\$ 1,897,462	100%
Expenses						
Officer Wages		\$ 275,000	13.8%	\$ (125,000)	\$ 150,000	7.9%
Producer Expense		\$ 158,986	8.0%		\$ 158,986	8.4%
Office Salaries		\$ 574,701	28.8%		\$ 574,701	30.3%
Retirement Contributions		\$ 49,792	2.5%	\$ (16,540)	\$ 33,252	1.8%
Payroll Taxes		\$ 62,372	3.1%	\$ (7,500)	\$ 54,872	2.9%
Advertising		\$ 25,551	1.3%		\$ 25,551	1.3%
Automobile		\$ 13,540	0.7%	\$ (13,540)	\$ -	0.0%
Dues & Subscriptions		\$ 47,336	2.4%	\$ (4,800)	\$ 42,536	2.2%
Insurance		\$ 73,720	3.7%	\$ (21,500)	\$ 52,220	2.8%
Legal & Professional		\$ 11,663	0.6%	\$ (5,400)	\$ 6,263	0.3%
Rent		\$ 60,000	3.0%	\$ 6,000	\$ 66,000	3.5%
Repairs & Maintenance		\$ 33,749	1.7%	\$ (17,500)	\$ 16,249	0.9%
Property Taxes		\$ 7,344	0.4%	\$ (7,344)	\$ -	0.0%
Supplies & Postage		\$ 36,348	1.8%		\$ 36,348	1.9%
Utilities		\$ 15,462	0.8%	\$ (4,200)	\$ 11,262	0.6%
Miscellaneous		\$ 13,311	0.7%	\$ (7,500)	\$ 5,811	0.3%
Total Expenses		\$ 1,458,874	73.1%	\$ (224,823)	\$ 1,234,051	65.0%
Net Operating Income		\$ 535,688	26.9%		\$ 663,411	35.0%
						Adj. EBITDA

AGENCY PERPETUATION FINANCING EXAMPLE						
	Amount	Term	Amortization	Rate	Monthly Payment	Annual Payment
Purchase Price	\$4,000,000					
Down Payment (10%)	\$400,000					
Bank Financing	\$2,600,000	10 Year	10 Year	8.50%	\$32,236	\$386,832
Seller Note	\$1,000,000	5 Year	20 Year	5%	\$6,600	\$79,200
Total	\$4,000,000				\$38,836	\$466,032

Debt Service Coverage Ratio

- Adjusted EBITDA / Annual Debt Service
- \$633,411 / \$466,032 = 1.42

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Perpetuation Planning: Financing

Sources

Seller Financing
Traditional Bank Loans
SBA Loans
Non-Bank Lenders
Insurance Companies
Friends & Family
Investor



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Perpetuation Planning: Financing

Timing – Bank Financing

- ▶ When to start
- ▶ How long is the loan process?
- ▶ Required information to get qualified



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Perpetuation Planning: Financing

Bankability of Your Succession Candidate(s)

- ▶ Ability to Qualify Financially
- ▶ Down Payment
- ▶ Professional Skills & Qualifications
- ▶ Business Plan



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Questions?



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Thank you for attending!



Angela Adams Consulting
Shining the light to your success

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April, 25th

Acquisition Strategy



Angela Adams



Mike Mensch



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