

Understanding Agency Value

IIA of Virginia

June 24, 2025



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Today's Discussion...3 years later

- ▶ Roadmap for Today
- ▶ State of the Current M&A Market
- ▶ Buyer, Seller, or Organic Grower?
- ▶ Drivers of Agency Enterprise Value
- ▶ Principles of Agency Value
- ▶ Is Your Agency's Value at Risk?
- ▶ Threats and Opportunities
- ▶ 5 Things You Need to Think About



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The Environment 2025 v. 2022

- ▶ Resiliency of the Independent Agency channel continues post-pandemic
- ▶ Reliability of agency cash flow generation continues to be attractive
 - Agency sales velocity, organic growth, and profitability continue to be solid in 2025 v. 2022
 - Reports indicate over 9% organic growth through YE 2024
 - Cash flow still reigns supreme EBITDA Margins continue to be in 23% range despite external pressure
- ▶ Per CIAB P&C survey, current hard market 29 straight quarters through YE2024.
- ▶ Organic growth has been positive for over 48 consecutive quarters and margins continue at all-time highs
- ▶ Per Reagan, line of business organic growth trends are converging with personal lines accelerating 2022–2025



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The Evolving M&A Market

- ▶ Consolidation continues to impact the top-end
 - In 2024, 17 firms exceeded \$1B in revenues v. 7 in 2014
- ▶ Public broker multiples of EBITDA and Revenue exhibit continued strength
- ▶ M&A Valuations at all-time highs, however, signs of flattening continue
- ▶ Buyers continue to be *selectively* aggressive
 - What are they buying? Specialty Distribution; MGAs; Networks
- ▶ Private Equity related buyers still represent over 70% of activity
- ▶ Rate environment, inflation & market liquidity factors
- ▶ Increased cost of debt capital tempering some buyer enthusiasm.



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M&A Activity 2024

- ▶ Announced transactions in 2024 were 27% lower than 2022, which was the 2nd most active year for transactions. Q1 2025 down 15% from Q1 2024.
- ▶ Buyers still looking for agencies that have size, specialization, or fit
- ▶ Active buyers have remained active – usual suspects still acquiring, however PEG activity has softened as well.
- ▶ External Sale EBITDA Multiples have been stable since 2022 at 12.5x before Earn-outs
- ▶ Internal Perpetuation Sales EBITDA Multiples stable since 2022 at 9.1x
- ▶ Size matters – higher multiples being paid for larger cash flow generating agencies



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Market Disruptors 2025

- ▶ Uncertain inflation forecasts
- ▶ Uncertain interest rate environment
- ▶ Tariff impact
- ▶ Unemployment rate at approximately 4% – Labor market stabilized post “Great Resignation”
- ▶ Cyber Crime exploding
- ▶ Fin Tech
- ▶ Consumer behavior – household and business income/savings stretched thin
- ▶ Foreign Policy issues – uncertain political landscape



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Today's Independent Agency Market

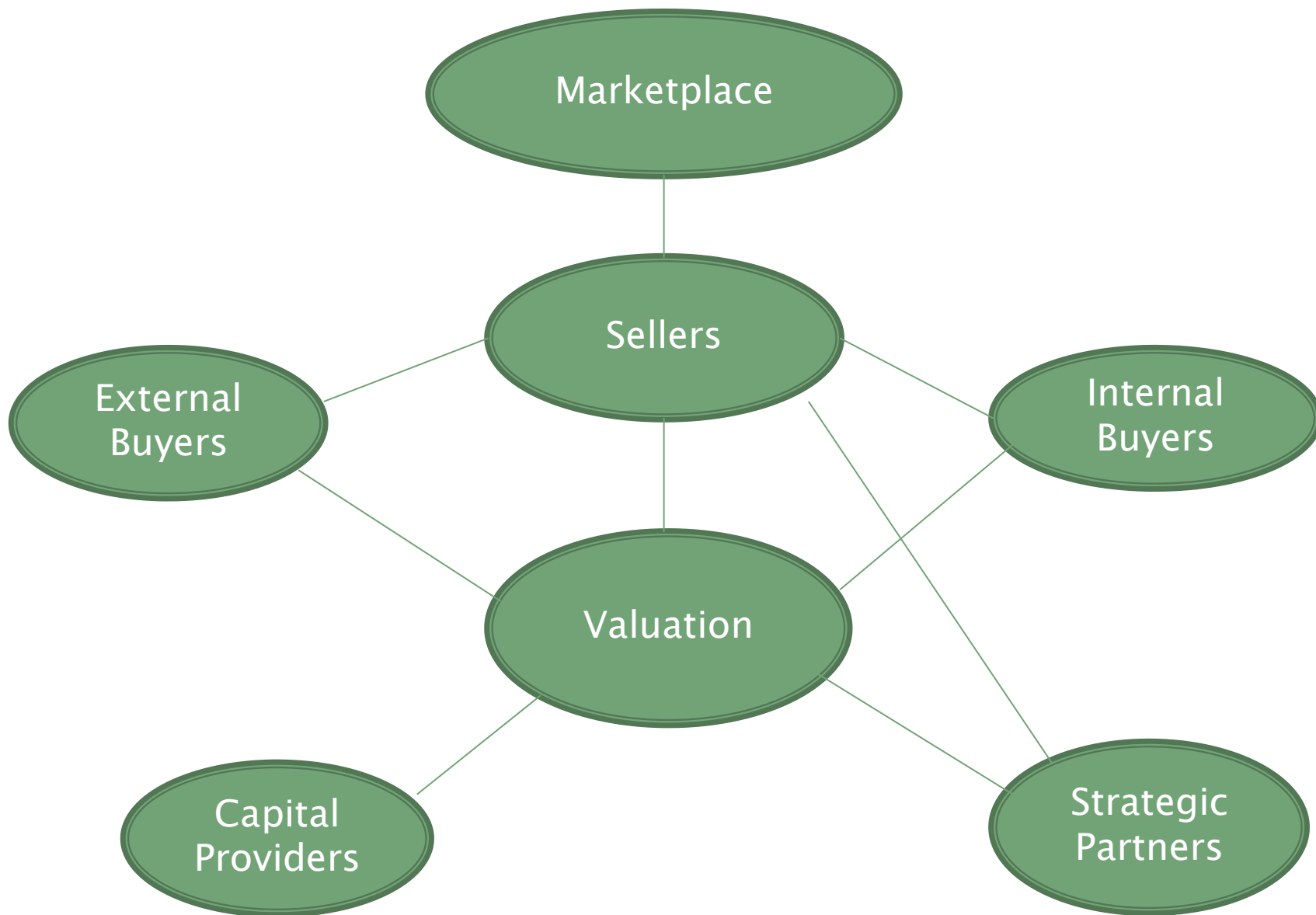
► Per 2024 Agency Universe Study

- 39,000 independent P&C agencies flat vs. 2014
- 75% of agencies report revenue gains 2022 to 2023
- 33% of principals expect ownership changes in next 5 years although only 20% plan a change in the next 12 months
- 27% of agencies have less than \$150,000 in revenue
- Social Media use embedded in nearly 60% of agencies
- Impact of hard market top of mind – #1 concern voiced is finding carriers who will maintain their commitment to your markets.



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You Decide: Buyer, Seller or Organic Grower?

- ▶ Sellers:
- ▶ Succession Planning Alternatives Remain the Same:
 - ***Sell to a Related Third Party – Internal Perpetuation***
 - Colleagues/Partners/Family
 - Producers/Management/Employees– Staged or 100%?
 - ***Sell to an Unrelated Third Party***
 - Competitor/Strategic buyer
 - PEG/Roll-up/ Financial buyer
 - ***Merge with another Agency (includes aggregation)***



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Buyer, Seller or Grower

Buyers:

- ▶ Who are they? Internal, Private Equity, Competitors, Public Brokers
- ▶ How the buyer thinks about value may differ
- ▶ Price = Guarantees + Earn-Outs
- ▶ Deal terms and structures may differ
 - Cash buyer v. leveraged buyer with capital costs
- ▶ Flexibility re: earn-outs, timing, decisions



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Buyer, Seller or Grower

Internal Buyer:

- ▶ Who are they? Producers, Management, Family, ESOP
- ▶ Willingness /ability of Internal Buyer to assume risk and debt
- ▶ Viability of perpetuation plan
- ▶ Size of debt structure required – affordable in higher rate environment?
- ▶ Sustainability of post-transaction agency
 - Retention of staff/clients/appointments
- ▶ Alignment of Seller Goals re: intangibles v. price



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Buyer, Seller or Grower

Strategic/Merger Partners:

- ▶ Who are they? Competitors, Aggregators, Clusters
- ▶ Potentially postpones the ultimate sale
- ▶ Viability of merger plan
- ▶ Structure of post-transaction agency
 - Retention of staff/clients/appointments
- ▶ Where is this partner? What's the long term plan?



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Buyer, Seller or Grower

Organic Grower:

- ▶ Producer recruiting and development
- ▶ Improved operating leverage utilizing technology and work flow re-design
- ▶ Market specialization
- ▶ Sales velocity focus
- ▶ Social media marketing



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Agency Valuation Primer

- ▶ Valuation has two components:
 - Value of Earnings (Intangible) (Book of Business.)
 - Value of Balance Sheet (Tangible) (Investment in Business.)
- ▶ **Value = Earnings Value plus Balance Sheet value**



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Agency Valuation Primer

- ▶ Assess Quantity, Quality and Riskiness of Earnings
- ▶ Determine Pro Forma Profitability – “Normalize” Cash Flow
- ▶ Determine an Appropriate Capitalization Rate (notice that I did not say “Multiple”).
- ▶ Assess the Riskiness/Reliability of the Cash Flow (EBITDA)
- ▶ The buyer is purchasing a future stream of reliable cash flow



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Valuing the Agency – Earnings

- ▶ How does the Pro Forma Earnings compare to traditional expectations?
 - Expectation is a 20% to 30% Profit Margin.
 - Expectation is a 10% EBITDA growth rate.
 - How do inflation and interest rates affect expectations?

This will give the appraiser an idea of the Potential of Earnings.



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Agency Valuation Primer

- ▶ Integrity of available transaction data
 - Timing and context
- ▶ EBITDA v. Revenue model
- ▶ Public Broker Market Valuations
- ▶ Transaction size and structure
- ▶ “CCM” aka Country Club Multiple
- ▶ Believe nothing you hear
- ▶ Market still paying premiums for higher quality agencies and specialization
 - 2023–24 multiples approximately 15%+ higher for the Best Practices type agencies
 - Where does your agency/target fit?



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Valuing an Agency – Drivers of Value

- ▶ **Brand/Reputation/Marketplace identity**
- ▶ Quality of Leadership
- ▶ **Quality of Staff including tenure**
- ▶ Continual Investments in Producers
- ▶ Current from a technology perspective
- ▶ **Specializations and Efficiency**
- ▶ **Client/Carrier Roster – Are they vulnerable to disruption?**

This will give the appraiser an idea of the Quality of Earnings.

“All Earnings/Revenue are not created equal”



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Opportunities to Enhance Agency Value

- ▶ Benchmark your agency's current enterprise value
- ▶ Let's define value as "improved cash flow over time."
- ▶ Attracting, developing and retaining productive talent – earnings sustainability is an important component of Value
- ▶ Sustained operational efficiency improvements
- ▶ Investing in technology and work-flow upgrades especially customer interface – unprecedented consumer demand for digital interaction with financial services providers
- ▶ Use leverage carefully to grow revenue both organic and inorganic – Is leverage bad? Example: "OPM to staged exit"



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Opportunities for Partial Ownership

- ▶ The case for broadening equity ownership
 - Can help drive enterprise value
 - Keeps key performers in the agency – retention tools like share ownership can keep newly-mobile remote workforce from moving.
 - Establishes a market for older shareholder stock in a planned internal perpetuation – provides for buyer affordability
 - Equity ownership allows agencies to compete for talent in an increasingly competitive employment market
 - Diversifies personal investment portfolio of the seller
 - Negatives: dilutive to existing owners; criteria & fit within ownership group; tax consequences



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Is Your Agency Value at Risk?

- ▶ Lack of agency specialization may impact value. What is specialization quotient in your book of business?
 - Organic growth for high specialized firms runs 30%+ higher than peers
- ▶ What is the runway of your average producer and client? The stability of future cash flow in your agency may be impacted by age of producers and clients.
- ▶ Per IA Valuation data, certain key valuation metrics decline as ownership of an agency ages
 - EBITDA margin lower as weighted average shareholder age increases
 - Revenue growth decreases as average weighted shareholder age increases
 - Agencies with higher weighted shareholder age trade at lower multiples



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Opportunities to Compete

- ▶ Increase specialization if possible – evaluate talent availability both inside and outside your agency to increase specialization options.
- ▶ Per WSJ, recent college graduates facing unemployment crisis. New grad unemployment rate at 6.6% vs. national rate of around 4%. Per the FRBNY, the labor market for recent grads has deteriorated significantly. Is this a potential source of talent for your agency? Recruiting and development is a mindset.
- ▶ Compete with competitor scale utilizing technology tools, team selling, and producer acquisition. Remember that establishing a reliable and predictable source of future cash flow will drive your agency's enterprise value.



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5 Things You Need to Think About ...



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5 Things You Need to Think About...

#1

Determine What is Important to You

- Existing owner: Grow (organic or inorganic), Sustain, or Sell
- Young agent: Owner or Employee?
- Understand your own goals and those of you family, staff
- Develop a Tangible Plan of Action & Preparation – Be Early!
- Everyone who owns equity is a seller, just a matter of when
- If you are a young agent – evaluate your strengths and determine if they align with agency ownership



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5 things You Need to Think About...

#2

Pay Attention to the External Environment

- Interest Rates indicate relative strength of the economy – watch the Federal Reserve on inflation and employment
- Inflation impacts you and more importantly, your client
- Plan for economic disruption– look back to previous recession cycles for client categories at risk
- Don't get mesmerized by political theatre – have a plan of action



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5 Things You Need to Consider

#3

Understand the Case for Staged Internal Perpetuation

- If the target agency is growing, a staged exit to internal staff may be as good as selling to a third party despite perceived price difference
- Selling up to 30% of an agency to producers/staff stabilizes **retention** and may result in higher productivity and growth
- Consider the return an owner receives from a combination of 30% cash today plus your 70% stake in a 5% growth agency per annum plus your 70% cash flows during that period you continue to own.
- Depending on what is important to the owner, there is a perpetuation case that can be as attractive as a 100% third party sale.



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5 Things You Need to Consider

#4

Understand the Best Practice Metrics of High Performing Agencies

- Efficiency ratios – incredibly important during high inflation
- Organic growth metrics – need to outgrow expense increases
- Contingency and Loss Ratio trends
- Producer performance
- Stress against the “what if” risk scenarios
- Remember that high performing agencies receive up to 15% higher valuations



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5 Things You Need to Consider

#5

Evaluate Strategies to Maximize Value

- Sales Talent – Use labor market trends to your advantage to accumulate talent
- Is your existing sales/support staff up to par?
- Specialization – The market recognizes value in specialty expertise
- Product extensions – use share of wallet strategies to deepen client relationships in turbulent economic times
- “Fortune favors the Bold”...sometimes. Re-calibrate your own risk appetite – be thoughtful in an uncertain economic environment



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Thank you!

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