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## **Valuation Risk**

There is a misconception in the marketplace that insurance agency valuations are strictly based on an agency's current financial statements. The reality is that two agencies with the same revenue volume and EBITDA margin (Earnings Before Interest Taxes Depreciation and Amortization) may generate very different values. Current revenue and earnings are imperative when calculating value, but even more important are the sustainability, predictability and potential growth of the earnings stream going forward.

The sustainability and predictability of the financial performance is inherent in the valuation multiples used to calculate value. The harder it is to predict an agency's future earnings, the lower the valuation multiple will be. On the other hand, agencies with predictable earnings as demonstrated by fewer operating risks and strong consistent historical profit margins will generate higher valuation multiples. The funnel chart illustrates some of the areas that are examined when determining an agency's operating risk and valuation multiples.

The assessment of risk is more of an art than a science and could vary greatly between two valuation experts. One expert may place a very high importance on ages of key employees or perpetuation preparedness, while another may be more concerned with

**Valuation Considerations** Pro Forma EBITDA Pro Forma Earnings Ages of Key Employees Dependency on Large Accounts Receivables Management Pro Forma Assumptions Historical Underwriting Profitability Non-Compete / Non-Solicitation Perpetuation Preparedness Diversified Book-of-Business Cash / Asset Management Historical Growth Rate Employee Quality / Productivity Professionalism Technology Proficiency **Employee Morale** Sales Orientation Foundation, Subsequent or Average Agency Culture Quality of Facilities Sales Management Historical Agency Profitability **Quality of Companies** Location Size Risk Associated with Future Earnings **Earnings Multiple** 

technology proficiency or producer non-compete agreements. In our valuation practice, we review all the risk factors from a standpoint of a hypothetical buyer on a stand-alone basis. From our transaction experience, it is clear that buyers assess risk and establish valuation multiples based on the anticipated post-closing structure.

Revenue and profits are not created equal. Agencies that consistently achieve the highest valuations are those that demonstrate a history of strong financial performance and leave little doubt about their ability to achieve similar results in the future.

March's issue of The MarshBerry Letter will explore the topic of valuation risk in more depth.

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## MarshBerry Solutions

### **Information Services**

### **Benchmarking Services**

Perspectives for High Performance (PHP) Sales Portal - Pipeline / Service Timeline (now a product of LexisNexis) Confidential Employee Morale Indexing Perpetuation Preparedness

Operational Assessment Sales Management Benchmark Report

### MarshBerry.com

Performance Calculators Forms & Documents Position Descriptions Discussion Groups Research Studies Market Data On-Line Value Estimator Published Articles

### **Monthly Publications**

The MarshBerry Letter

- a Market & Financial
- b. Agency Compensation c. Agency Operations d. Surveys

For The Record (Statistical Analysis) Dealmaker's Dialogue (M&A Advisory)

### **Public Speaking Engagements**

Keynote / State of the Industry Topical education

### **Carrier Services**

Distribution System Management Field Personnel Training and Development Agency Management Symposiums

### **Peer Networks**

### **Agency Peak Performance** EXchange (APPEX)

Executive-level peer exchange network for improving agency value

## Bank Agency Network (BANK)

Executive-level peer exchange network for improving bank-owned agencies

### **Total Agency Sales Culture** (TASC) Network

Nation's leading organic growth agencies enhancing new business production and retention strategies

### Royal Sun Alliance (RSA) Summit Brokers Improvement Network

Canadian agencies affiliated with Royal & Sun Alliance Insurance Company

### **Standard Partner Services**

State of the Industry Research CEO Peer Exchange / Networking Semi-annual Conferences Semi-annual Consultation Regimented Benchmarking Services MarshBerry.com
The MarshBerry Letter and other Monthly Publications Priority Consulting Opportunities Exclusive Program

Distance Learning Groups (DLGs)

# Sales Management

Cultural Mapping and Alignment Producer Goal Setting Accountability / Compensation Design Producer and Sales Manager Training Differentiation Design and Execution

**Management Consulting** 

### **Business Planning**

Strategic Business Planning Execution / Action Plan Management Strategic Options Analysis

### **Agency Valuation**

Agency Fair Market Valuation ESOP Valuations by Certified Appraisers Valuation Assessment

### Perpetuation Plans

Perpetuation Plan Design Plan Execution Management Transfer Strategies (Stock / Leadership / Books-of-Business)

### **Financial Consulting**

Internal Financial Controls Compensation Consulting Value Enhancement Planning Contingent/Supplemental Plan Mgmt.

### **Operational Consulting**

Staff Workload / Comp. Management . Workflow and Procedures E&O Audit, Policies and Procedures E&O Market Access

### Recruiting

Position profile, search, screen, hire Compensation development plan Technical and sales training - year one

## Strategy

Acquisition Planning Deal Return Modeling Strategic Options Analysis Alternative Buyer Comparison

**M&A Advisory** 

Sale Preparation Management Offering Memorandum Development Strategic Pitch Book Design Candidate Profile Creation

### Representation

Buy Side Representation (including Search and Screen) Sell Side Representation Letter of Intent / Negotiation Creative Deal Structure Alternatives

### **Analytics**

Agency Fair Market Valuation Market Comparables / Benchmarking After-Tax Return Optimization IRR, ROI and EPS Analysis

### Execution

Diagnostic Due Diligence Confirmatory Due Diligence Intangible Asset Allocation - GAAP Rep. Fairness Opinion Definitive Agreement (Best Terms / Conditions)

### **Post-Deal Management**

Post-Closing Integration Goodwill Impairment Testing Peer to Peer CEO Exchange Earn-Out Maximization Consultation

arshBerry's core focus is helping its clients realize their fullest potential with respect to growth, profit, survival and maximization of shareholder value. MarshBerry's agent, broker, bank and carrier clientele engage the firm to achieve goals within the retail and wholesale channels of the insurance distribution system. The firm's unparalleled industryspecific services include consulting, performance benchmarking, peer-to-peer exchange networks, merger and acquisition intermediation and producer recruiting.

