

Preparing to Buy an Insurance Agency

A 60-Minute Road Map

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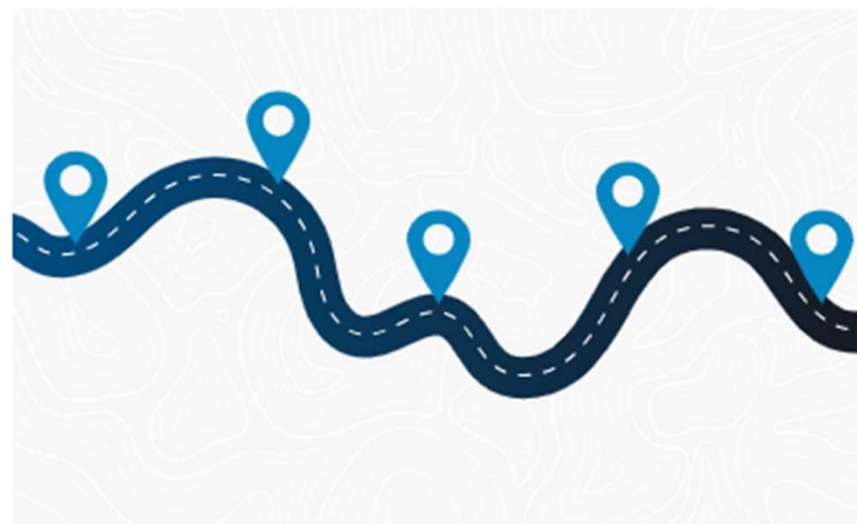
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Preparing to Buy an Insurance Agency

A 60-Minute Road Map

Agenda

- Why Acquire?
- Are you Ready?
 - Self evaluation
 - Is your house in order?
 - Financially
 - Processes
 - Staffing
 - Resources
 - Profitability
 - Developing capacity



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Preparing to Buy an Insurance Agency

A 60-Minute Road Map

About the Speaker



Mike Strakhov, CPCU
SVP, Agency Banking Market Leader

- 10-years insurance agency lending +
- 27-years of insurance industry experience
 - Claim adjuster
 - Marketing Representative
 - Branch Manager
 - Commercial Producer
 - Sales Manager
 - CEO Top 50 Independent Insurance Agency



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Preparing to Buy an Insurance Agency

A 60-Minute Road Map



Questions?



Please enter questions in
the Chat feature of the
conference platform

Preparing to Buy an Insurance Agency

A 60-Minute Road Map

Why Invest Your Time in Preparing?

- Understand the process and what is necessary for a successful transaction
- Avoid potentially costly surprises and missteps
- Improve your ability to assess an opportunity
- Mitigate risks with an appropriate deal structure
- Implementing a post close plan to ensure an effective and efficient transition



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Why Acquire?

- Growth
- Economies of scale
- Succession plan
- Geographic expansion
- Other strategic reasons
- Opportunity fell in your lap
- Make more money
- Increase agency value

Develop a target profile of an agency you're looking to acquire and hold yourself to it!



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Why Acquire?

- Organic Growth v. Growth thru Acquisition

Current Revenue		\$500,000			
Goal Revenue		\$1,000,000	<i>Doesn't account for rate and exposure changes.</i>		
Retention		90%			
CAGR		5%			
Year	Revenue	Retention	Adj Revenue	CAGR (5%)	New Business
1	\$500,000	90%	\$450,000	\$525,000.00	\$75,000
2	\$525,000	90%	\$472,500	\$551,250.00	\$78,750
3	\$551,250	90%	\$496,125	\$578,812.50	\$82,688
4	\$578,813	90%	\$520,931	\$607,753.13	\$86,822
5	\$607,753	90%	\$546,978	\$638,140.78	\$91,163
6	\$638,141	90%	\$574,327	\$670,047.82	\$95,721
7	\$670,048	90%	\$603,043	\$703,550.21	\$100,507
8	\$703,550	90%	\$633,195	\$738,727.72	\$105,533
9	\$738,728	90%	\$664,855	\$775,664.11	\$110,809
10	\$775,664	90%	\$698,098	\$814,447.31	\$116,350
11	\$814,447	90%	\$733,003	\$855,169.68	\$122,167
12	\$855,170	90%	\$769,653	\$897,928.16	\$128,275
13	\$897,928	90%	\$808,135	\$942,824.57	\$134,689
14	\$942,825	90%	\$848,542	\$989,965.80	\$141,424
15	\$989,966	90%	\$890,969	\$1,039,464.09	\$148,495
					\$1,618,392



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A 60-Minute Road Map

Self Evaluation

- **Stable Operations**
 - Corporate / Ownership Structure
 - Book of Business
 - Carrier Relationships
 - Staff Trained and Effective
 - Technology Utilization and Proficiency
- **Profitability & Best Practices**
 - Acceptable operating margins
 - Expense management
 - Sustainable Growth
 - Revenue Diversification
 - Strategic Plan
 - Performance Measurements



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Be Prepared

Messaging

- Why you?
- Elevator speech
- Differentiation
- Vision for the future
- Understand the seller's priorities

Documentation

- NDA – Non-disclosure agreement
- LOI – Letter of Intent
- Purchase Agreement

Due Diligence Process

- What do you want to see?
- Have a list ready to go
- Understand how to analyze what you receive

Deal Structure

- Asset v. Stock Purchase
- Cash at close or seller note
- Seller stay on or leave post close



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A 60-Minute Road Map

Types of Financial Documents

- Business Tax Returns
- Business Debt Schedule
- Personal Financial Statement
- Credit Reports
- Other Insurance Specific Documents



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Book of Business Review

Book of business summary

- One page summary
- Identify strengths & weaknesses
- Concentration
- Answers many questions and likely creates others

Agency Name				*Please complete for year end 2023.				
Insurance Carrier	Direct Appointment? (Y/N)	# years with Carrier	Annual Written Premium (\$)	Commission %	Annual Commission Income (\$)	Written Premium Renewal Retention %	Loss Ratio %	Contingency/ Bonus \$
			\$ -		\$ -			\$ -

Revenue by Line of Business:		Agency Questionnaire:	
Personal Lines %	0%	Is the agency a member of any Network or Aggregator? (Y/N) If yes, please name. Do all producers have non-compete / non-solicit agreements? Do any producers own their book of business or a portion? Have any carrier contracts been terminated in the last 3 years? Are there any pending lawsuits or E&O claims? Is there any brokered business? If yes, how much annual revenue? What agency management system is the agency utilizing? Are there any accounts greater than 5% of revenue? If yes, list business name and annual commission.	
Non Standard Auto %	0%		
Commercial Lines %	0%		
Workers Comp %	0%		
Commercial Auto %	0%		
Benefits %	0%		
Life Insurance %	0%		
Total:	0%		

Contingency / Bonus Income:		Employees / Producers		Direct Bill vs. Agency Bill	
(*in the year paid by carrier)					
2022		# of employees		% of Premium on Direct Bill	0%
2023		# of producers		% of Premium on Agency Bill	0%
2024					



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Book of Business Review

Book of business summary

- Carrier Relationships →

- Tenure
- Direct appts.
- Volume
- Commission
- Retention
- Loss Ratio
- Concentration

Insurance Carrier	Direct Appointment? (Y/N)	# years with Carrier	Annual Written Premium (\$)	Commission %	Annual Commission Income (\$)	Written Premium Renewal Retention %	Loss Ratio %	Contingency / Bonus \$
			\$ -		\$ -			\$ -

- General Questions →

Agency Questionnaire:					
Is the agency a member of any Network or Aggregator? (Y/N) If yes, please name.					
Do all producers have non-compete / non-solicit agreements?					
Do any producers own their book of business or a portion?					
Have any carrier contracts been terminated in the last 3 years?					
Are there any pending lawsuits or E&O claims?					
Is there any brokered business? If yes, how much annual revenue?					
What agency management system is the agency utilizing?					
Are there any accounts greater than 5% of revenue? If yes, list business name and annual commission.					



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Book of Business Review

Book of business summary

- Revenue by Line of Business

<u>Revenue by Line of Business:</u>	
Personal Lines %	0%
Non Standard Auto %	0%
Commercial Lines %	0%
Workers Comp %	0%
Commercial Auto %	0%
Benefits %	0%
Life Insurance %	0%
Total:	0%

- Contingent Commission, Employee Count and Agency Bill v. Direct Bill

<u>Contingency / Bonus Income:</u>							
<u>(*in the year paid by carrier)</u>							
2022		<u>Employees / Producers</u>		<u>Direct Bill vs. Agency Bill</u>			
2023		# of employees		% of Premium on Direct Bill		0%	
2024		# of producers		% of Premium on Agency Bill		0%	



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Profitability

- EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization, is an alternate measure of profitability to net income. By excluding depreciation and amortization as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the company's operations. (Investopedia)
- Proforma Financials - When it appears in financial statements, it indicates that a method of calculating financial results using certain projections or presumptions has been used. Essentially, a pro forma financial statement can exclude anything a company believes obscures the accuracy of its financial outlook and can be a useful piece of information to help assess a company's future prospects. (Investopedia)



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Profit & Loss Statement

The profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period – typically quarterly and annually. These records provide information about a company's ability or inability to generate profit by increasing revenue, reducing costs, or both. P&L statements are often presented on a cash basis or accrual basis. (Investopedia)

- Assess the profitability of an agency
- Compare periods to determine trends (YoY; QoQ)
- Develop Net Income or EBITDA. Earning Before Interest, Taxes, Depreciation and Amortization.



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Profit & Loss Statement

- Breakdown of Revenue & Expenses
- Compares prior year, budget to current year
- Helps identify areas of improvement
- Can be the basis of comparison to other similar businesses
- Starting point for future budgets and proforma financials

Income Statement							
Strakhov Insurance Agency							
Financial statements in U.S. dollars							
	2022	Budget	2023	Current Period % or Revenue	% Change from Prior Period	% Change from Budget	EBITDA
REVENUE							
Gross sales	\$ 975,000	\$ 1,000,000	\$ 1,000,000		2.6%	0.0%	\$ 1,000,000
Less: sales returns and allowances	\$ -	\$ -	\$ -				
Net sales	\$ 975,000	\$ 1,000,000	\$ 1,000,000		2.6%	0.0%	\$ 1,000,000
COST OF GOODS SOLD							
Cost of goods sold	\$ -	\$ -	\$ -				\$ -
Gross profit (loss)	\$ 975,000	\$ 1,000,000	\$ 1,000,000		2.6%	0.0%	\$ 1,000,000
EXPENSES							
Advertising	\$ 4,000	\$ 5,000	\$ 5,000	1%	25%	0%	\$ 5,000
Amortization	\$ 56,000	\$ 56,000	\$ 56,000	6%	0%	0%	\$ -
Depreciation	\$ 9,000	\$ 7,000	\$ 8,200	1%	-9%	17.1%	\$ -
Insurance	\$ 12,000	\$ 12,000	\$ 12,000	1%	0%	0%	\$ 12,000
Interest	\$ 11,000	\$ 11,000	\$ 11,000	1%	0%	0%	\$ -
Officer Compensation	\$ 200,000	\$ 200,000	\$ 200,000	20%	0%	0%	\$ 200,000
Outside Services	\$ 1,500	\$ 1,500	\$ 1,450	0%	-3%	0%	\$ 1,450
Rent	\$ 24,000	\$ 24,000	\$ 24,000	2%	0%	0%	\$ 24,000
Repairs and maintenance	\$ 1,000	\$ 1,000	\$ 1,000	0%	0%	0%	\$ 1,000
Supplies	\$ 1,000	\$ 1,000	\$ 1,000	0%	0%	0%	\$ 1,000
Taxes	\$ 8,500	\$ 8,500	\$ 8,500	1%	0%	0%	\$ -
Telephone	\$ 2,000	\$ 2,000	\$ 2,000	0%	0%	0%	\$ 2,000
Travel	\$ 2,500	\$ 2,500	\$ 2,500	0%	0%	0%	\$ 2,500
Utilities	\$ 6,500	\$ 6,500	\$ 6,500	1%	0%	0%	\$ 6,500
Tech / AMS	\$ 15,000	\$ 15,000	\$ 15,000	2%	0%	0%	\$ 15,000
Wages	\$ 400,000	\$ 425,000	\$ 450,000	45%	12.5%	5.9%	\$ 450,000
Total expenses	\$ 754,000	\$ 778,000	\$ 804,150	80%	6.6%	3%	\$ 720,450
Net operating income	\$ 221,000	\$ 222,000	\$ 195,850	20%	-11.3%	-11.8%	\$ 279,550
							43%



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Balance Sheet

- In short, the balance sheet is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders.

(Investopedia)

- Assets = Liabilities + Shareholders Equity
- What to look for:
 - Cash reserves
 - Account Receivable to Accounts Payable Ratio
 - Agency Bill
 - Trust
 - Shareholder loans
 - Snapshot

ASSETS		LIABILITIES & NET WORTH	
Current Assets		Current Liabilities	
Cash	\$ 150,000	Accounts Payable	\$ 475,000
Accounts Receivable	\$ 500,000	Current Portion of Long Term Debt	\$ 15,000
Total Current Assets	\$ 650,000	Total Current Liabilities	\$ 490,000
Noncurrent Assets		Long Term Liabilities	
Building - CRE	\$ 200,000	Mortgage Payable (Greater than 12months)	\$ 100,000
Total Noncurrent Assets	\$ 200,000	Less Short term portion	\$ (15,000)
		Total Long Term Liabilities	\$ 85,000
Total Assets	\$ 850,000		
		Total Liabilities	\$ 575,000
		Owners Equity	\$ 275,000
		Total Liabilities and Net Worth	\$ 850,000



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Business Debt Schedule

[illegible]

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Personal Financial Statement



SECTION 1 | INDIVIDUAL INFORMATION (type or print)

Full legal name: _____
Social security number: _____
DOB: _____
Home address: _____
City, State, Zip: _____
Mailing address (if different): _____
City, State, Zip: _____
Length of time at residence: _____
Driver's license number/state: _____
Driver's license issue date: _____
Driver's license expiration date: _____
Mother's maiden name: _____
Home phone: _____
Cell phone: _____
Email: _____
Employer: _____
Position or occupation: _____
Length of employment: _____
Employer address: _____
City, State, Zip: _____
Employer phone: _____ Ext: _____

SECTION 3 | TO BE COMPLETED BY ONE APPLICANT (type or print)

Primary current depository relationship bank: _____ Total on deposit (see Schedule E): \$ _____
Primary current lending relationship bank: _____ Total in loan balances: \$ _____
Investments: \$ _____

SECTION 4 | NON-RETIREMENT ASSETS (type or print)

LOCATION	BALANCES	MIXED PORTFOLIO	STOCKS	BONDS
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$

SECTION 5 | RETIREMENT ASSETS (type or print)

LOCATION	BALANCES	MIXED PORTFOLIO	STOCKS	BONDS
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$

Do you foresee any liquidity events in the next 1 to 3 years? ☐ YES ☒ NO

SECTION 2 | OTHER PARTY INFORMATION (type or print)

Full legal name: _____
Social security number: _____
DOB: _____
Home address: _____
City, State, Zip: _____
Mailing address (if different): _____
City, State, Zip: _____
Length of time at residence: _____
Driver's license number/state: _____
Driver's license issue date: _____
Driver's license expiration date: _____
Mother's maiden name: _____
Home phone: _____
Cell phone: _____
Email: _____
Employer: _____
Position or occupation: _____
Length of employment: _____
Employer address: _____
City, State, Zip: _____
Employer phone: _____ Ext: _____



Personal Financial Statement

IMPORTANT: Read these directions before completing this Statement.

- If you are applying for individual credit in your own name and are relying on your own income or assets, and not the income or assets of another person as the basis for repayment of the credit requests, complete only Sections 1, 3, and 4.
- If you are applying for joint credit with another person, complete all sections and provide information in Section 2 about the joint applicant. If appropriate, the joint applicant may complete a separate personal financial statement and the applications may be submitted together.
- If you are applying for individual credit, but are relying on income from alimony, child support, separate maintenance, or on the income or assets of another person as a basis for repayment of the credit requested, complete all sections. Provide information about the person you rely on for alimony support, maintenance payments, income, or assets in Section 2. Alimony, child support, or separate maintenance income, need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.
- If this statement relates to your guaranty of the indebtedness of other person(s), firm(s), or corporation(s), complete Sections 1, 3, and 4.

SECTION 6 | STATEMENT OF FINANCIAL CONDITION AS OF DAY/MONTH/YEAR: / /

Assets	Individual	Joint	Liabilities	Individual	Joint
(do not include assets of doubtful value)	(in dollars, unit cents and punctuation)	(in dollars, unit cents and punctuation)	(in dollars, unit cents and punctuation)	(in dollars, unit cents and punctuation)	(in dollars, unit cents and punctuation)
Cash on hand and in this bank	\$	\$	Notes payable to banks	\$	\$
U.S. Government marketable securities - See Schedule A	\$	\$	Notes payable to other institutions	\$	\$
Non-marketable securities	\$	\$	Due to brokers	\$	\$
Securities held by broker in margin accounts	\$	\$	Amounts payable to others - secured	\$	\$
Restricted control or margin account stocks	\$	\$	Amounts payable to others - unsecured	\$	\$
Real estate owned	\$	\$	Accounts and bills due	\$	\$
Accounts, loans, and notes receivable	\$	\$	Unpaid income tax	\$	\$
Automobiles	\$	\$	Other unpaid taxes and interest	\$	\$
Other personal property	\$	\$	Real estate mortgages payable	\$	\$
Life insurance cash surrender value - See Schedule D	\$	\$	Other debts (car payments, credit cards, etc.) - Itemize:		
Business ventures	\$	\$		\$	\$
Other assets - Itemize:				\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$	Total liabilities	\$ 0	\$ 0
	\$	\$	Net worth	\$	\$
TOTAL ASSETS	\$ 0	\$ 0	TOTAL LIABILITIES AND NET WORTH	\$ 0	\$ 0

SECTION 7 | ANNUAL INCOME

	Individual	Joint
For year ended:		
Salary, bonuses, and commissions	\$	\$
Dividends and interest	\$	\$
Real estate income	\$	\$
Other income	\$	\$

(Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation)

TOTAL INCOME \$ 0

ANNUAL EXPENDITURES

	Individual	Joint
Mortgage/rental payments	\$	\$
Real estate taxes and assessments	\$	\$
Taxes - federal state and local	\$	\$
Insurance payments	\$	\$
Other contracted payments (car payments, credit cards, etc.)	\$	\$
Alimony, child support, and maintenance	\$	\$
Other expenses	\$	\$

TOTAL EXPENDITURES \$

CONTINGENT LIABILITIES

	Individual	Joint
Contingent liabilities	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO
(As endorser, co-maker, or guarantor? On lease? On contracts?)	\$	\$
Involvement in pending legal actions?	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO
Other special debt or circumstances?	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO
Contested income tax liens?	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

If "yes" to any question(s), please describe:

TOTAL CONTINGENT LIABILITIES \$



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Carrier Reports & Documentation

- Carrier Production Reports
 - Volume
 - Growth
 - **Retention**
 - Loss Ratio
 - Personal /Commercial Split
 - Lines of Business
 - Historic Results
- Carrier Contracts
 - Commission Schedule
 - NIPR
- Commission Reports/1099
 - Annual
 - Summary v. Detail
 - Commission Percentage
 - 12-month commission flow
 - Large account exposure
 - Form 1099 – MISC
 - Confirmation of total commission paid to agency by a carrier in a year.



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Credit Reports and Financial History

- Fair Isaac Corporation (FICO)
 - Personal Leverage
 - Payment History / Delinquencies
- Credit Alert Verification Reporting System (CAIVRS)
 - Prior business loan defaults – Federal Lending Programs
- Public Access to Court Electronic Records (Pacer)
 - Prior Personal Bankruptcies
- Lien Searches
 - Identification of liens on business



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Are you Ready to Acquire?

Your Resources

- Time
- Do you have a management team in place?
- Staff within your organization that can assist in the analysis and transition of the acquired agency?
- Due diligence process to efficiently and effectively evaluate a prospect?
- Capacity within your staff to absorb some or all the acquired book of business activities and management functions?
- Are you utilizing all available technology to the fullest potential?
- Available office space and /or capabilities for employees to work remote?

Are you Ready to Acquire?

Your Resources

- Ability to make a down payment?
 - May be required if seeking financing
- Working capital position through agency transition?
- Personal credit and finances?
- Outside resources?
 - Consultant
 - CPA or Accountant
 - Attorney
 - Lender



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Are you Ready to Acquire?

Buyer

Capacity and Timing

- ✓ Timeline and Skillset
- ✓ Financial / personal capacity
- ✓ Post close plan for the business
- ✓ Ability to successfully transition the acquisition

Consultant

Valuation

- ✓ Valuation of the agency
- ✓ Deal structure and terms
- ✓ Analysis of financials and forecasts
- ✓ Transaction coaching

Bank

Financing

- ✓ Familiar with insurance agency acquisitions
- ✓ Pre-qualify buyer
- ✓ Consultative approach
- ✓ Can meet deadlines and structure requirements

Carriers

Cooperation

- ✓ Willingness to support transaction
- ✓ Appointment moving forward
- ✓ Ability to accurately transfer books of business

CPA

Tax Ramifications

- ✓ Stock or asset purchase
- ✓ "Basis"
- ✓ Amortization and depreciation

Attorney

Deal Counsel & Documents

- ✓ Familiar with insurance agency acquisitions
- ✓ Stock or asset purchase
- ✓ Buy/Sell Agreements
- ✓ All legal documents to close the deal and protect buyer post close



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Preparing to Acquire – Are You Ready?

Summary

- Time commitment is key!
- Is your house in order?
 - Profitability
 - Staffing
 - Carriers
 - Customers
 - Efficiency
 - Available funds
- Line up your resources now!
- Stay true to your acquisition profile and strategy
- Be ready with the right messaging and documents



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Acquisition Excellence Academy

Questions?



Mike Strakhov, CPCU
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