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September 23, 2021

Are You Going to Be the Last One Standing? That may not be a bad place.

We all know it and we all have seen it. Many, many insurance agencies have sold and are no longer privately held. We also know they have done so for some very good reasons including higher than ever valuations, the ability to improve their competitive position (i.e., access to size, scale, and capabilities), and selling before the likely impending capital gains tax rate increases. All of this can leave those of you who are still private wondering if you are going to be the last one standing and having “missed the boat”. With so many reasons to sell, we thought it might be good to remind some of our friends of the reasons that still exist for not selling. Consider the following eight points:

1. When you sell, you pay your taxes and have to find somewhere to invest the net proceeds. Values in every asset class are extremely high and returns are low. Before you sell, know that you may not be able to find a better place to get returns as high as in your insurance agency.
2. As your competitors sell, your agency becomes a more valuable commodity. There is a limited supply of quality, privately-held insurance agents. If you are growing, reinvesting, and running a quality shop, your value is continuing to grow, not decline.
3. There are a number of variables that could cause purchase multiples to decline (i.e., interest rates and taxes going up and/or decreases in the economy, the stock market, and/or commercial insurance pricing). Any or all of these things can happen, but we predict that low supply and high demand will keep valuations strong long term.
4. Most of your insurance companies don't want you to sell. Some will do some attractive things to help you stay private and reward you for doing so.

- opportunities and a home where they can thrive (which we see many doing).
6. There are means available today that will allow you to buy and sell stock internally at higher values than in the past and still help you stay private. This can materially lower the gap between internal and third-party valuations.
 7. Tax rates will likely go up for the balance of this current administration but history has shown that things will eventually swing back the other way and tax rates will come back down. Focus on building up your agency until they do come back down.
 8. For some, this may not be the right time to sell. You may have too many opportunities in front of you. You may be waiting for your children to come into the business with you. If you did something now, you would be giving up way too much opportunity, growth, and fun.

As we share these reasons to stay private, please understand that we are not trying to convince you not to sell. What we are doing is what we have always done and will continue to do: we are offering a balanced picture that we hope will position you to make an informed decision that is right for you. The decision that you are faced with is a good one: for many, there has never been a better time to sell and for many others, there has never been a better time to remain private. With choices like this, it is clear that we are in a wonderful industry. Be wise and make the right choice for you.

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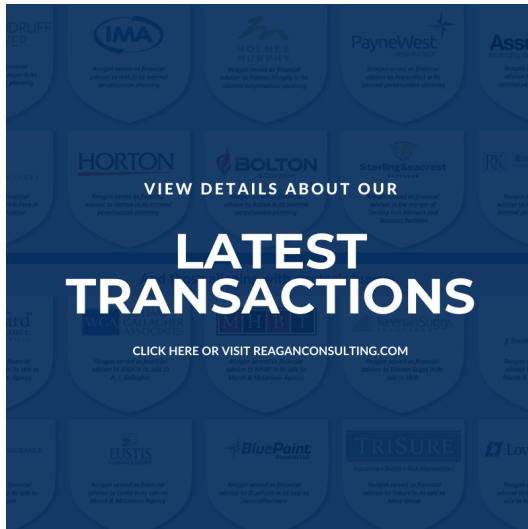


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