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ReaganView

What You May Have Missed Recently

To our friends and clients,

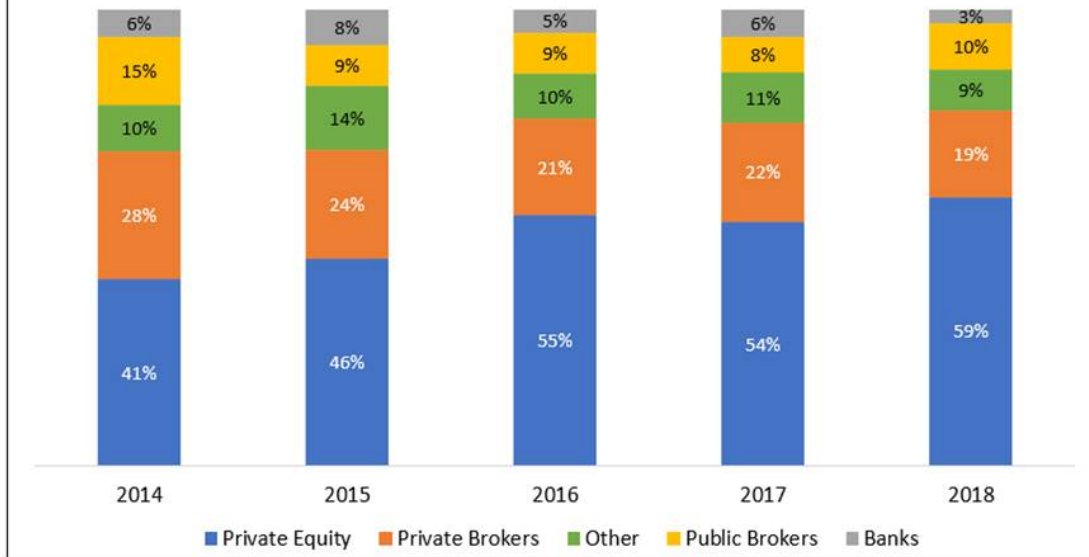
ReaganView is Reagan Consulting's forum for providing an occasional perspective on issues and opportunities relevant to the insurance distribution system. Below are some recent editions you may have missed.

The Biggest Mistake Most Buyers Make

In this M&A-crazed environment, it may come as a surprise to you that the second-most active buyer of private insurance brokerages in 2018 was other Private Brokers. Private Equity buyers are getting most of the press, as they did a whopping 59% of the deals closed in 2018. But Private Brokers closed 19% of the deals done last year. Private Brokers like you *are* getting deals done.

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Who's Buying?



Source: SNL Financial as of December 31, 2018 (based on Announcement Date). Includes whole company, franchise and asset sales.

Does Your Agency Have an Addiction Issue?

Addiction is defined as a psychological and physical inability to stop consuming a chemical, drug, activity, or substance, even though it is causing psychological and physical harm. We have spoken to countless firms regarding their growth and perpetuation plans and many of them have an addiction – an addiction to profit distributions. And while this analogy is certainly dramatic, the addiction to these distributions by agency owners can have adverse consequences to an agency's perpetuation and growth plans.

We are fortunate to work in an industry that generates significant cash flow yet does not require a significant amount of cash flow to operate the business on a day-to-day basis. We routinely see firms distributing over 75% of their EBITDA annually to their owners. That is where the addiction starts.

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A Download from The Agency Ownership Summit

Recently, leaders from across the industry met in Atlanta for Reagan Consulting's biennial Agency Ownership Summit. The summit is designed to provide a forum for industry leaders and innovators to talk through current trends in mergers and acquisitions, ownership perpetuation and the direction of the insurance distribution marketplace. The meeting featured leaders from the industry's most active acquirers and leading privately-held brokers – including almost half of the top 100 agencies and 5 of the top 7 wholesalers in the US.

1. The M&A market shows no signs of slowing down. 2018 set a record for transactions in our industry with almost 600 deals announced. In Q1 2019, deal volume is up over 35% from last year's totals, indicating we're on pace for another record year. For the Summit, we asked private equity investors (who are responsible for about 60% of the acquisitions in our space) about their projected deal volume going forward. 52% said they would maintain their current deal volume and 44% said they would increase their acquisition activity in 2019. Hyper-consolidation continues.
2. We're in the early stages of the technology transformation of our industry. We were fortunate to have Kabir Syed (founder of RiskMatch) and Bill Pieroni (CEO of Acord) at the Summit to speak about InsureTech and the influence of technology on insurance distribution. Kabir and Bill agreed that, despite the activity and the noise, nobody has really figured this out. We're still learning as an industry. At this point, the best way for agents and brokers to approach the potential technology disruption is to opportunistically investigate and partner with InsureTech companies and technology vendors to address pain points and leverage data.
3. Leading privately-held brokers are going on offense to maintain their internal perpetuation strategies. The stratospheric valuations in the M&A market are making internal perpetuation more challenging – but not impossible. We heard from many firms who are altering their tactics and developing new tools to allow for higher internal values while not crushing the affordability of their shares.

We hope to see you at the Summit in 2021.

The Beginning Point of the Budget

The story is told that Brown & Brown's founder Hyatt Brown once asked management consultant Roger Sitkins how his company could generate a 40% profit margin. Without missing a beat, Roger replied: "just spend sixty cents out of every dollar of revenue you generate." Profound.

This reminds me of a lesson I learned 30 years ago when I first read *The Wealthy Barber*, a classic money management text. In it, the author encourages a novel personal budgeting approach. Instead of figuring out what percentage of income to spend each month on food, dry cleaning, gasoline, etc., figure out in January what percentages of income you intend to save and give to charitable causes that year. Then, every month, save and give the appropriate percentage on the front-end and then feel free to spend the remainder however you choose, on whatever you choose. But ... if you run out of money before you run out of month, too bad. You're done spending for the month.

When developing your agency's budget, likewise begin with the end in mind. If you intend to generate an 18% profit, build a budget with an expense load that totals 82% of the budgeted revenue. Want to drive a 25% bottom line? Budget to a 75% expense load. And

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<p>WOODRUFF SAWYER</p> <p>Reagan served as financial advisor to Woodruff Sawyer in its internal perpetuation planning.</p>	<p>IMA</p> <p>Reagan served as financial advisor to IMA in its internal perpetuation planning.</p>	<p>HOLMES MURPHY</p> <p>Reagan served as financial advisor to Holmes Murphy in its internal perpetuation planning.</p>	<p>PayneWest INSURANCE</p> <p>Reagan served as financial advisor to PayneWest in its internal perpetuation planning.</p>	<p>Assurance</p> <p>Reagan served as financial advisor to Assurance in its internal perpetuation planning.</p>
<p>PARKER SMITH FEEK</p> <p>Reagan served as financial advisor to Parker Smith & FEEK in its internal perpetuation planning.</p>	<p>HORTON</p> <p>Reagan served as financial advisor to Horton in its internal perpetuation planning.</p>	<p>BOLTON & COMPANY</p> <p>Reagan served as financial advisor to Bolton in its internal perpetuation planning.</p>	<p>SterlingSeacrest PARTNERS</p> <p>Reagan served as financial advisor to Sterling Seacrest in its internal perpetuation planning.</p>	<p>ROSE & KEARNAN, INC.</p> <p>Reagan served as financial advisor to Rose & Keenan in its internal perpetuation planning.</p>

And those aligning with strategic buyers

<p>Bouchard Insurance</p> <p>Reagan served as financial advisor to Bouchard in its sale to Marsh & McLennan Agency.</p>	<p>WGA WILLIAM GALLAGHER ASSOCIATES</p> <p>Reagan served as financial advisor to WGA in its sale to J. J. Gallagher.</p>	<p>M H B T</p> <p>Reagan served as financial advisor to MHB in its sale to Marsh & McLennan Agency.</p>	<p>KeenanSuggs INSURANCE</p> <p>Reagan served as financial advisor to KeenanSuggs in its sale to MHB.</p>	<p>J. Smith Lumbert & Co.</p> <p>Reagan served as financial advisor to J. Smith Lumbert & Co. in its sale to Marsh & McLennan Agency.</p>
<p>RODMAN INSURANCE</p> <p>Reagan served as financial advisor to Rodman in its sale to Brown & Brown.</p>	<p>EUSTIS</p> <p>Reagan served as financial advisor to Eustis in its sale to Marsh & McLennan Agency.</p>	<p>BluePoint</p> <p>Reagan served as financial advisor to BluePoint in its sale to Assurance Partners.</p>	<p>TRISURE</p> <p>Reagan served as financial advisor to Trisure in its sale to Allou Trust.</p>	<p>Lovitt & Touché</p> <p>Reagan served as financial advisor to Lovitt & Touché in its sale to Marsh & McLennan Agency.</p>

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