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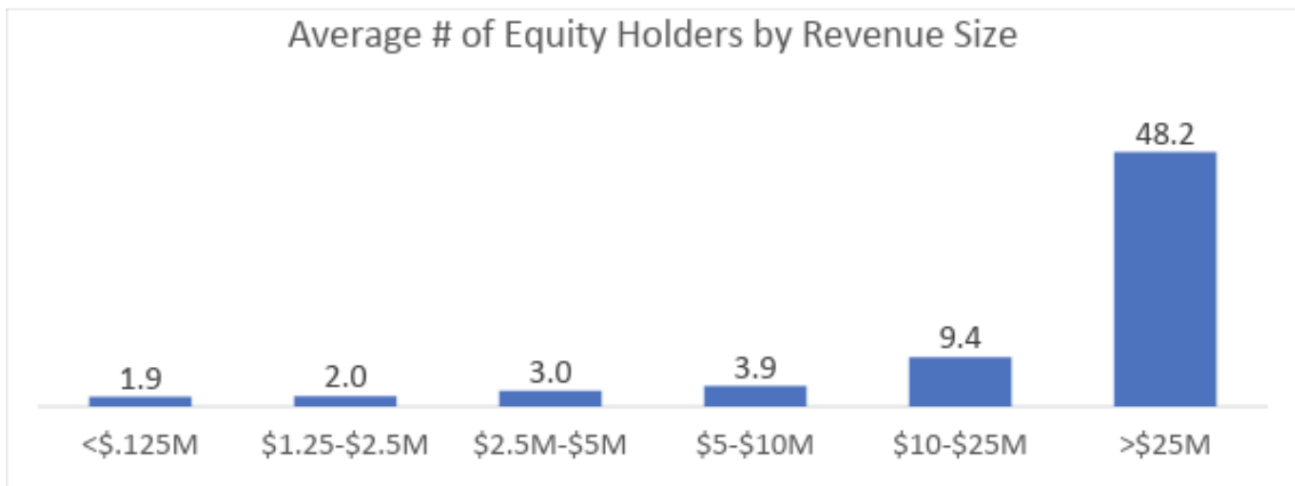


ReaganView

The Importance of Buy-Sell Agreements

To our friends and clients,

Most independent agencies in the U.S. operate as closely-held organizations with concentrated ownership. According to the IIABA / Reagan Consulting 2018 Best Practices Study ("BPS"), firms under \$25 million in annual revenue have fewer than 10 equity holders, and those under \$10 million have fewer than four equity holders.



Source: IIABA / Reagan Consulting 2018 Best Practices Study

With concentrated ownership, many never think to ask the question – does our agency need a buy-sell agreement? If you have more than one equity holder, the answer is yes. A detailed agreement should be in place to govern how ownership transfers take place in the event equity changes hands.

A well-crafted buy-sell agreement addresses the basic provisions that govern ownership transfers:

1. **A list of triggering events.** Events that trigger a purchase or sale of equity typically include death, permanent disability, retirement, termination of employment, or an age threshold (65 years old, for example).

ownership interests must be sold and who the buyer may / must be...is it the agency? Other owners? Outside entities? Can non-employees (i.e. family members) hold an equity stake?

3. **A valuation mechanism.** How is equity valued in the event of a transfer? Do you have an independent third-party value the firm? Do you use a formula approach (a multiple or Revenue or EBITDA)? Does a clawback provision exist?
4. **Terms and funding.** What terms (# of years, interest rate, down payment, etc.) and funding (seller or outside financing) are in place for ownership transfers?
5. **Restrictive Covenants.** When equity holders sell equity back to the agency or to new or existing owners, what restricts them from competing with the agency in the future? The value of the agency is directly impacted by having (or not having) enforceable restrictive covenant provisions in place.

Since every organization is unique, a buy-sell agreement should be drafted to meet each firm's stated ownership objectives. A well-crafted buy-sell agreement also ensures that everyone knows the "rules" of the game when buying and selling equity.

Does your agency have the proper plan in place to facilitate ownership transfers? Don't wait until it's too late. Trying to figure out terms after the sudden death of an owner or another triggering event can get complicated.

Mark Crites

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