

Best Practices for Agency Operations Webinar Series

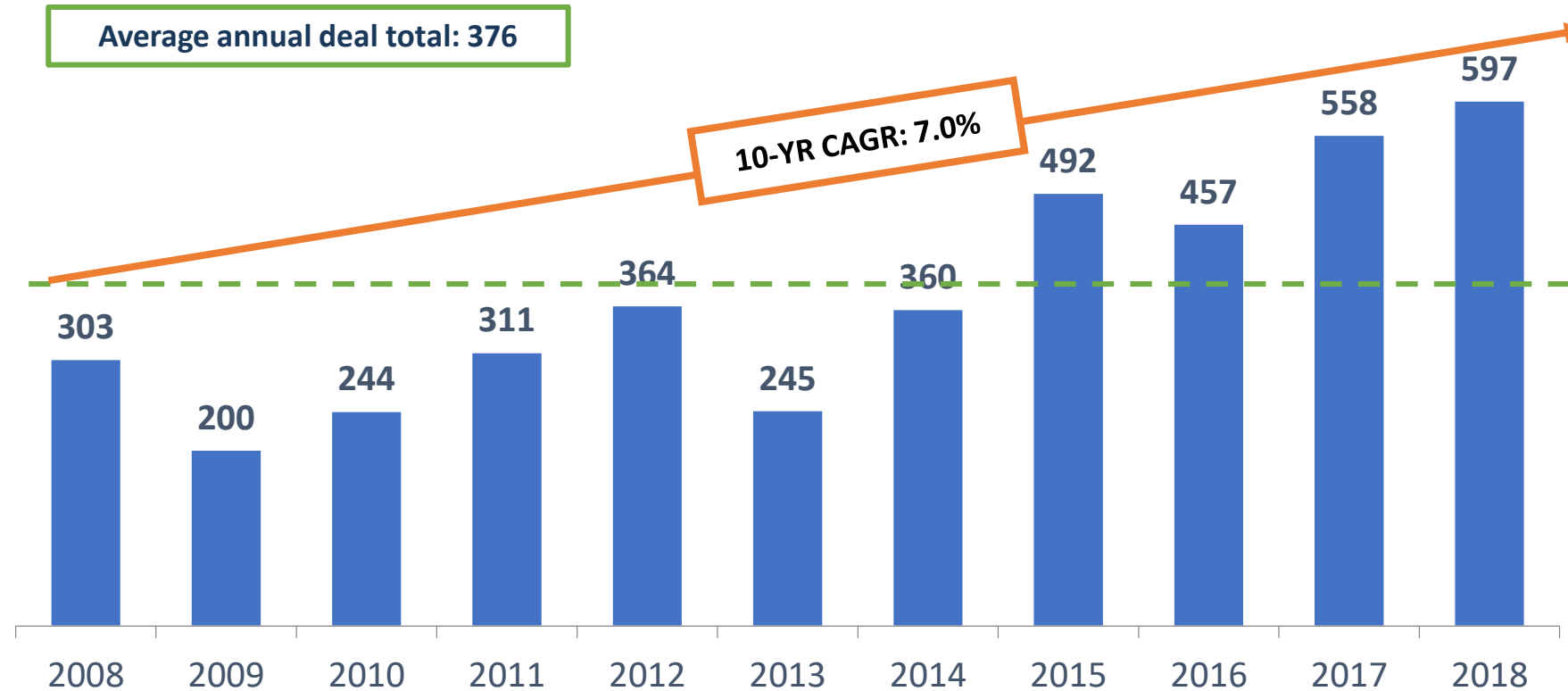
Perpetuation Planning in the Age of Consolidation

Brian Deitz / Reagan Consulting

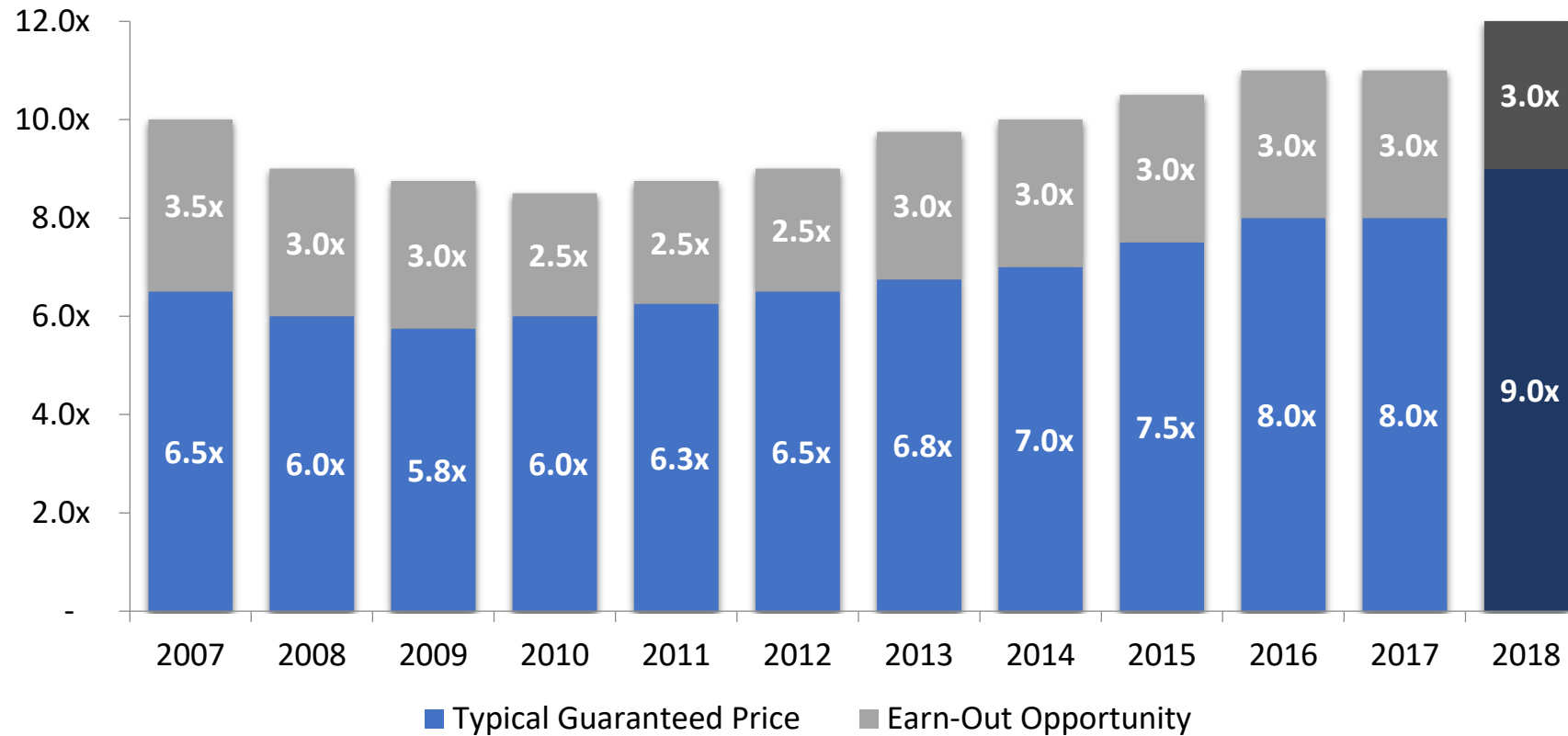
August 2019



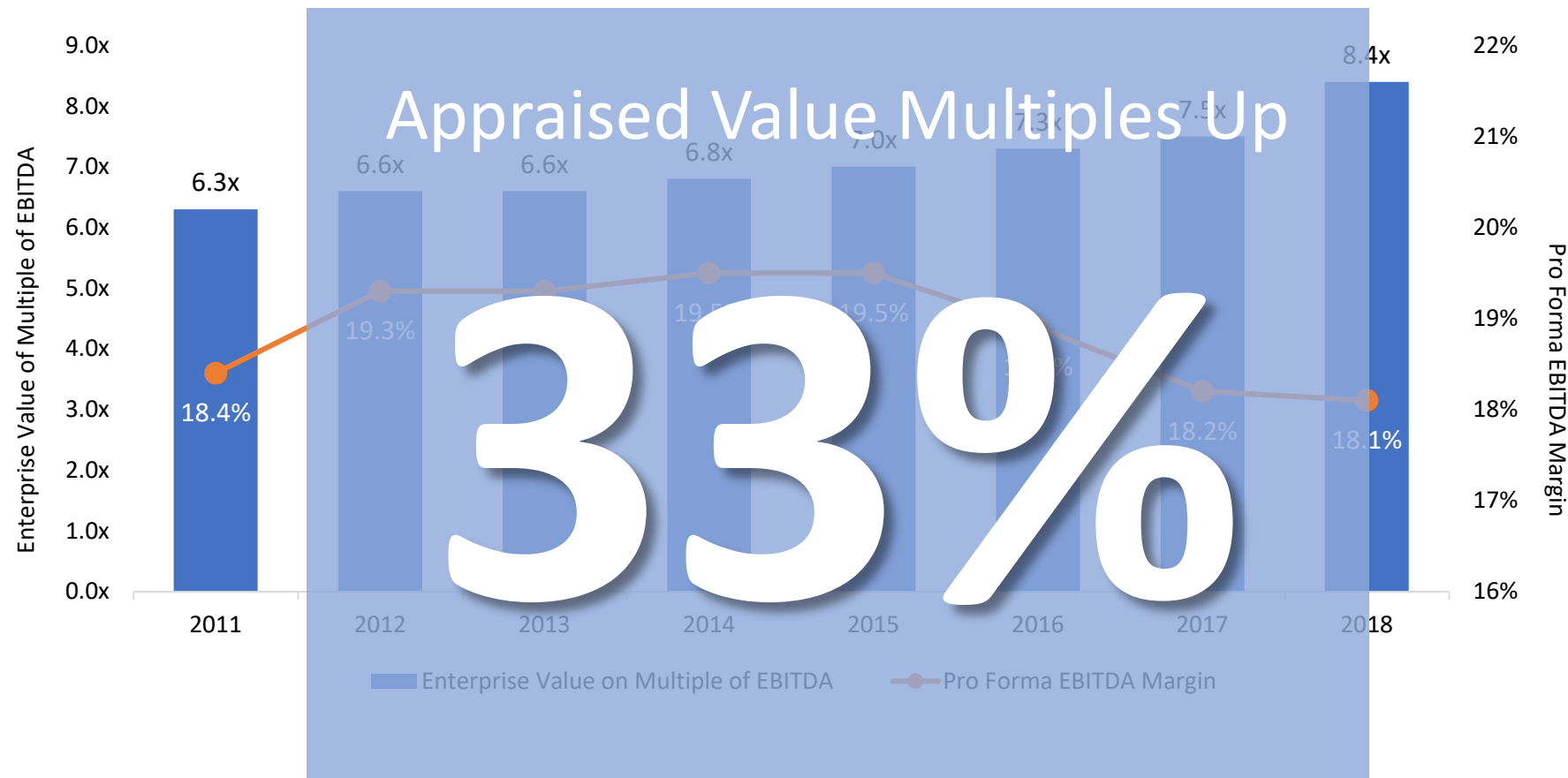
The M&A Market – Deal Volume



The M&A Market – Valuations



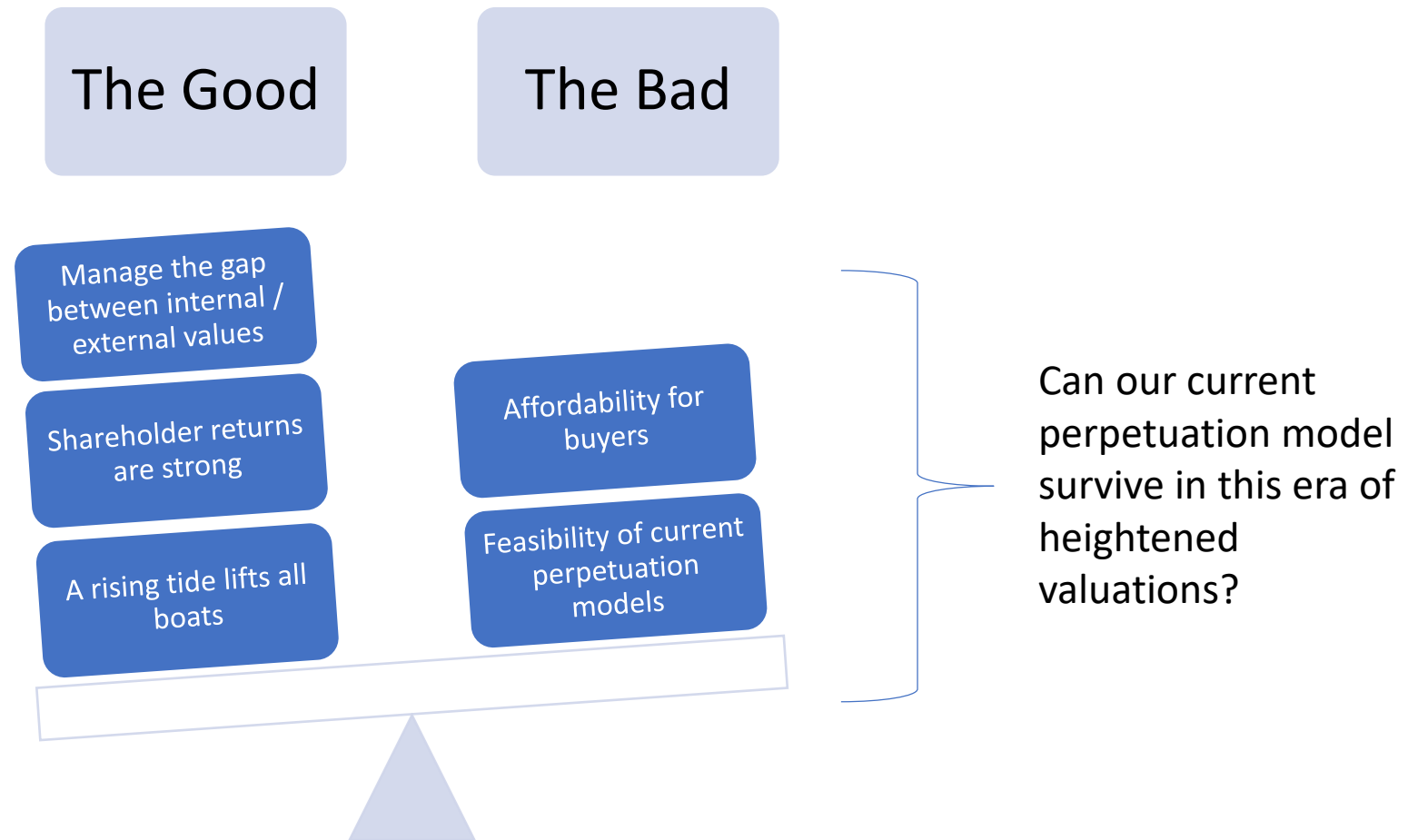
Appraised Value Trending

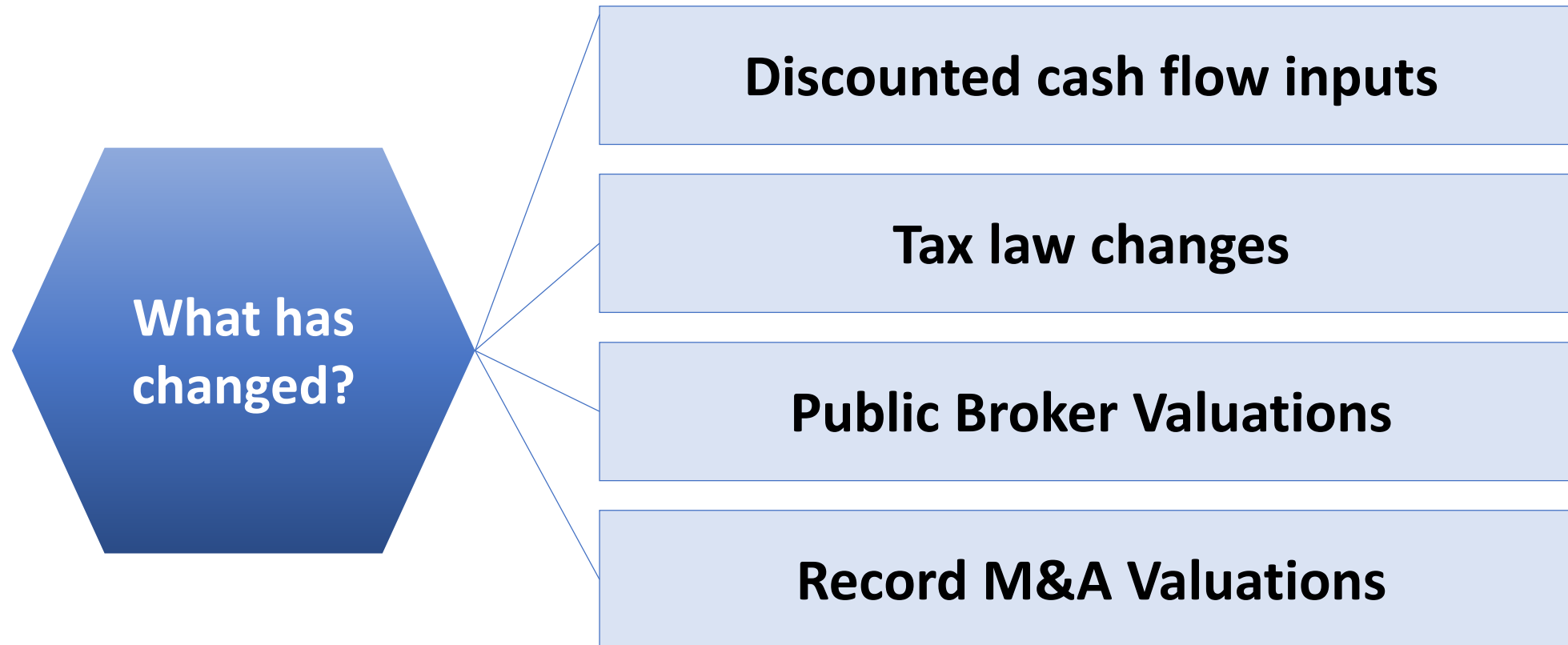


Source: Reagan Value Index



The Good and The Bad of Rising Values





Do The Changes Improve Cash Flow?

Discounted Cash Flow Inputs



Tax Law Changes



Public Broker Valuations



Record M&A Valuations



Buyer Coverage Ratio

Buyer Ownership Distributions or Bonuses

Buyer Principal & Interest Payments

- First-year metric: Does not contemplate growth in the business
- Pre-tax metric: Taxes on ownership bonuses or distributions not included
- Down payment not factored into the calculation

Source: Reagan Consulting's Private Ownership Study

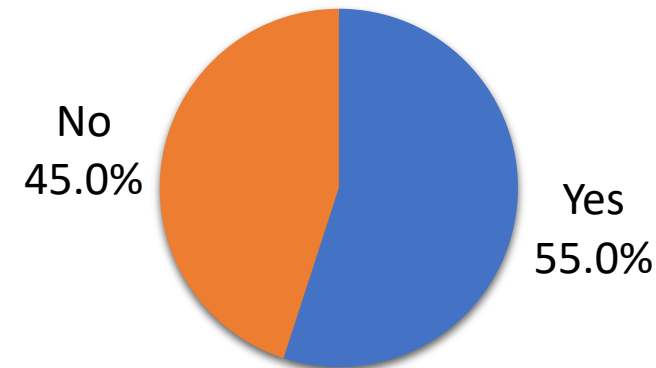
An Example:

\$50,000 Bonus Distribution

\$55,000 Payment

➔ 91%

Is Your Firm's Buyer Coverage Ratio 100% or Higher?



Adapting to New Realities ...

If you are a pass-through entity...

- A 100% or better Coverage Ratio is still a healthy target
- Affordability is important, but don't arbitrarily discount agency values, as this increases the temptation zone
- Focus rather on distribution policy and redemption terms:
 - Increase distribution percentages
 - Increase size of down payments
 - Extend repayment period (10-12 years)
 - Interest-only / balloon notes
 - Explore outside financing options

If you are a C-Corp...

- If you bonus your potential profits to shareholders as compensation, the tax law changes will tend to make your stock much less affordable to buyers
- Focus more on a retention model:
 - Take advantage of the lower tax rates that accompany C-Corporation status
 - Minimal / moderate distributions allow the bulk of cash flows to be controlled corporately
 - Selling shareholders are primarily redeemed corporately and not individually
 - Stock purchases are less common than performance-based stock grants



Which
corporate
structure /
model is right
for us?

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Brian Deitz joined Reagan Consulting in 2006 and is a partner of the firm. Brian's primary areas of expertise are mergers & acquisitions and agency valuations. Prior to joining Reagan, Brian spent over four years working in mergers and acquisitions for The Home Depot, leading valuation exercises and due diligence processes. Prior to his tenure at The Home Depot, Brian worked in investment banking for Deutsche Banc Alex. Brown in Baltimore, MD.

Brian is a Certified Valuation Analyst (CVA) and he graduated from the University of Virginia with an undergraduate degree in Commerce, concentrating in Finance and Marketing. He currently maintains the Series 24, 63, and 79 FINRA Registrations through Reagan Securities, Inc., the affiliated FINRA-registered Broker/Dealer of Reagan Consulting, Inc.