

# Updating your Perpetuation Plan

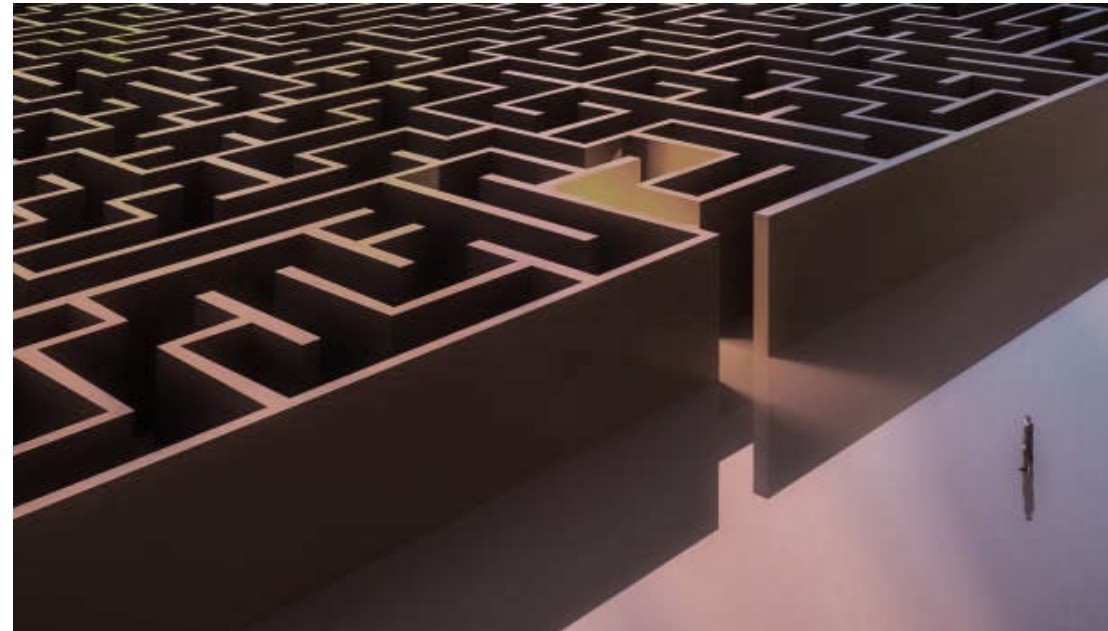
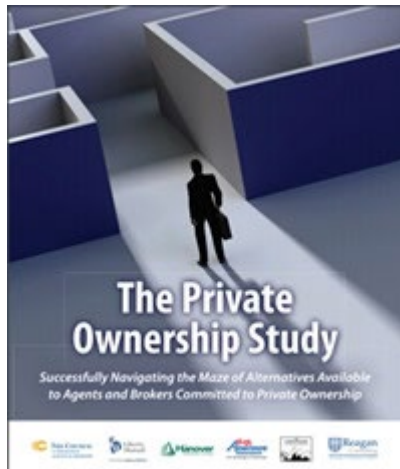
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# Private ownership is a different game

**2010**

**2021**



# What has happened since 2010?

- Investment capital from a variety of sources has flooded into the industry
- A race for scale has been started
- Agent and broker performance has accelerated – even with the slight COVID-19 hiccup
- Tax laws have changed to be more favorable to brokers and their ownership groups
- Public equities markets have surged



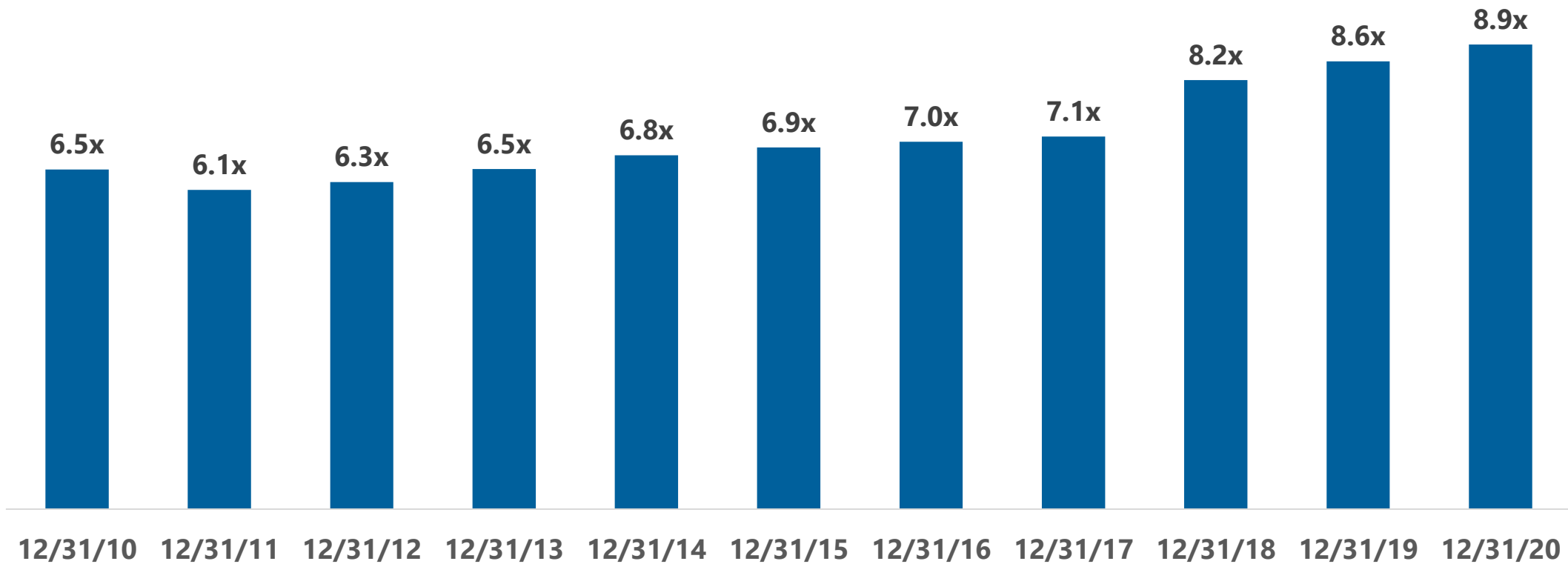
**Privately-held brokers must . . .**

**Perpetuate at substantially higher values**

**Fight to retain their highly-talented, next generation leaders as well-capitalized, larger players offer big dollars to lure them away**

# Internal valuations are significantly higher

Reagan Value Index EBITDA Multiple



# Rising values impact ownership transfers

2010	
Value as Multiple of EBITDA	6.5 x
Down Payment	10.0%
Years Financed	8.0
Interest Rate	3.0%
Profits Distributed	80%
Pre-tax, First Year Buyer Coverage Ratio	101%
After-tax, First Year Buyer Coverage Ratio	60%

2021	
Value as Multiple of EBITDA	9.0 x
Down Payment	10.0%
Years Financed	8.0
Interest Rate	3.0%
Profits Distributed	80%
Pre-tax, First Year Buyer Coverage Ratio	73%
After-tax, First Year Buyer Coverage Ratio	46%



*Solidifying the base model:*

**What needs to change to allow internal perpetuation to work at today's multiples?**



# Improving affordability



**Increase agency profit margins**



**Secure or provide financing over longer time periods**



**Increase down payments on buyer notes**



**Reduce interest rates on agency or seller-financed notes**

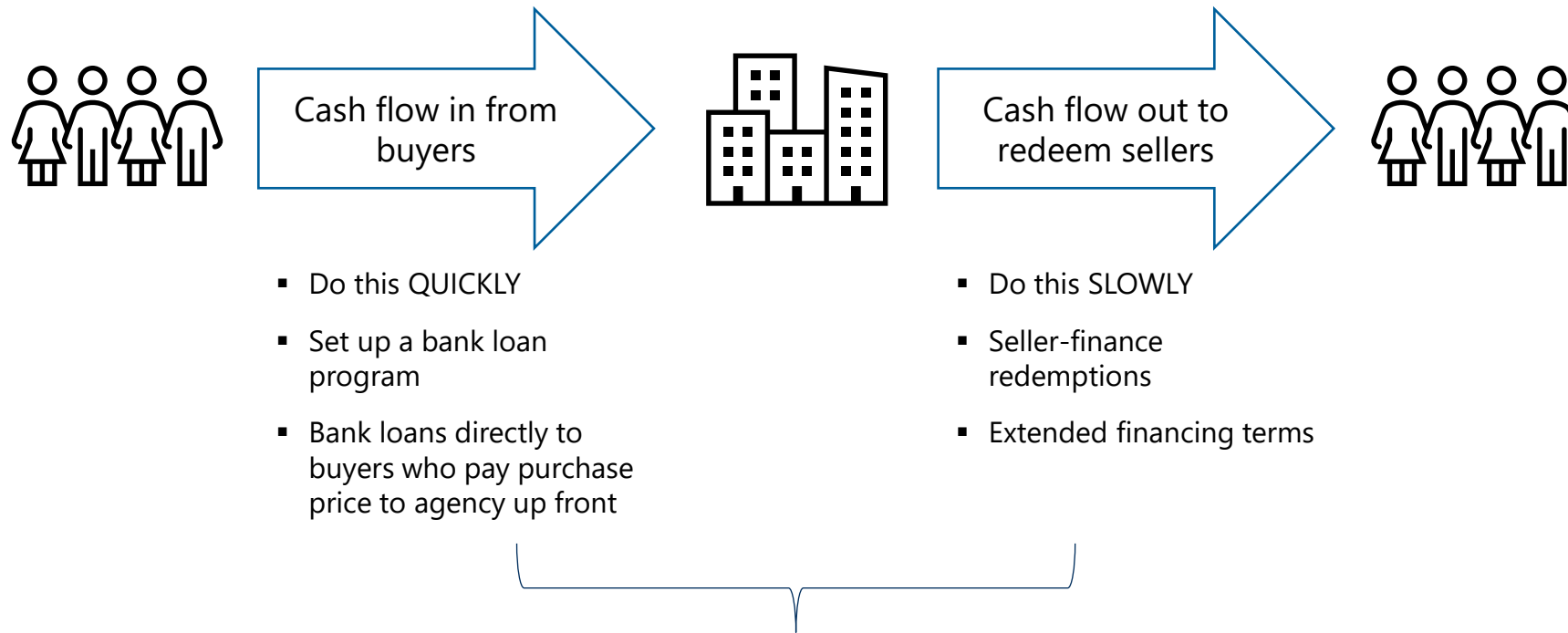


**Hire more producers**



**Increase profit distribution percentages**

# The gold standard in cash flow



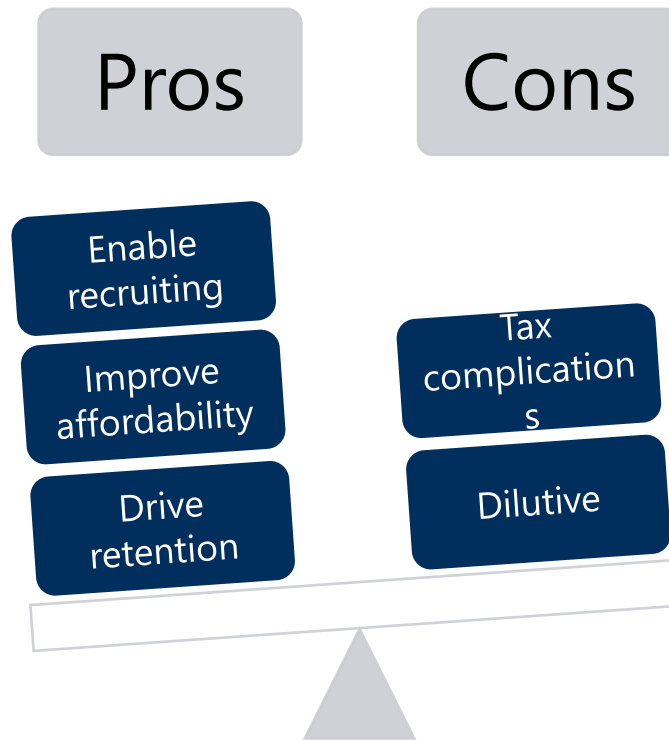
Maximize corporate cash flow to allow for pursuit of both growth initiatives and perpetuation





# Other transfer mechanism boosters

<b>Patch Bonuses</b>	<ul style="list-style-type: none"> <li>• Bonuses rified to buyers of shares</li> <li>• Avoids need to increase distributions to all shareholders to increase cash available to buyers</li> </ul>
<b>Performance Stock Grants</b>	<ul style="list-style-type: none"> <li>• Stock grant programs where employees (typically producers) are granted stock when they reach certain performance thresholds</li> </ul>
<b>Note Forgiveness</b>	<ul style="list-style-type: none"> <li>• Purchase debt forgiven based on achievement of certain performance thresholds</li> </ul>
<b>Phantom Stock</b>	<ul style="list-style-type: none"> <li>• Provides a deferred compensation benefit (typically to producers or senior management) based on the performance of the Company's equity</li> <li>• Can have difficult tax consequences</li> </ul>
<b>Book Equity Programs</b>	<ul style="list-style-type: none"> <li>• Plans that reward all producers based on pre-established levels of production</li> <li>• Can take the form of stock grants or deferred compensation</li> </ul>



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