



ACCURATE AGENCY VALUES REQUIRE AN OUTSIDE APPRAISAL



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In this issue of *Street Talk*, we review several scenarios where the need for an outside agency appraisal is important. The most common scenario is internal perpetuation. Others include shareholder divorce, purchasing a competitor, a merger or even selling your agency. Choices for shareholders are clear. They can 'wing it', using arbitrary multiples of commissions or normalized earnings. Or, seek an arms length appraisal from a consultant in their specific industry.

INTERNAL PERPETUATION

Usually governing the perpetuation process is a firm's Shareholder Agreement, which documents death, disability and retirement payout provisions. Unfortunately, some shareholder agreements still retain multiples of commissions as the sole basis of determining agency value. In rare cases, the multiples may be accurate. In most cases they are not.

Problems caused by inaccurate multiples are numerous:

- When the multiple is too high, buyers overpay, putting the financial future of the agency in jeopardy.
- When the multiple is too low, sellers think they will be underpaid, and consequently never retire.
- High, arbitrary multiples scare off young producers with potential to become shareholders. Knowing the value is inflated, they move to another agency using a more accurate methodology of valuing a business.
- Banks and carriers are less likely to lend money to buyers who overpay.

A solution is to update shareholder agreement language to require an outside appraisal for all stock transactions. IRS regulations for **family transactions** are more stringent. They require either an appraisal, or, proof that the price paid was comparable to an arms length transaction. *Devlin Consulting, LLC* offers affordable appraisal services. A brochure on this service, and others, is enclosed.

THINKING OF SELLING YOUR AGENCY?

Talk to *Devlin Consulting, LLC* first. We specialize in positioning sellers to obtain a premium sale price. In recent transactions, sale prices obtained for clients we represent have averaged (after converting the sale price to a multiple of revenue for ease of discussion) between 2 to 2.5 times adjusted revenue. To position a seller for a premium sale price, we prepare a specialized report that details and promotes their operational, sales and financial strong points. Next, we confidentially approach potential buyers and facilitate negotiations. Contact us for more details and referrals from satisfied clients.

POTENTIAL TAX LAW CHANGES

Rumblings in Washington, DC indicate that the Obama administration is planning to raise the capital gain tax rate for some individuals. If you are contemplating an agency related stock transaction, consult with your financial advisor to see if 2009 is the best time to complete the matter.

