



# Insurance Agency Valuation Trends

Flexing Our Valuation Muscles

# Questions



- ▲ What questions do you want us to answer about valuation of insurance agencies?
- ▲ What topic areas do you hope we cover?

# Valuation Practice Group – M&A Team



**Seth “The Boss” Webber**  
Principal | CFA, ASA, CEPA

Practice Lead

Valuation for 13+ years experience.  
Consulting. Operations.  
Strategic Planning.



**Casey “Juuiceboxx” Karlsen**  
Manager | ASA

Mergers and Acquisitions Lead

Valuation with Willamette Management  
Associates, Markee Valuations, and  
Appraisal and Consulting Group.



**Benjamin “Schwarzenegger” Schwartz**  
Senior | CPA, CVA

Newest member

Accounting background.  
Peace Corps, M&A



# Agenda

- ▲ **1** Business valuation overview
- ▲ **2** Valuation trends
- ▲ **3** Estimating an appropriate multiple

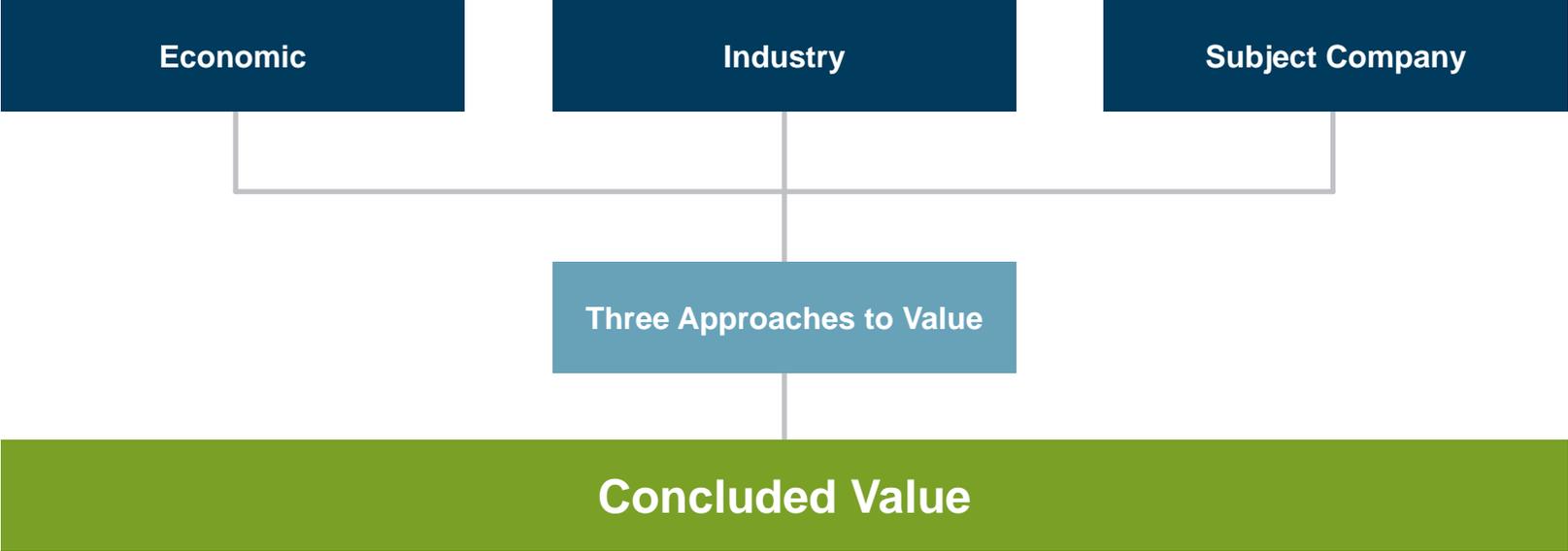




# Warmup

## Business Valuation Overview

# Business Valuation Overview



# Asset Approach

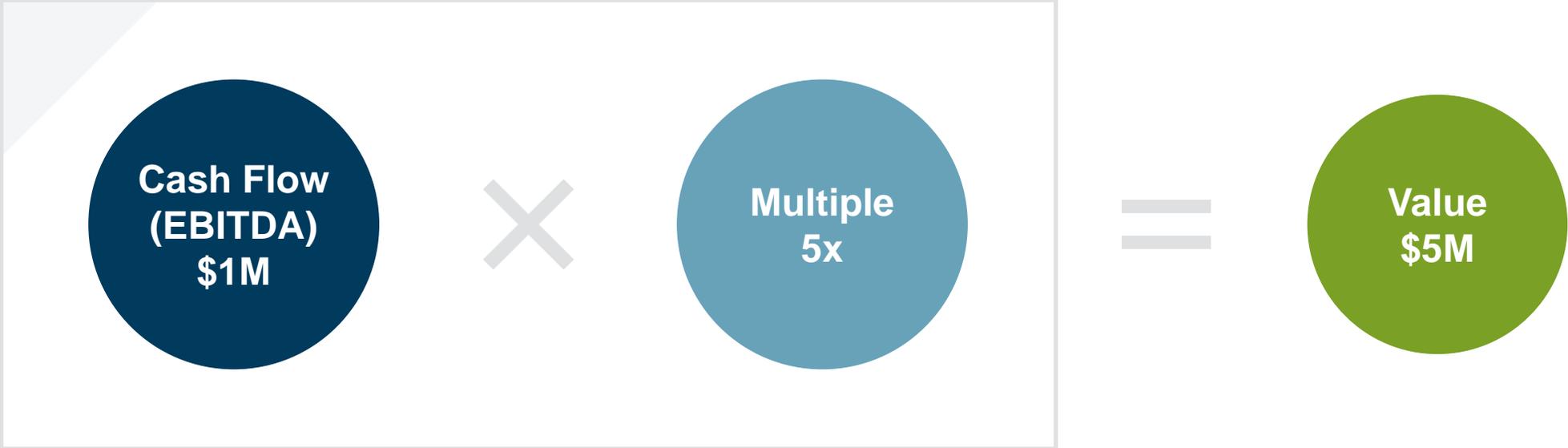


# Income Approach

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Income</b>	\$ 1,000,000	\$ 1,030,000	\$ 1,060,900	\$ 1,092,727	\$ 1,125,509
<b>Present Value Factor</b> (based on 23% Cost of Capital)	0.8130	0.6610	0.5374	0.4369	0.3552
<b>Present Value of Income</b>	813,008	680,812	570,111	477,410	399,782
<b>Total Present Value of Income</b>	2,941,122				
<b>Terminal Value</b>					
Next-Period Earnings		1,159,274			
Capitalization Rate	÷	(23% - 3%)			
Terminal Value		5,796,370			
Present Value Factor	×	0.3552			
<b>Present Value of Terminal Value</b>		2,058,878			
<b>Indicated Value</b>		\$ 5,000,000			

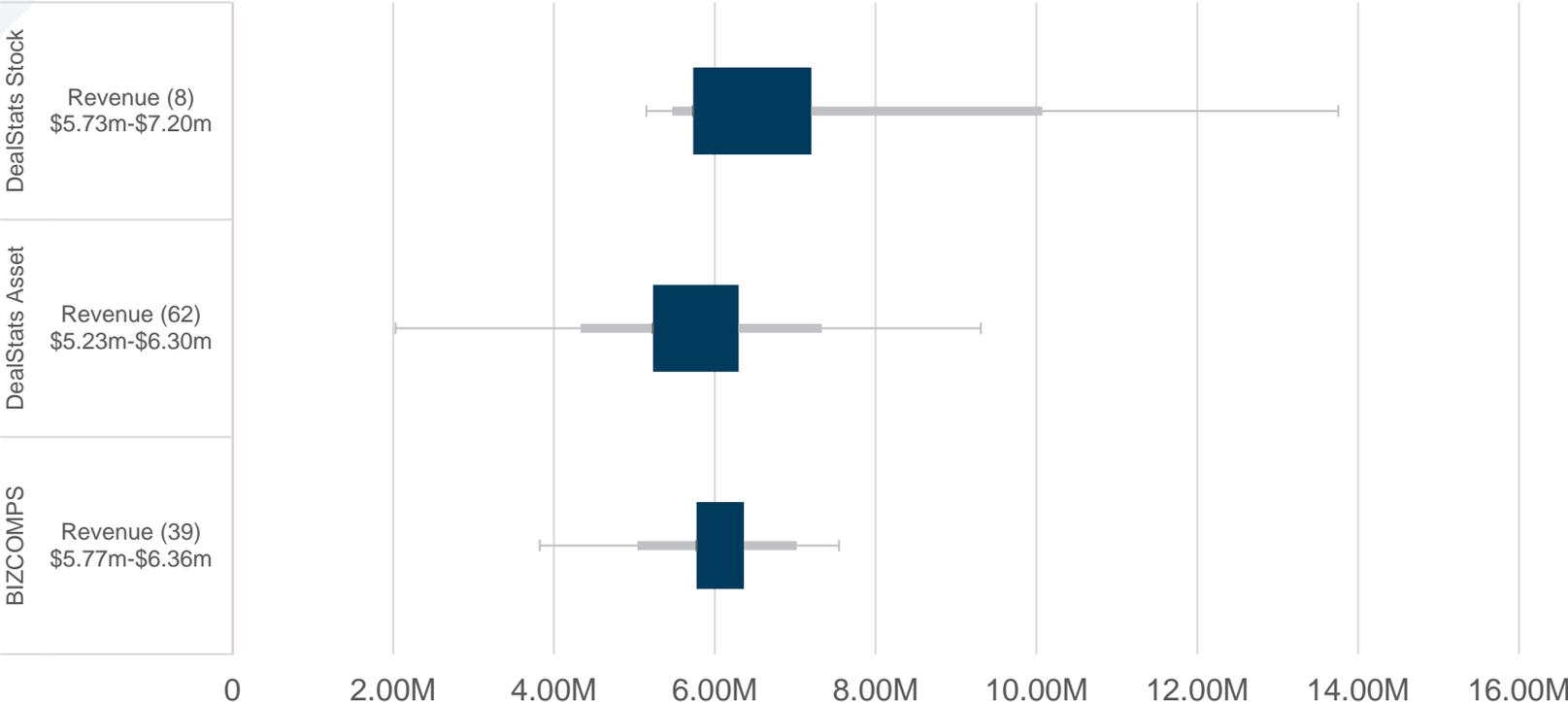


# Market Approach



# Market Approach

## Market Multiples Comparison by Database



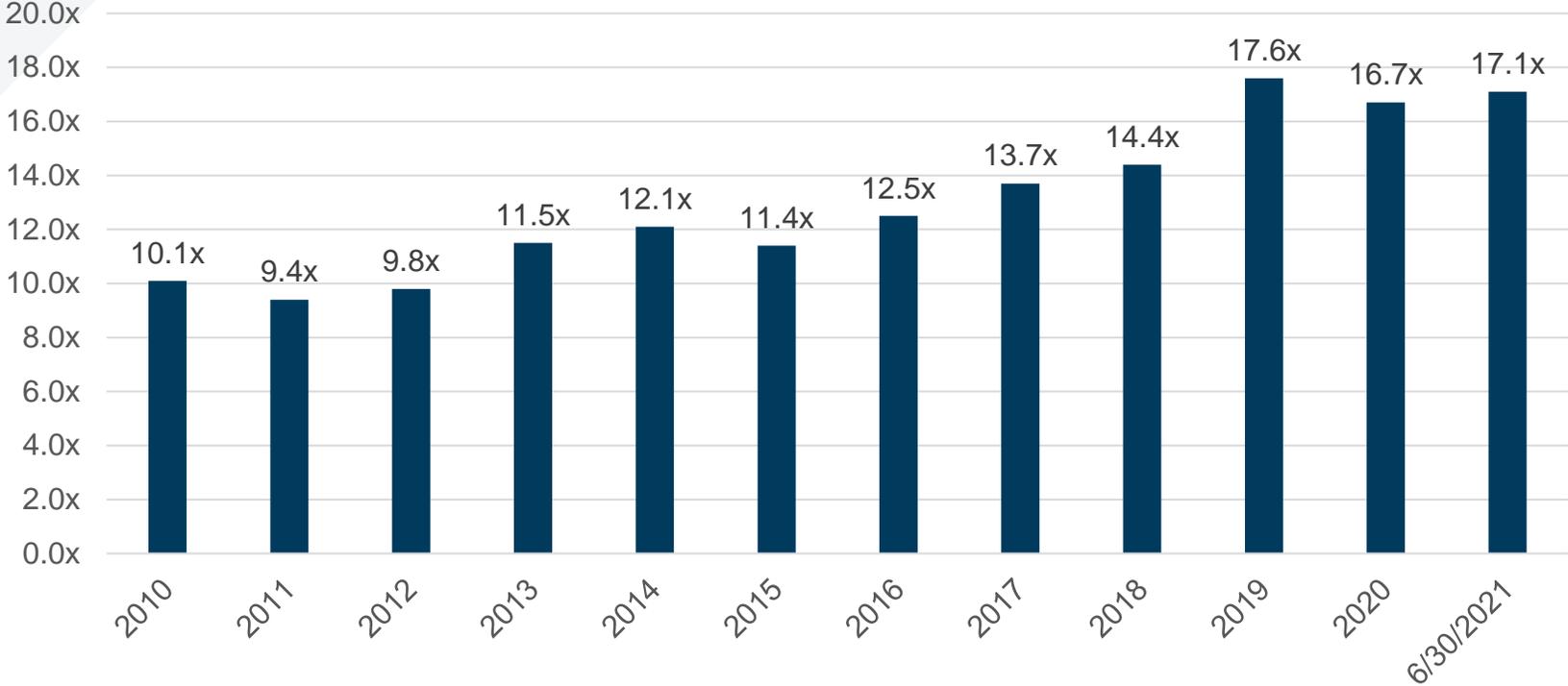


## Big Question Marks – Risk

- ▲ Discount rate in income approach
- ▲ Valuation multiple in market approach

# Insurance Agency Valuation Multiples

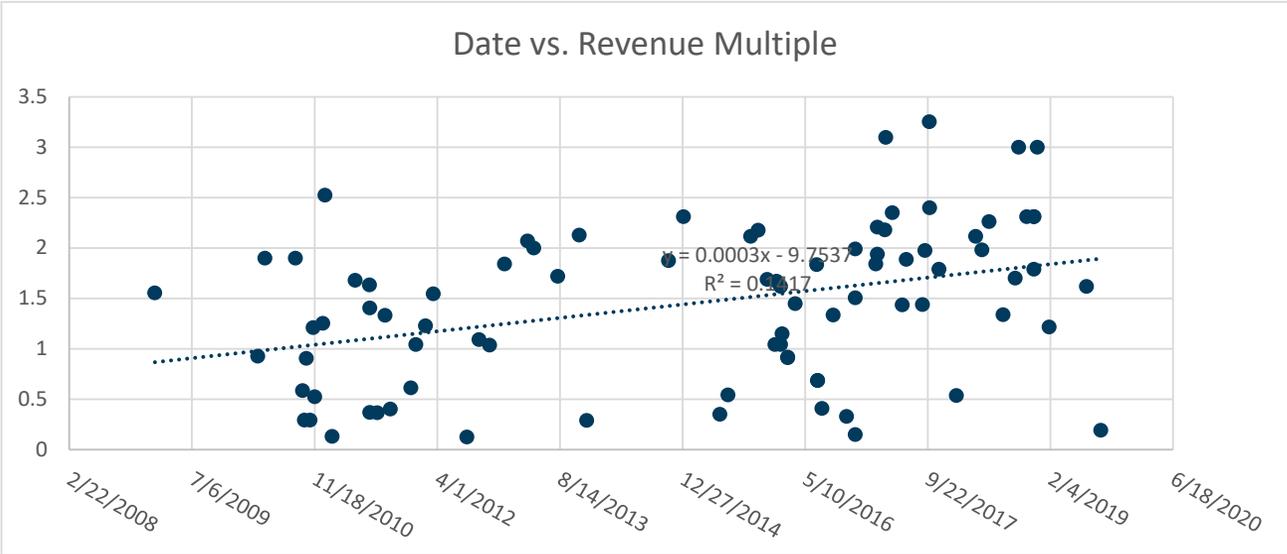
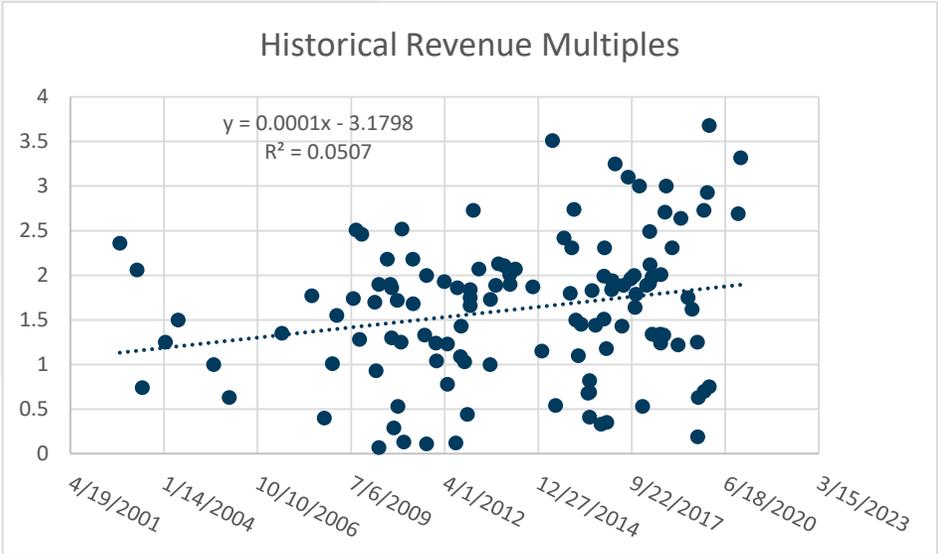
Exhibit 5. Public Broker Valuations



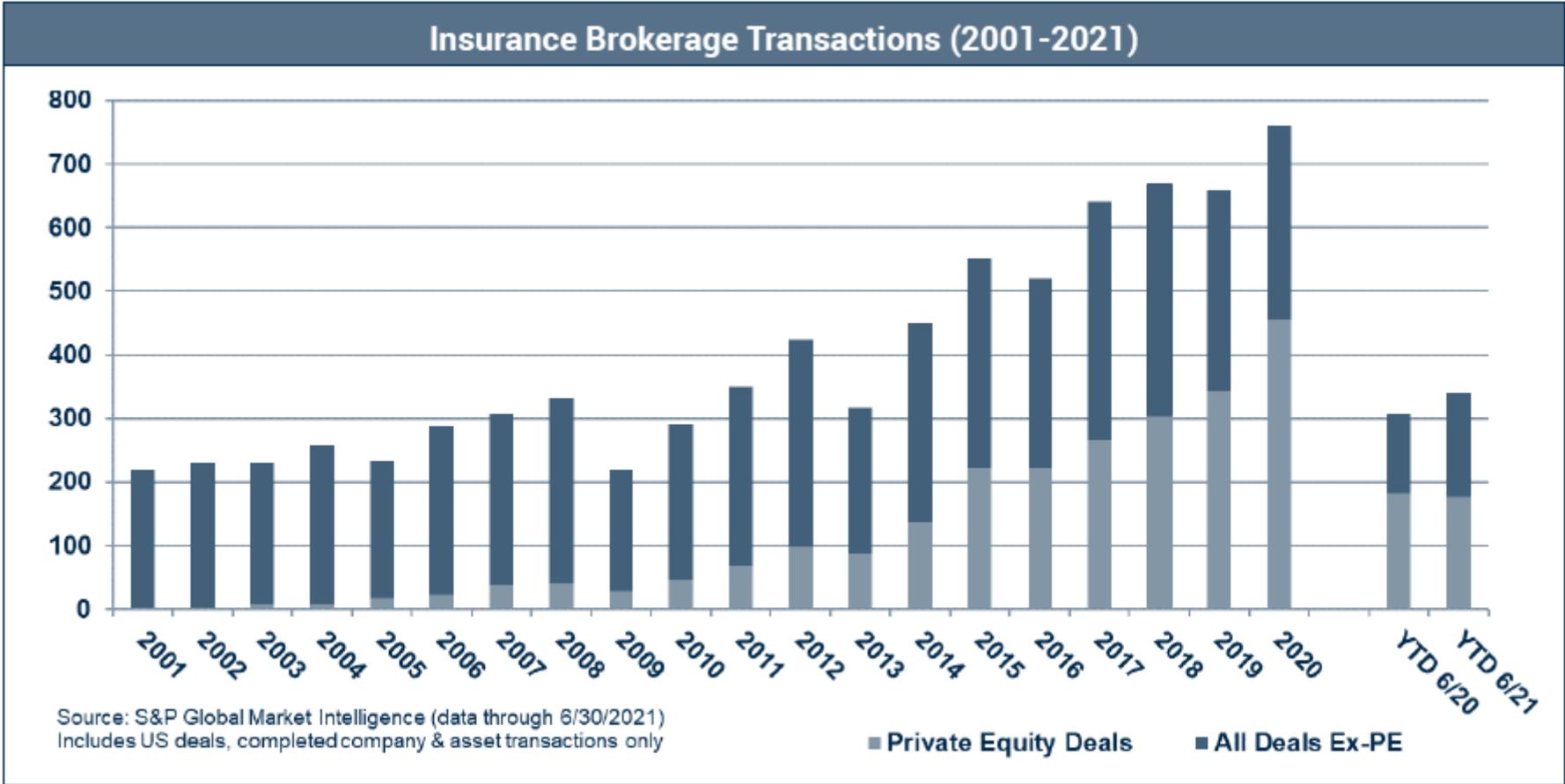
Source: S&P Global Market Intelligence, Mercer Capital analysis. Includes AON, AJG, BRO, MMC, WLTW



# Insurance Agency Valuation Multiples



# Why Are Multiples Trending Upwards?





## Carrier Ratio Trends

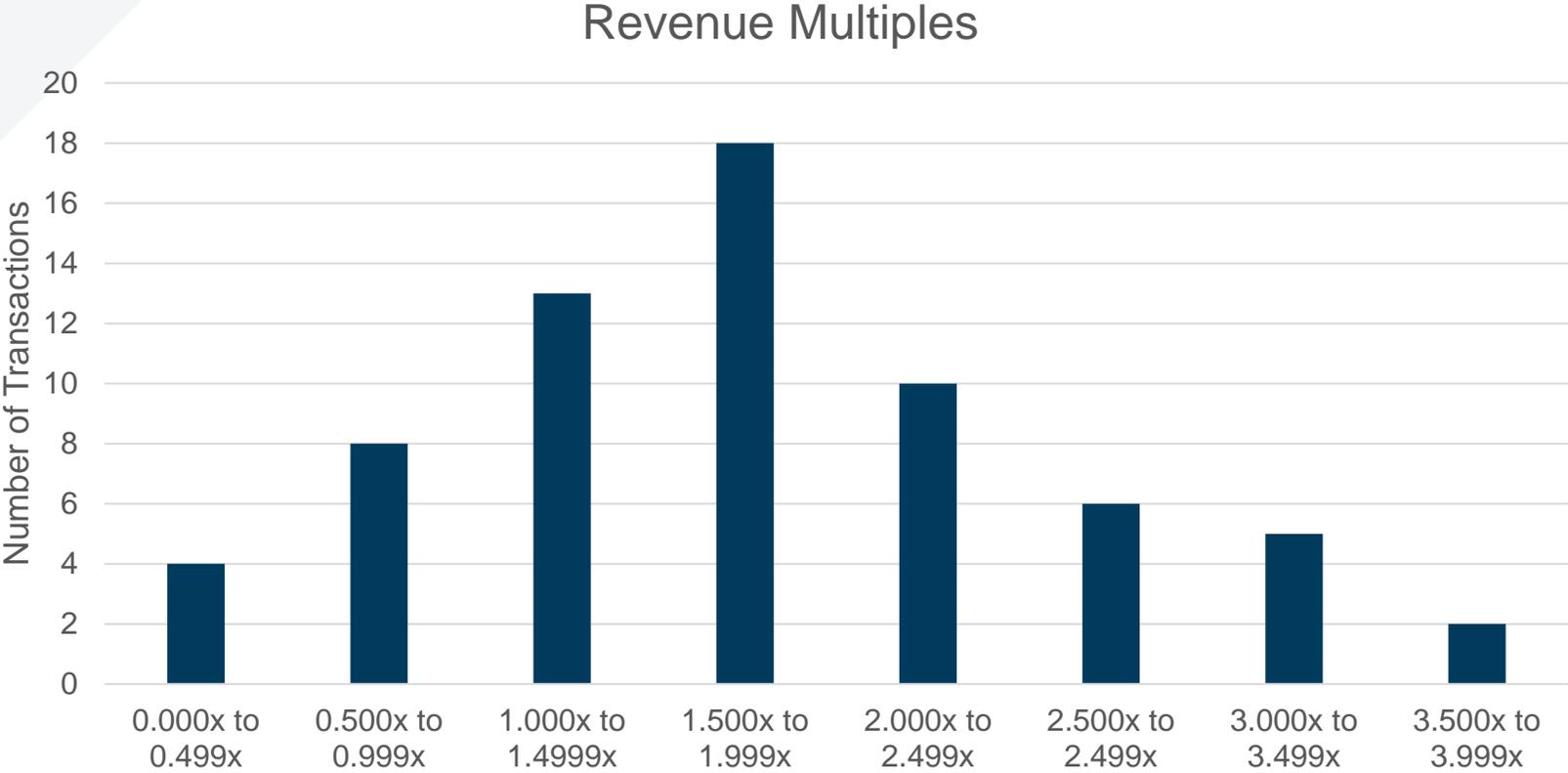
Capital IQ flex

# Carrier Ratio Trends (Cont.)

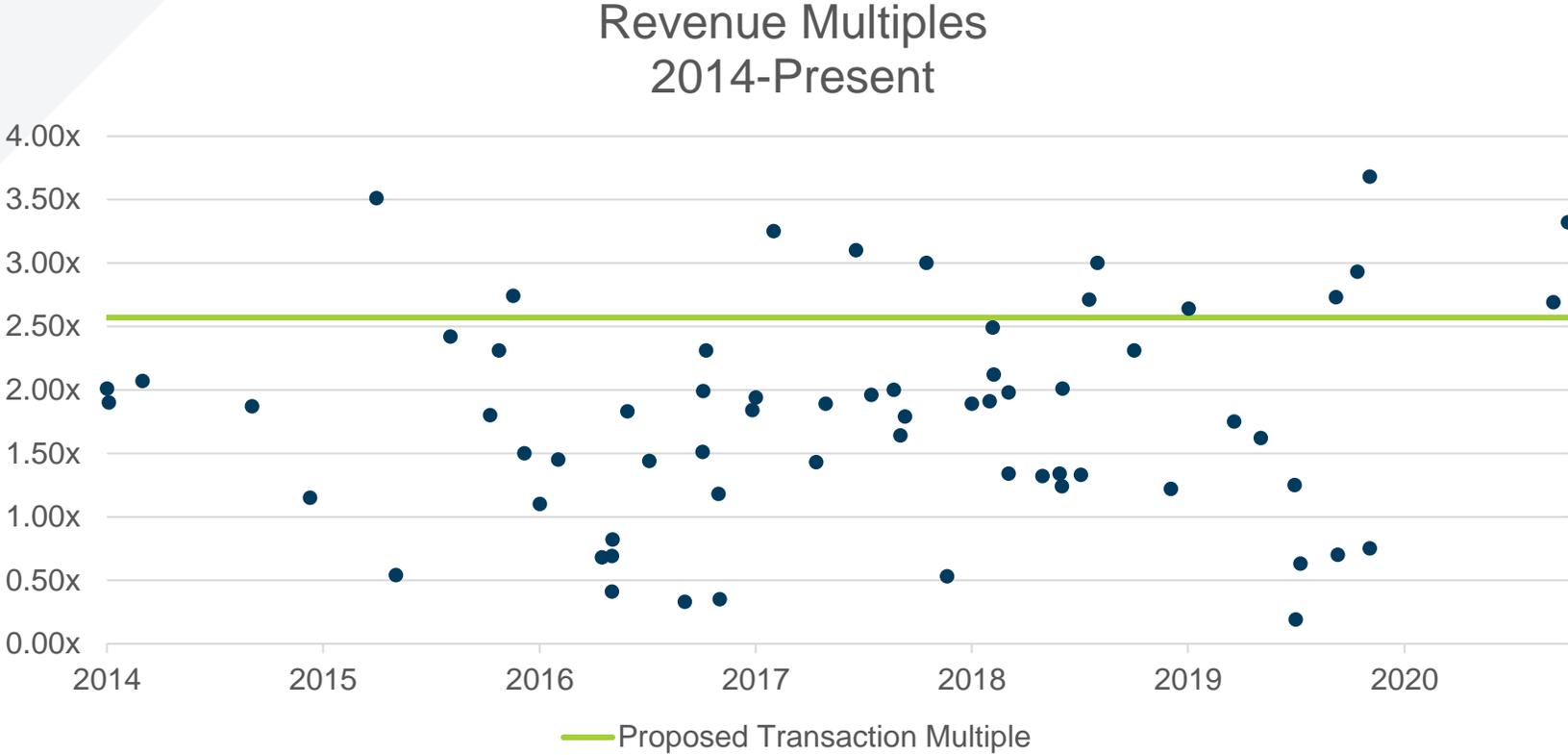
Company	12/31/2016	12/31/2017	12/31//2018	12/31/2019	12/31/2020
<b>Combined Ratio</b>					
The Progressive Corporation	95.10	93.40	90.60	90.90	87.70
The Allstate Corporation	96.00	93.00	93.20	92.00	87.60
The Travelers Companies, Inc.	92.00	97.90	96.90	96.50	95.00
Chubb Limited	88.30	94.70	90.60	90.60	96.10
American International Group, Inc.	118.90	117.30	111.40	99.60	104.30
<b>Expense Ratio</b>					
The Progressive Corporation	20.00	20.30	20.40	20.50	23.70
The Allstate Corporation	24.50	24.60	25.10	24.20	26.80
The Travelers Companies, Inc.	31.50	30.70	30.10	29.60	29.90
Chubb Limited	30.60	28.90	28.50	28.50	27.60
American International Group, Inc.	34.10	34.10	35.70	34.40	33.30
<b>Loss Ratio</b>					
The Progressive Corporation	75.10	73.10	70.20	70.40	64.00
The Allstate Corporation	71.50	68.40	68.10	67.80	60.80
The Travelers Companies, Inc.	60.50	67.20	66.80	66.90	65.10
Chubb Limited	57.70	65.80	62.10	62.10	68.50
American International Group, Inc.	84.80	83.20	75.70	65.20	71.00



# Current Multiples We Are Seeing



# M&A Services – Helping Clients Select Appropriate Multiples



# Choosing an Appropriate Multiple – Operational Risk

- ▲ Management depth and expertise
- ▲ Access to capital
- ▲ Customer concentration
- ▲ Customer pricing leverage
- ▲ Customer loyalty and stability
- ▲ Level of current competition
- ▲ Potential new competitors
- ▲ Supplier concentration
- ▲ Supplier pricing advantage
- ▲ Product or service diversification
- ▲ Life cycle of current products or services
- ▲ Geographical distribution
- ▲ Currency risk
- ▲ Internal controls
- ▲ Demographics
- ▲ Availability of labor
- ▲ Employee stability
- ▲ Internal and external culture
- ▲ Economic factors
- ▲ Industry and government regulations
- ▲ Political factors
- ▲ Fixed assets' age and condition
- ▲ Strength of intangible assets
- ▲ Distribution system
- ▲ IT systems
- ▲ Technology life cycle
- ▲ Location
- ▲ Legal/litigation issues



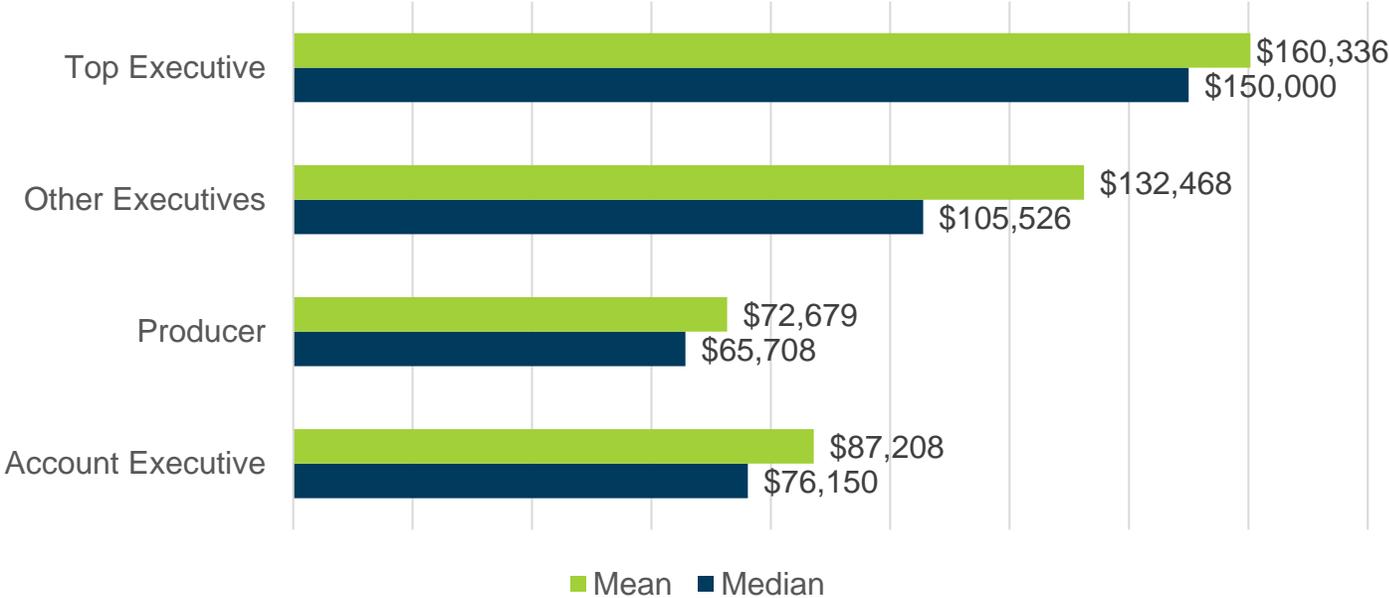


## Choosing an Appropriate Multiple – Benchmarking

BizMiner flex

# Choosing Appropriate Level of Income

- ▲ Normalizing shareholder income
- ▲ Maine Insurance Agents Association 2021 Agency Compensation and Benefits Survey



## Insurance Brokers & Agencies in the US

**\$161.2bn**  
Revenue

Annual Growth	Annual Growth	Annual Growth
2015–2020	2020–2025	2015–2025
0.3%	1.1%	



### Key External Drivers

% = 2015–20 Annual Growth

**2.7%**

Per capita disposable income

**-0.5%**

Number of people with private health insurance

**N/A**

Threat of Natural Disaster

**2.9%**

Homeownership rate

**0.7%**

Number of motor vehicle registrations

### Key Trends

- During a hardening price cycle, insurance providers raise premium prices to boost profitability
- Online brokerage businesses and direct insurance sales pose a threat to industry revenue
- While legislation has enabled consolidation, industry participation has increased during the period
- Industry operators will benefit from an increase in the total number of motor vehicles registered
- As the price of health insurance policies increase, operators are expected to generate higher commissions
- Demand is expected to improve as consumers return to work
- Despite rising premium prices, consumers have not decreased their consumption of insurance products

# Areas of Focus for Valuation Practice Group



## Mergers & Acquisitions

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# Questions?

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