

*Sales, Distribution & Technology*

## **Business Succession**

“What if Your Policyholders Outlive  
Your Agency?”



**15th Annual Intercompany Long Term Care Insurance Conference**

- **Richard Pitbladdo**
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- **Rick Dennen**
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- **Eric Leeper, CFA**
  - VP of Research & Analysis, FP Transitions

# Agenda



- Defining the Problem
- Succession Planning Considerations
- Preparation by the Seller

# Defining the Problem



- Benefits of Planning
- Potential Consequences of Not Planning
- What are Your Goals?

- Maximizes Value
  - A conscious decision
    - *Internal*: Leadership transferred to a trusted team member
    - *External*: Become part of another organization
- Provides Clarity

# Potential Consequences of Not Planning



- Could Dilute Value
  - Risk business associates
  - Employees
  - Carrier markets
  - Sub-producers

# What are Your Goals?



- What Should Happen to Your
  - Policyholders
  - Employees
- Who Should Succeed You?
  - Family Member
  - Employee
  - Outsider

# Succession Planning Considerations



- Selling / Succession Options
- Funding Arrangements
- Valuation
- Tax Consequences
- 3<sup>rd</sup> Party Experts



- Major Options for Transfer of Ownership:
  - Aggregator
  - Private Equity
  - Carrier
  - Competitor
  - Employees
  - Management Recapitalization
- Pros and Cons of Each

- Considerations of the Owner Leading to a Decision
- Main Funding Options and their Pros and Cons:
  - Equity Financing
  - Mezzanine
  - Senior Debt
- Which Most Often Seen by Oak Street?

- Key Factors that Affect Business Valuation?
  - Future Cash Flow
  - Management Team
  - Growth Trends
  - Quality / Consistency of Underwriting Results
  - Predictability of Results
  - System / Infrastructure
  - Markets Maintained by Agency
  - Potential Cost Efficiencies
- What are Typical Multiples?
- What Can Owners do to Ensure Highest Valuation?
- How do Owners Select a Valuation Firm?
  - Consulting Firms
  - Brokers
  - Investment Bankers

- Tax Implications of Each Buy / Sell Structure:
  - Management Recapitalization
  - ESOP
  - Restricted Stock Plan
  - Leveraged Buyout
  - Earn-out, or a Seller-assisted Plan

- Which Professionals do you Need?
  - Team of Advisors w/ Experience in the Agency Business, including:
    - Tax Consultants
    - Attorneys
    - Investment Bankers
    - CPAs

# Preparation by the Seller



- Understanding the Timeline
- Management Team
- Audits
- Growth
- Market

# Understanding the Timeline



- 3 Years Prior
  - Secure Team of Advisors
  - Put House in Order / Accounting Review
  - Evaluate Management
- 2 Years Prior
  - Maintain and/or Improve Profitability
  - Reduce Debt
  - Exhibit Growth
  - Secure Management
- 1 Year Prior
  - Secure Sale Advisory Team
  - Learn FMV of Agency
  - Advertise and/or Seek Buyer

- **Continue or Start Rising Sales & Profit Trends**
  - Accurate Financial Records
  - Organized Files and Corporate Records
  - Minimize Changes
  - Assets to Remain Lien and Encumbrance-free
- **Analyze Agency's Comparative Performance**
  - Book of Business Reporting by Client and Carrier
  - Breakdown by Lines, Locations, Account Size, Revenue, Etc.
  - Obtain Supporting Docs from Carriers (eg. Loss Ratio Reports, Commission Statements, Commission Schedules)
- **Buyer Research**
  - Compare Buyer's Goals with Yours.
  - Determine Buyer's Financial Stability.





## Questions & Answers?

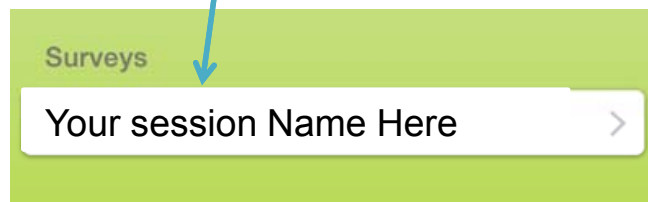
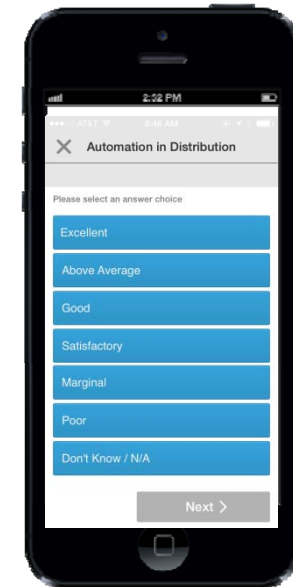
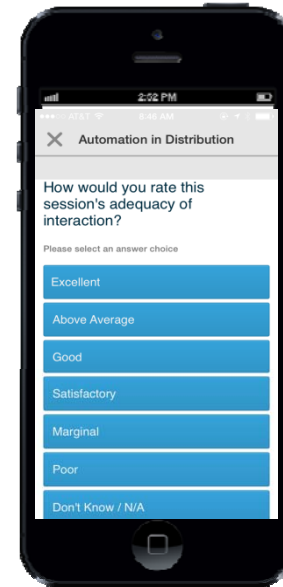
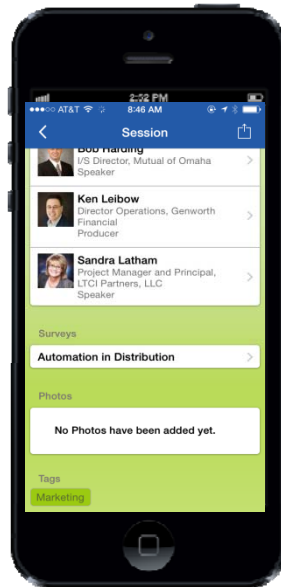
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