IA valuations.

2024

Year End Insurance Agency Valuation Report

Prepared By:

IA VALUATIONS

www.iavaluations.com

ABOUT IA VALUATIONS

Founded in 2017, the IA Valuations team has performed over 270 valuations to independent insurance agencies across the U.S. Our advisors have 25+ years of experience guiding agency owners on maximizing their agency value, planning, and legal needs for ownership transition. In addition, IA Valuations has provided perpetuation planning, financial modeling and business planning for independent insurance agencies. IA Valuations has advised dozens of agency owners on selling their agencies through our Agency Link process. Agency Link is a platform that connects buyers and sellers together to further the growth and strength of the IA system.

Jeff Smith,
JD, CIC, CAE
Chief Executive Officer
jeff@iavaluations.com

Craig Niess,
CVA, MBA
Director of Business
Planning & Valuation
craig@iavaluations.com

Jodie Shaw,
CLCS, CPIA, TRA
Director of Business Development
jodie@iavaluations.com

Colleen Barbara
Marketing & Communications Manager
colleen@iavaluations.com

Jarod Steed
Business Planning & Valuation Analyst
jarod@iavaluations.com

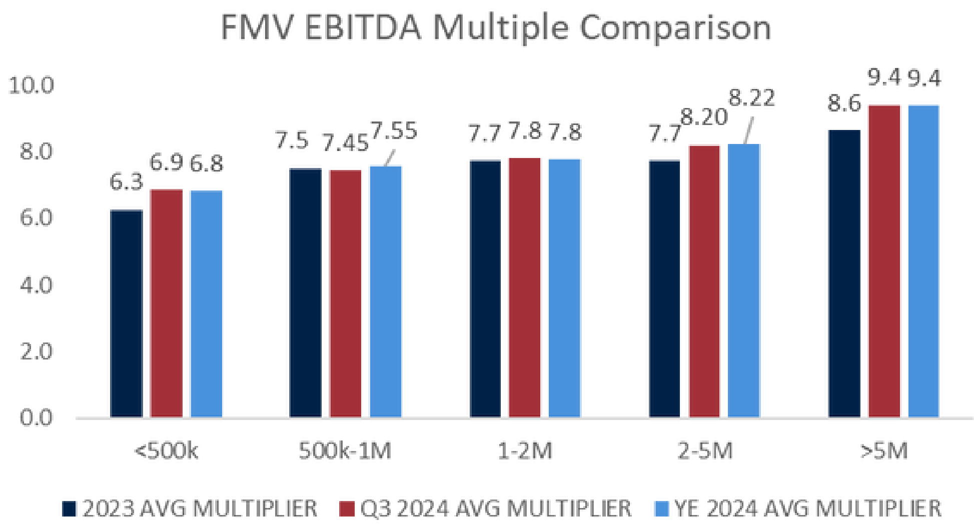
SUMMARY: 2024 YEAR END UPDATE

Our last marketplace report saw many positives in key indicators for the health of the insurance agency industry. Those positive trends have continued through Q4 of 2024. Agency multiples of EBITDA and EBITDA profitability have either held steady or increased for the majority of revenue groups.

In this report, we will provide a snapshot of the valuable insight IA Valuations took away from the Ohio Insurance Agents' Association *Carrier Satisfaction Survey*. This survey provides a pulse on how agencies of all sizes feel towards different groups of carriers.

Valuation Factor	Performance Over Q3 2024	Performance Over 2023
EBITDA Multiple	↑ 0.1%	↑ 4.9%
EBITDA Profitability	↑ 4%	↑ 44%

VALUATION MULTIPLES



4.9%
Average increase over YE 2023

0.1%
Average increase over Q3 2024

< $500k Agencies

Agencies with less than $500k in revenue saw a 0.5% decrease in average value over Q3 2024. The average multiple went from 6.9 to 6.8. This is correlated to a decrease in average EBITDA margin, as noted later. This is the only decrease this quarter, of the metrics we are reporting on.

0.5%
Decrease over Q3 2024

$500k - $1M Agencies

Agencies between $500k - $1M in revenue saw an increase in average value of 1.3% over Q3 2024. The average multiple went from 7.45 to 7.55. This is also correlated to an increase in average EBITDA margin.

1.3%
Increase over Q3 2024

$2M - $5M Agencies

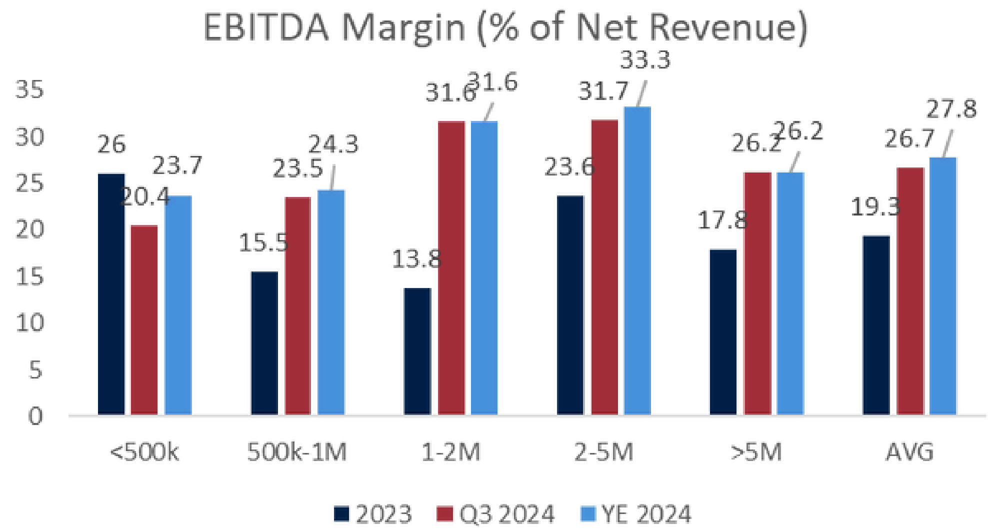
Agencies between $2M - $5M in revenue saw an increase in average value of 0.2% over Q3 2024. The average multiple went from 8.2 to 8.22. What are known as “platform agencies” appear in this group. Similar to the $500k - $1M group, this is correlated with an increase in EBITDA margin.

0.2%
Increase over YE 2023

$1M - $2M and > $5M Agencies

Agencies between $1M - $2M and agencies above $5M in revenue saw no change from the previous quarter in their valuation multiple, based on our data.

PROFITABILITY MARGINS



44%
Average all-group increase over YE 2023

4%
Average all-group increase over Q3 2024

< $500k Agencies

Agencies with less than $500k in revenue saw a 16% increase in EBITDA profitability over Q3 2024. The average margin went from 20.4 to 23.7 percent of revenue. This group has rebounded since Q3 of 2024.

16%
Increase over Q3 2024

$500k - $1M Agencies

Agencies between $500k - $1M in revenue saw a 3% increase in EBITDA profitability over Q3 2024. The average margin went from 23.5 to 24.3 percent of revenue. This group continues to see an overall growth, though rate of growth slowed.

3%
Increase over Q3 2024

$2M - $5M Agencies

Agencies between $2M - $5M in revenue saw a 5% increase in EBITDA profitability over Q3 2024. The average margin went from 31.7 to 33.3 percent of revenue. This group experienced a compensation spend that held around the same rate and an increase in commissions and fees.

5%
Increase over Q3 2024

$1M - $2M and > $5M Agencies

Agencies between $1M - $2M and agencies above $5M in revenue saw no change from the previous quarter in their profitability margins, based on our data.

CARRIER RELATIONSHIPS & AGENCY VALUE

Establishing the Right Carrier Mix for Your Agency

Strong, deep, and loyal carrier relationships along with a diverse mix of carrier options for your clients is a pillar of the IA system and critical to an agency's success. That being said, IA Valuations recommends that agencies maintain between 8% to 25% of premiums and commissions in every carrier relationship. Anything above 25% creates risk and below 8% does not derive adequate value for the agency.

8% to 25% of agency premium is the ideal carrier mix.

Highest Performing Agency Values
8.25 - 9.5 EBIDTA Multiple

Lead Carrier Averaged 21.85%:
Agencies with lead carriers in the recommended percentages had the highest valuation multiples. These agencies appropriately spread their risk and utilized their carrier relationships to continue to grow during the hard market. Size of the agency was not a major factor in this variable as small agencies spread the business among their top 5 carriers.

Top 5 Carriers Averaged 59% of Book:
The highest performers maintained strong market access with multiple carriers ensuring growth during the hard market. They spread loss ratios across the carriers instead of concentrating them with one or two large carriers.

Lead Carrier = Super Regional:
The highest performers led with super regional relationships. In most instances, the lead carrier was a super regional, and oftentimes these agencies had multiple super regional carrier relationships. These are coveted relationships and enhance agency value.

Lowest Performing Agency Values
6.25 - 6.75 EBITDA Multiple

Lead Carrier Averaged 65%:
Agencies with the highest concentration of business with their lead carrier consequently had the lowest EBITDA valuation multiple. In this group, high lead carrier concentration led to heightened risk, reduced growth during the hard market, high variability and inconsistent profit sharing, and lower retention rates. These agencies look like semi-captives.

Top 5 Carriers Averaged 89% of Book:
The lowest performers struggle with market access during the hard market and their growth and profitability suffered, as did their value. Agencies with this level of concentration should make sure they are diversified with super regionals, regionals, small mutuals, and nationals.

Lead Carrier = Regional:
These agencies led with regional carriers. These once coveted relationships have been strained for a number of years. Agencies with these carriers should stick with them, but diversify their books to minimize their risks while these carriers regain their footing.

THE IDEAL CARRIER MIX TO ENHANCE VALUE

All Star Carrier Lineup:

1. Super Regional - 23%
2. Super Regional 19%
3. Small Mutual 14%
4. Small Mutual 11%
5. Regional - 8%
6. National - 7%
7. National - 7%
8. Wholesale Broker/MGA - 6%
9. Market Access Placement - 5%

Characteristics of the Ideal Carrier Mix for Enhancing Agency Value in a Traditional Retail Agency

1. **Strong Super Regional Relationships** - Leads with a strong relationship with a reliable and growing super regional carrier. Better yet, would be two super regionals. These carriers consistently rank amongst the highest in agent satisfaction surveys and many agents speak very positively about how they helped them get through the hard market by remaining open to new business and reasonable with rate increases. These carriers do not lack an identify for who they are or a vision for where they are going and with whom. These carriers continue to exhibit the sophistication of a National but the relationships of a Small Carrier. Super Regionals are betting on the IA channel for continued success of their own business and deploying strategies that are mutually beneficial to the agent and carrier.
2. **Dependable Small Mutual Relationships** - These carriers allow agencies of all sizes to have a say in their success. This is the classic big fish in a small pond. These carriers will often times resort to traditional relationship-based underwriting, especially for their best agency partners. They make decisions based on relationships and are undoubtedly committed and all in with the independent agent. Their profitability, rate stability, and AM Best rating is higher risk due to their size, especially during the hard market.
3. **Maintains an Appropriate Balance of 8% to 25% with Top 5 Carriers** - Any time an agency has a relationship above 25%, it creates unnecessary risk for the agency in the event the carrier has a change in appetite, has a string of bad years, has a change in culture/leadership, or gets acquired. On the flip side, maintaining carrier relationships below 8% dilutes the effectiveness of the relationship and likely does not support profit sharing.
4. **The Need for Nationals** - National carriers help with brand recognition, aggressive pricing, and typically are on the leading edge of technology efficiencies. In addition, nationals tend to set the trends on rate increases and decreases. Nationals are most likely to be your competition as well as your partner, so developing a comfort level with that dynamic and understanding when and how to use them with your clients will enhance value.
5. **The Case for Nationals** - These carriers were once small carriers and are on the ascent to becoming super regionals. They are struggling with identity right now, but agencies should continue to have faith in these carriers to return to their roots.

Disclaimer: This example is based on the traditional county seat, retail independent insurance agency. There are many examples where an agency with 89% of its business with one carrier is far more attractive and valuable to a particular buyer than the example provided above. It is why we encourage every agency to go through the process of a fair market valuation to ensure it accurately understands all of the factors that affect value.

HERITAGE HANDED DOWN
AN INTERNAL PERPETUATION SUCCESS STORY

Introduction

An independent agent's dream becomes a reality: a father's "start from scratch" agency becomes a success, and his sons choose to become agents, stay local, and build upon his legacy. IA Valuations spent many months with Jeff Evans and sons Carson and Conner, of Jeff Evans Insurance Agency in Uniontown, OH, to hear their plan to transfer ownership internally.

Background and Timeline

Jeff founded his insurance agency while in college in 1981. As a scratch agency with no debt, he was able to focus solely on organic growth. There are ties to those early days of work that words cannot describe. He found success in business, and he was lucky enough to share that with his family, notably his two sons. Both sons took after their father and joined the insurance business after college. Carson, 27, spent time with a super-regional carrier, and Conner, 25, with a national carrier. They are now gearing up for their future as the next generation of Jeff Evans Insurance Agency co-owners.

Preparation

Jeff knew he wanted to take a proactive approach to transition without being crunched for time. He reached out to IA Valuations in the fall of 2023 to learn more about the process and what his options were. After IA Valuations provided the Evans' with a Fair Market Valuation, they proceeded to draft a formal internal perpetuation plan. The family sought advice from several other consultants, including lawyers and CPAs, to ensure everyone received a fair deal. The balance for Jeff was ensuring that his sons had "skin in the game" but were not crushed with debt from the deal. Over the coming years, the stake in the agency will slowly be sold to Carson and Conner until they become equal owners of Jeff Evans Insurance Agency.

HERITAGE HANDED DOWN
AN INTERNAL PERPETUATION SUCCESS STORY

Internal Perpetuation - His Only Option

After seeing his sons' interest and dedication to the independent agency system, there was no question in Jeff's mind that he wanted to perpetuate internally. In an environment where external sales are gaining momentum simply for the high price tag, Jeff knew that was not an option for him. Although private equity would have resulted in a significantly higher sale price, other things remained important. He is proud of his legacy and proud that, along with his sons, they will be continuing the commitment to their clients, their community, and their employees. After all he has built, getting to pass his agency down and keep the business in the family is a shining moment and one of the hallmarks of his career. Having the opportunity to mentor his sons in the agency business is a great final chapter to another great success story in the independent agency system.

From Father to Sons

As Jeff slowly untangles himself from the roots of ownership, he looks forward to passing his expertise and management tips down to his sons. Watching his sons fill his shoes at his agency is more rewarding than he could have hoped. This is a testament to the legacy of the Jeff Evans Insurance Agency and the larger independent agency system.

From left to right: Carson Evans, Jeff Evans, Conner Evans

IAvaluations.

JEFF EVANS INSURANCE AGENCY, INC.

At IA Valuations, we hope to push the independent agent industry forward with thoughtful analysis and insight. We could not provide the insight we did today without the 270+ agencies who have used us for their business planning needs. IA Valuations hopes to partner with your agency so that together we can propel your agency and the entire industry forward.

For additional questions about this report or to learn more about the services we offer, please reach out at contact@iavaluations.com

IA valuations.

contact@iavaluations.com
www.iavaluations.com