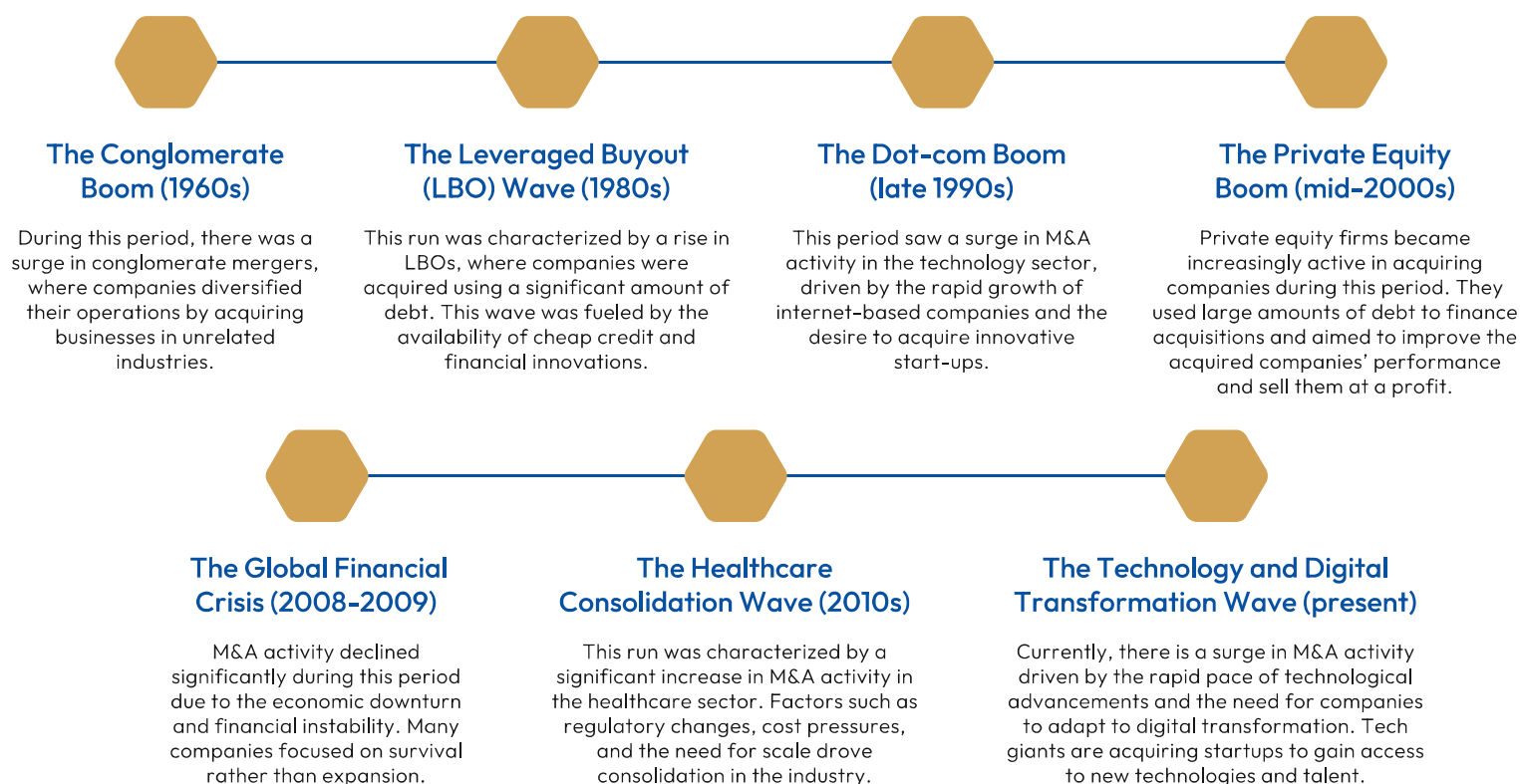


TELL-TALE SIGNS IT IS TIME TO SELL YOUR INSURANCE BUSINESS



As an insurance business owner, you may have reached a point where you are considering selling your business. Selling a business is not a decision to be taken lightly and requires a series of key considerations, including timing and maximizing value, profit potential, navigating the legal and regulatory process, and the emotional considerations.

From the Conglomerate Boom in the late 1960's to the Technology and Digital Transformation Wave of today, there have been seven historical runs of merger and acquisition (M&A) activity throughout modern history when significant increases took place. It is important to note that these runs were not mutually exclusive, and there may have been overlaps or variations in different regions and industries.



When we look at the history of M&A, a new period emerges representing the insurance industry and may be affectionately referenced as, **"The Great Alignment."**

For business owners within the insurance industry, marketing insurance products has been both extremely beneficial and, in recent years, challenging. Once fierce competitors vying for a piece of the same market share as individual insurance agent producers, Field Marketing Organizations (FMO) are now primarily aligned with large organizations backed by private equity groups to streamline resources, capital, and knowledge to increase market penetration and extend consumer outreach.

As an agency owner, the underlying question is how do you know when and if your company should consider selling? If you are considering selling, do you seek a merger or an acquisition? Do you maintain a controlling interest or merge 100% of your resources and assets into the new company? What is the valuation of your company and what will help pave your off-ramp from company owner to new adventure?

Though many of the same principles apply across most industries, selling your insurance business requires a slightly different approach.

Evaluating Your Book of Business

As a business owner, it can be difficult to know when the right time is to sell. However, there are certain signs that may help. In addition to understanding these signs, analyzing current market conditions, and understanding how to price your business for sale are important considerations to maximize profit potential.

The first key consideration you should make is determining if you are truly finished with your business, or if you are able to get a higher price if you agree to stay on for a few transitional years. Secondly, conduct due diligence to understand if there are any “gray areas” that might cause concern for a potential buyer. Unless you are Elon Musk, no one wants to purchase a company with ongoing problems or looming threats.



Make a big push the year or two prior to selling to increase your EBITA. Do not spend a lot on new employees and expenses before exploring a sale!

Lastly, take a closer look at your current earnings before interest, taxes, and amortization, or EBITA and conduct due diligence. This will give you unique insights into how your company compares to similar companies within your industry and can help you determine if you are ready to sell now, or if making a big push for the next year or two will increase EBITA and raise the overall valuation.

How EBITA is Different from Profit

Gross profit appears on a company's income statement and is the profit a company makes after subtracting the costs associated with making its products or providing its services. EBITDA is a measure of a company's profitability that shows earnings before interest, taxes, depreciation, and amortization. EBITA is generally higher than the profit margin. EBITA paints a picture for your buyer of the growth opportunities for your company.

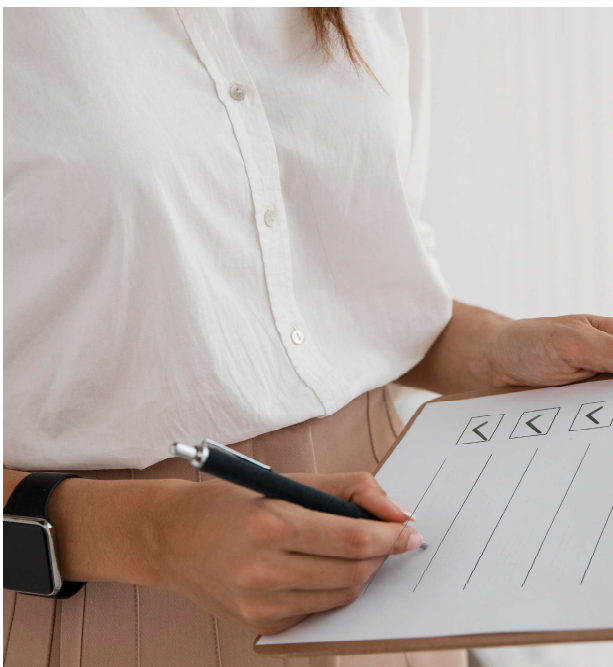
Valuing your company this way provides a more accurate measure of your company's true earning power vs. net income. Net Income includes the effects of your capital structure and tax situation.

Conduct Due Diligence

Due Diligence is the term for looking under the hood and kicking the tires of a company before buying it. A buyer and their legal and financial advisors will review all your contracts, records (such as meeting minutes of the board of directors and shareholders of your company or managers of your LLC). Have all these documents collected, complete, well-organized, and ready to go before approaching a buyer.

You cannot sell a mess for a competitive price! Your bookkeeping may have been ok for you, but it will not pass muster for a buyer. Start simplifying!

Analyzing current market conditions is an important factor when deciding whether it is time to sell your business. Evaluating demand for similar businesses in your sector can provide insight into what buyers may be willing to pay for, as well as what type of buyer may be interested in purchasing your company. It is also important to look at recent deals within similar industries, so you have an idea of what other companies are being valued at and how those prices compare with yours.



Due Diligence Checklist

- | | |
|---|--|
| ☒ Financial | ☒ Management |
| ☐ Legal | ☒ Strategic |
| ☒ Tax | ☒ Tech/IT |
| ☒ Risk | ☐ Human Resources |
| ☐ Operational | |

Getting the Best Value for Your Company

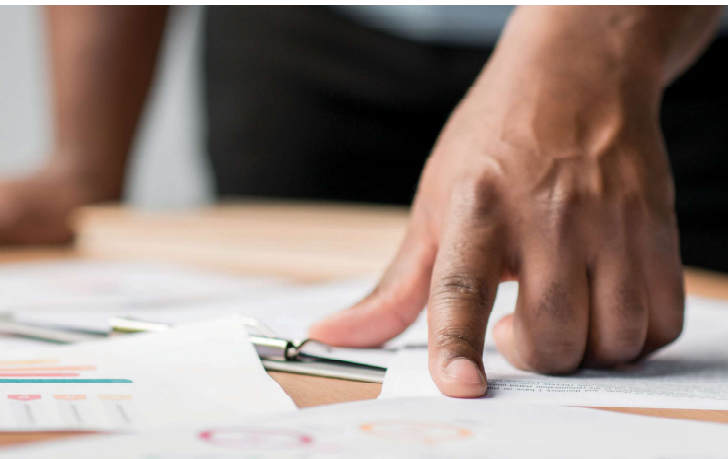
Start planning well in advance of a planned exit date.

The quicker you need to sell, the lower the price. If you can start a few years in advance, you have time to increase revenue and cut expenses. Many small businesses cover a significant portion of personal expenses through their company. Cars, boats, meals, vacations under the guise of meetings, etc. Stop that well in advance of a sale.



Navigating the legal and regulatory process

When selling an insurance business, several key legal and regulatory considerations must be addressed. The most important of these regulatory agencies is the Centers for Medicare and Medicaid Services (CMS). CMS plays a significant role in the sale of an insurance business if the business includes Medicare Advantage (MA) or Medicare Part D Prescription Drug Plans.



Considerations BEFORE You Look for a Buyer

- What financial, operational, legal, and emotional considerations you need to consider before selling your business.
- Are you truly finished with your business? Often you can get a higher price if you agree to stay on for a few transitional years.

Here Are Some Key Considerations to Address **When Preparing to Sell Your Insurance Business**

Change of Ownership (CHOW) Process

When selling an insurance business that offers MA or Part D plans, the seller and buyer must go through the CMS CHOW process. This process ensures that the buyer meets the requirements to assume responsibility for the MA or Part D contracts.

CMS Approval

The buyer must obtain CMS approval to assume the MA or Part D contracts. This involves applying to CMS, providing detailed information about the buyer's financial stability, operational capabilities, and compliance with CMS regulations.

Compliance with CMS Regulations

The buyer must demonstrate compliance with all CMS regulations, including those related to marketing, enrollment, claims processing, beneficiary protections, and quality improvement activities. CMS will assess the buyer's ability to meet these requirements during the approval process.

Transition of Beneficiaries

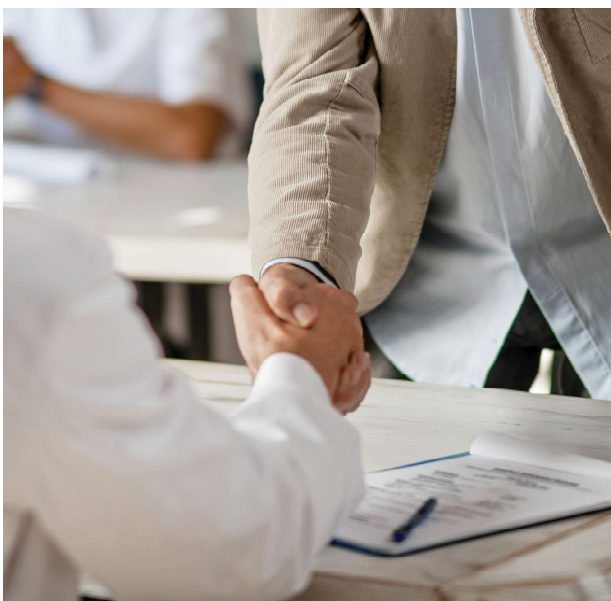
CMS requires a smooth transition of beneficiaries' coverage and benefits during the sale. Buyers must have a plan in place to ensure uninterrupted access to healthcare services and medications for beneficiaries.

Reporting and Notifications

The seller and buyer must notify CMS of the impending sale and provide relevant information about the transaction. This includes notifying CMS of the change in ownership, submitting required reports, and ensuring compliance with CMS reporting requirements throughout the sales process.

Compliance Audits

CMS may conduct audits to assess the buyer's compliance with CMS regulations and contractual obligations. These audits may occur during the approval process or after the sale is completed.



It is crucial to engage with CMS early in the sales process and work closely with legal and regulatory experts who have experience in navigating CMS requirements. This will help ensure a smooth transition and compliance with all CMS regulations associated with the sale of your insurance business.

Selling your business is a critical decision that requires careful consideration and evaluation. Ultimately, the decision to sell should be based on a thorough analysis of both internal and external factors, ensuring that it aligns with your long-term goals and maximizes the value of your business.