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MERGERS & ACQUISITIONS

# Newsletter

## Acquisitions for Agency Owners: Why a Deal May Fail to Close

As you consider selling your agency, there are several factors to keep top-of-mind to help ensure a successful transaction. Though rare, there are times when a deal is agreed upon, then subsequently cancelled or materially modified by the buyer.

Once you begin receiving offers, it is important to ask yourself the following questions to help determine whether the acquisition will actually close.

- Is the Letter of Intent clear?
- Does the buyer conducting their own due diligence?
- Does the buyer have cash?


### SUMMARY

Not all offers to buy your agency are the same. When you receive an offer, pay close attention to the quality and thoughtfulness of the Letter of Intent (LOI). If the LOI does not address key operational items and the assumptions made to develop the purchase price, the buyer may be more likely to modify their offer after due diligence. To help increase the chances of the deal closing as intended, ensure the due diligence process runs efficiently, be open and transparent throughout the process and ensure that the buyer you select has the cash on hand to fund the transaction.


## Is the Letter of Intent clear?

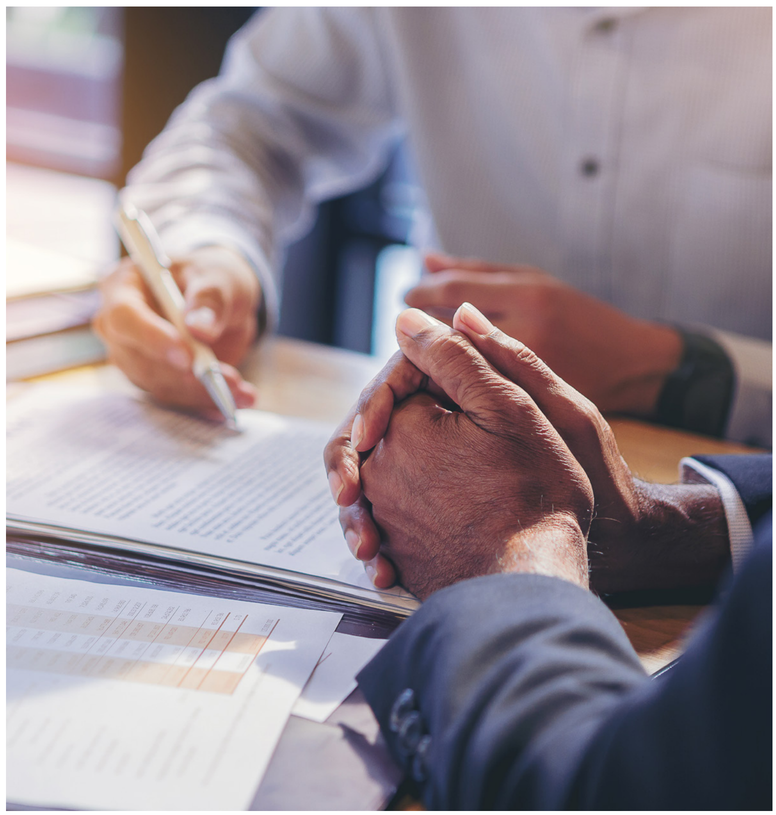
When determining a buyer, pay close attention to the LOI. It should address key operational items, such as whether the buyer will offer employment agreements for shareholder(s), which of your teammates will be hired in the acquisition, if there are any compensation changes for retained members of your team and the post-close reporting structure.

The LOI should also include the amount of Revenue and EBITDA the offer was based on and the key assumptions made to get to that EBITDA. It is important to look at these inclusions because some buyers base their original offer on an elevated EBITDA data point. During the due diligence process, they then try to add adjustments to decrease EBITDA and materially restructure the purchase price.

## Does the buyer conducting their own due diligence?

Every buyer will conduct some level of due diligence. If a buyer outsources most of their diligence to a third party, it may cause unnecessary delays and increase the risk that the deal will not close.

If a buyer performs diligence in-house, there is a higher likely hood that they have a thorough understanding of the insurance industry and are aligned with the acquisitions team that initiated the deal.



## Does the buyer have cash?

With interest rates rising and the tightening of capital markets, it is important to understand how the buyer is capitalized and if they have the cash on hand to fund the purchase price.  There were several potential acquisitions in the marketplace in 2022 that fell through due to a lack of buyer funding.

## What's the takeaway?

It is a big decision to sell your agency. Take the extra time to get to know your potential buyer and leverage these insights to ensure the transaction closes successfully and you find a great long-term home for your team.

**FOR MORE INFORMATION**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