

VALUE DRIVERS

Profitability

- Profit — The difference between a company's revenues and expenses
- EBITDA — Similar to profitability, but it removes the non-operational costs taxes, interest, depreciation, and amortization, removes no-recurring expenses or income, and includes reasonable owner compensation.
- These figures can either be expressed as a dollar amount, or as a percent of total revenue.

Growth

- Commission & Fee Income Growth — The percent increase in an agency's commission and fee revenue over a period of time, typically a year. This is the most appropriate measurement of revenue growth since it excludes miscellaneous income items (which are often inconsistent).
- Revenue growth — The percent increase in an agency's revenue over a period of time, typically a year. This is an appropriate measurement for agencies that have other income sources that are fairly consistent year-over-year and which the agency relies on.

Size

- Typically measured in terms of total commission & fee income, as this allows you to compare agencies without needing to consider its contingency income and miscellaneous income items (which may not be consistent).
- *Premium is not an appropriate metric for measuring an agency's size.

Type of Business

- Common categories of insurance include commercial, personal, crop, bond, and life & health.
- Typically, books of business that contain a large amount of commercial insurance are highly valuable, since the accounts are much larger than personal accounts, and therefore may not require as many service personnel. Personal insurance books that contain a large number of small accounts can be extremely costly to service.

Quality of Revenue

- The reliability, profitability, growth potential, and predictability of sales.
 - **Reliability** — Revenue should not be overly difficult to collect, and the client should be well-positioned to pay it (for example, banks try not to give exorbitantly high mortgages to people who are unlikely to be able to pay them).
 - **Profitability** — The amount of time, resources, and money dedicated to obtaining a client should be proportionate to the size of the account.
 - **Predictability** — Considers the retention of clients and revenue.

THE TRANSFERABILITY OF THE BOOK