

Looking to enhance the value of your  
agency in the current environment?

# Think differently to succeed.

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Thinking about enhancing the value of your title agency but not certain how the current economic environment will affect the value of your business? Wondering if it's still a good time to sell and who might buy? This whitepaper explores what factors to consider when looking to grow or deciding to sell your agency and the importance of strategic positioning to maximize value.

The last two years have seen unprecedented industry premium and, as a result, increased deal flow and higher purchase prices for agency owners. Industry statutory premium growth year-over-year was 21.7% in 2020 and 35.9% in 2021. That's compared to an average of 3.9% for the past six years. Company valuations have risen commensurately provided three-year financials are typically the basis for valuations. Moreover, the strong market performance increased the type of businesses considering acquisitions, from underwriters to private equity to real estate brokerages, tipping the supply-and-demand scales.

### However, the current economic environment is changing.

The federal reserve has aggressively raised interest rates to battle increasing inflation. In the first six months of 2022, the effective fund rate rose by more than two percentage points, which is the fastest increase in recent history. Forecasts assume the Fed will make additional rate hikes in 2023 before starting to moderate the pace of tightening. This clearly impacts the national mortgage rate and title premiums. The latest rate (February 2, 2023) at 6.09 percent – although down from 7.08 percent in November – represents the highest rates seen in 20 years. Based on this mortgage rate, the consumer has essentially lost more than \$120K of loan capacity to buy a home.

As a result, 2023 existing home sales forecast is expected to decline YoY ~18% and home prices are expected to drop 4% (average Fannie Mae and MBA January forecasts) or more, which suggests a challenging environment for title, declining premium revenue and a weakening M&A market.

#### Existing Home Sales Forecast

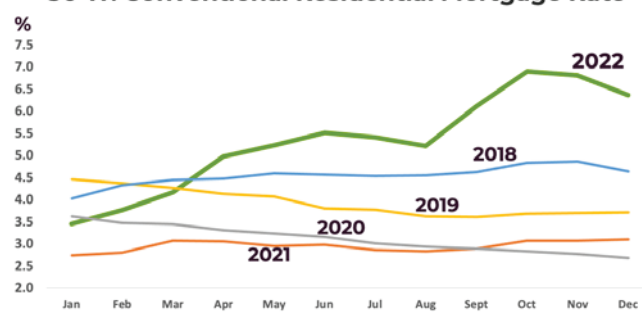
January 2023

Sales -- Thousands	Annual		
	2021	2022	2023
Fannie Mae	6,120	5,088	3,950
MBA	6,127	5,082	4,431
Average	6,124	5,085	4,191

#### Percent Change - Year-Over-Year

Fannie Mae	-16.9%	-22.4%
MBA	-17.1%	-12.8%
Average	-17.0%	-17.6%

#### 30 Yr. Conventional Residential Mortgage Rate



#### Existing Home Median Price Forecast

January 2023

Median Price -- \$ Thousands	2021	2022	2023
Fannie Mae	\$ 347.1	\$ 376.3	\$ 360.5
MBA	\$ 347.9	\$ 383.6	\$ 370.9
Average	\$ 347.5	\$ 379.9	\$ 365.7

#### Percent Change - Year-Over-Year

Fannie Mae	8.4%	-4.2%
MBA	10.3%	-3.3%
Average	9.3%	-3.8%





**However, despite the current economic condition, or because of it, many agency owners are looking to enhance the value of their agency.**

The aging ownership demographics and investment required to continue operating in the market is creating pressure on agencies to sell. The average age of a title agent is 46 and the typical owner is closer to 55 or 60. After two of the best years in the industry, many owners are looking to accelerate their retirement plans and sell the agency they've built over the years to a strong buyer. Moreover, because wire fraud has become a major risk, the investment required in cyber security and other operational capabilities such as increased automation in the "all-in-one" environment can be daunting, to say the least. As a result, many agency owners are looking for an exit strategy. Therefore, the M&A market may remain strong as title agency owners look to sell in hopes to cash out and avoid future operation costs, but margins are now more compressed. There are buyers, but they will be more discerning with valuations and need to have strong balance sheets themselves. Moreover, agency owners should seek out buyers who understand the service and nature of the business. It's important for an agency owner to position their agency strategically for a successful acquisition.

**Acquirers will be more discerning with valuations and need to have strong balance sheets themselves**

**When considering how to enhance the value of your agency, look beyond the numbers.**

At Stewart, we support title agency owners whether they are growing their own business or devising an exit strategy.

Whether one agency is acquiring another for growth or selling their own, market position and strategic considerations beyond the numbers can be applied to assess the attractiveness of the opportunity.

### **1. Business mix**

In today's market, it is important to consider the business mix of the agency. As refinancing business dwindles and is no longer a large component of premium results, a clear understanding of the portfolio's weighting between refinance and purchase is paramount. Additionally, based on the company strategy and diversification requirements, the mix of business between residential and commercial, purchase and refinance, may be valuable.

### **2. Geographic expansion and state specific presence**

Based on the acquiring company's geographic strategy, an agency in a particular state or region may be more attractive than another. Several attributes may increase the attractiveness of an agency, including proximity to the acquirer's current footprint, ability to expand footprint within an existing state or an entrance into a state with more attractive rates.

### **3. Growth trajectory**

With declining premium amid rising interest rates, an acquirer would be prudent to analyze the current order count and growth trajectory of a target agency. An agency looking to sell should demonstrate the ability to perform outside a refinance or purchase boom. Does the current pipeline support continued levels of premium revenue seen in the past two years?

### **4. Talent and second line management**

Well known is the title industry's talent challenge from both an aging and skill set perspective. Therefore, it's important that a seller have a strong management team behind them to support the business when they exit. There are a few instances where this is especially important:

- ▶ When an acquirer is considering geographic expansion and needs a management team to run the business without having to hire and replace the seller
- ▶ When the second line management holds strong local relationships
- ▶ When the acquirer has talent gaps that can be filled through the acquisition

An agency owner thinking of selling should consider its management team a significant part of the value brought to a potential acquirer.

### **5. Opportunity for continued growth**

There are several additional strategic attributes to consider when valuing a company for acquisition. It's increasingly important to consider the technology stack when evaluating an acquisition for both age and integration effectiveness. Will technology be a hindrance to growth or enhance connectivity for the customer and the acquiring agency? Leveraging relationships or joint ventures as a springboard for growth can also provide additional opportunity within the acquisition strategy. Plant access, cyber security preparedness and new operational capabilities can all be considered in company valuations.





## So how do you get the most value out of your agency? Think differently.

As the current economic environment changes, agencies must think differently whether positioning themselves for sale to maximize their value or buying another agency for growth. Agencies must think about the acquirer's motivations and strategically position their company for acquisition. How do you fit strategically?

Agencies looking to sell should consider their strengths and weaknesses relative to an acquisition. Ask the strategic questions:

- ▶ Have you invested in your management team?
- ▶ Is there someone to step in and lead the business for an out-of-state buyer looking for geographic expansion?
- ▶ Are you in a state with higher rates?
- ▶ Have you invested in operational or technical capabilities that would be attractive to a buyer?
- ▶ Do you have a diversified portfolio with a commercial segment to offset the residential downturn?
- ▶ Do you have growth plans on which a buyer can step in and execute?

Answering one or all these questions will help differentiate your title agency and showcase its value. Consider your own agency, your long-term plans, your agency's strategic value, and the rationale to grow or sell. Now may be the time!

### A well-run company with the right strategic fit is always a good buy, even in a challenging market.

#### Case Study: A valuation through two different lenses.

One of Stewart's trusted providers, whose business reflected time-tested performance, approached Stewart leadership for a loan to help finance an acquisition. As part of the Agency Expansion loan program, Stewart performed a financial valuation based on three-year financials and the credit strength of the trusted provider. Stewart extended an acquisition loan based on this "financial only" lens.

However, the target company understood the acquiring company's motives and applied a strategic lens on top of a financial calculation when negotiating their sales price. Strategically important to the acquirer was geographic expansion into a state with more attractive rates; in addition, the target company had a strong leadership team, several customers that also did business in the acquirer's original footprint and could be converted, and a strong technology stack. As a result, both the seller and the buyer understood there was strategic value in the target company and were willing to agree on a purchase price that went beyond a strict, conservative financial valuation.

**The seller strategically positioned the company for acquisition and the buyer recognized, and paid for, the strategic value.**

