



Fourth Quarter 2019
Allstate Agency Value Index



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Starting Fresh

With the recent change to agent compensation, which will result in new business commissions ranging from 9% to 24%, along with renewals being paid at no more than 9%, PPCLOAN is modifying the way we report sales multiples on Allstate agencies. With commission rates floating on a monthly basis, and no two agencies likely experiencing the exact same commission rate as a percentage of their Earned Premium over a full year, a change in calculating sales multiples is necessary and is outlined below:

What's changed:

THE NUMBERS:

Agency sales will now be reported as a factor of Earned Premium. Earned Premium will be the one constant in every agency that is sold, and will provide a level simplicity to the sales process:

- The old way – To calculate the price for a \$4 million earned premium agency selling for a 2.5 times multiple, or \$1 million, requires exactly a 10% commission on both new and renewal. The 2.5 times multiple applied to \$400,000 in commission income would result in a \$1 million purchase price.

With the new comp program, a \$4 million earned premium agency might have annual commission income ranging from \$360,000 to \$440,000. At a 2.5 times multiple this could be a sales price ranging from \$900,000 to as high as \$1.1 million and would represent an unnecessary layer of confusion to the buy/sell process.

- The new way – A \$4 million earned premium agency sells for .25 times factor, or \$1 million. Regardless of the underlying comp rate, you get one answer for your calculation with no room for confusion or error in calculation.

THE CHARTS:

In looking at recent agency sales trends, along with the average size of agencies transitioned and financed by PPCLOAN, now is the perfect time to

reorganize the way that our data is presented. We will now report the following information:

- Three NEW Size Groups based on Earned Premium - \$0 to \$2 million, \$2 million to \$4 Million and \$4 million and up
- Simple Average –The simple average of all agencies sold for both the quarter and the year will be reported
- Low / High –The high and low agency sales multiples for both the quarter and the year will be reported
- Average Earned Premium – NEW feature which will be reported on both a quarterly and annual basis

Allstate Agency Price to 12MM Earned Premium Ratio (National Average)						
	2018	2019	2019 1st QTR	2019 2nd QTR	2019 3rd QTR	2019 4th QTR
\$0 to \$2,000,000	0.226	0.216	0.146	0.231	0.231	0.224
\$2,000,001 to \$4,000,000	0.256	0.252	0.255	0.262	0.252	0.241
\$4,000,001 and up	0.299	0.274	0.261	0.309	0.260	0.251
Simple Average	0.261	0.253	0.244	0.277	0.252	0.241
Low	0.135	0.140	0.140	0.175	0.194	0.155
High	0.365	0.358	0.321	0.358	0.314	0.337
Average Earned Premium	\$3,202,644	\$3,638,959	\$3,403,666	\$3,806,293	\$3,198,151	\$4,031,964

Size Group Analysis – Earned Premium

\$0 to \$2,000,000:

Agencies of this size group had a good final quarter of the year. The average factor for this size group for 2019 was .216, however, the sales factor was .224 in the final quarter of 2019.

Ending the year strong was driven significantly by the fact that 50% of the agencies purchased in this size group were purchased so by an existing Allstate agency owner. It has been well documented over the years that existing agency owners have historically been willing to pay a higher multiple than outside buyers. This has primarily been linked to their enhanced purchasing power due to the equity and additional cash flow available from their existing book of business.

\$2,000,001 to \$4,000,000:

Agencies in this size group consistently sold for a factor right around .250 through out 2019. In fact, the simple average for this group in 2019 was .252 times.

Specifically looking at the last quarter of 2019, Allstate agencies in this size group transitioned for an earned premium factor of .241 times. Contributing to this slight dip in the fourth quarter was that only 11% of agency purchasers for this size group were existing agency owners. Additionally, there was an agency transitioned for less than .2 times, where the selling agent was deceased. As you are able, work to have a succession plan for your agency!

\$4,000,001 and up:

For the full year 2019, the average sales factor for the largest size group was very sold at .274 times earned premium. Unfortunately, the weakest quarter of the year was the final quarter of 2019, as agencies in this size group transitioned for just .251 times earned premium.

Contributing to this lower factor at year end include just 20% of agencies in this size group being purchased by existing agency owners, along with deals being renegotiated more favorably for the buyer due to the upcoming compensation changes.

New Jersey 2019 Values

PPCLOAN has been involved in quite a few New Jersey transactions in 2019; therefore, we have enough data to release these updated statistics for 2019. First, it is important to note that Allstate New Jersey is a separate company from Allstate Insurance, and that Agents have a compensation model which pays a base commission rate of 6.5% with an opportunity to make well over 10%.

Below is an overview of the characteristics of New Jersey Agencies PPCLOAN approved in 2019:

- Average 12 Month Moving Earned Premiums = \$3,624,734
- 12 Month Renewal Commission Income = \$363,380
- Average Commission Percentage = 10.03%
- Average Sales Price = \$763,143
- Sales Multiple of Renewal Commission Revenues = 2.10X

In general, New Jersey agencies are very profitable to the owner due primarily to large average customer premiums. The sales multiples in New Jersey are below what we see in the rest of the country, and this is primarily due to the wide range commission scale, which starts at a base compensation of 6.5%. The sales multiples in New Jersey clearly back the theory that guaranteed renewal income holds a greater value over contingent or transactional compensation.