

First Quarter 2016

Simple Average Drops as Supply of Agencies for Sale Increases

More agencies are hitting the market with individuals looking to retire from agency ownership or simply to exit the business. During the great run of premium growth over the past three years, many agency owners who might have been at retirement age held on to their businesses because growth was very attainable. Market conditions are different now, hence a larger supply of agencies for sale.

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR	2016 1st QTR
\$0 to \$100,000	N/A	N/A	1.48	1.26	1.86	1.53
\$100,001 to \$200,000	2.43	1.99	2.40	2.04	2.22	2.09
\$200,001 to \$300,000	2.54	2.45	2.50	2.71	2.39	2.47
\$300,001 and up	2.79	2.66	2.85	3.05	2.91	2.61
Simple Average	2.69	2.50	2.54	2.55	2.43	2.35
Low	1.94	1.69	1.34	1.26	1.68	0.81
High	3.52	3.35	4.31	3.66	3.31	3.01

Start-up agencies with no TPP now hitting the market for sale

The group hit hardest is those agencies with Earned Premium of \$1,000,000 or less. Values for this size group were 1.86 times in the last Quarter of 2015, and realized a drop to 1.53 times in the First Quarter of 2016. One single factor drove this decline, and it was the noticeable presence of agencies for sale with no TPP value. In January of 2013, Allstate Insurance unveiled a vesting period for start-up agencies. Agencies with no TPP are now hitting the market, as some of these post-2013 start-ups have not realized scalable growth. The market of buyers has certainly seen the purchase of an agency with no TPP, as a significant buying opportunity, as the average value for Agencies sold with no TPP in the First Quarter of 2016 was less than 1 times.

As the number of agency owners with no vested TPP value looking to sell their agency increases, it will be interesting to see how the market of approved buyers negotiates these purchases. Prior to 2013 (when Allstate adopted a vesting period for start-up agencies TPP value), many new agency owners who unsuccessfully pursued the start-up avenue were lucky to receive a TPP value as their book had little to no value due to cash flow tightness. Now it is up to the market of buyers to determine how they will pursue price negotiations for an agency that to the seller has no "buyer of last resort" value, which is what Allstate represents when a fully-vested TPP value is present.

CONTACT THE AUTHOR

Paul Clarke, President and CEO | (800) 456-2779 | paul@ppcloan.com

Largest sized agencies also see a dip in Value (\$3Million+ in Premium)

During the First Quarter of 2016, agencies with over \$3Million in Earned Premium decreased in value to 2.61 times from a previous value of 2.91 times in the Fourth Quarter of 2015. The only newsworthy point regarding this drop is that a handful of underperforming larger sized agencies sold at multiples just over 2.0 times which brought down this size group's average.

Percentage of Agency Sales by Size Group						
New/Renewal Commissions	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR	2016 1st QTR
\$0 to \$100,000	0%	0%	4%	5%	14%	9%
\$100,001 to \$200,000	3%	12%	22%	32%	31%	31%
\$200,001 to \$300,000	36%	41%	44%	27%	24%	24%
\$300,001 and up	61%	47%	30%	36%	31%	31%

The First Quarter of 2016 saw a large number of agencies with \$2Million to \$3Million in Premium sell (50%), with the largest sized group (agencies with \$3Million + in Premium) representing a recent low at just 23% of total agency sales.

Allstate Agency Value Ratios						
	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR	2016 1st QTR
Agency Price to New/Renewal Commissions	2.69	2.50	2.54	2.55	2.43	2.35
Agency Price to Total Revenues	2.32	2.19	2.21	2.24	2.14	2.06

For those Agency Owners residing in a state where a good portion of the homeowners insurance is written through a third party brokerage company (primarily coastal counties), looking at the multiple of revenues may be your best measuring stick for agency value as it takes into consideration both Allstate and brokered (i.e. non-Allstate) revenues. Certainly, the brokerage book is a reliable source of renewal income and has a level of value that is not presented in the traditional multiple applicable to Allstate commissions.

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