

Fourth Quarter 2018 Allstate Agency Value Index

Mergers Help Small Book Values

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR	2018 3rd QTR	2018 4th QTR
\$0 to \$100,000	1.18	1.60	1.43	N/A	2.07	2.18
\$100,001 to \$200,000	2.43	2.20	2.21	2.15	2.08	2.39
\$200,001 to \$300,000	2.45	2.29	2.35	2.41	2.35	2.49
\$300,001 and up	2.84	2.90	2.90	2.93	2.96	2.69
Simple Average	2.59	2.41	2.62	2.63	2.58	2.50
Low	1.18	1.6	1.35	1.6	1.82	1.84
High	3.51	3.62	3.26	3.65	3.13	3.21

Allstate Agencies in the two smallest size groups realized a nice bump in value during the final quarter of 2018 due in large part to the presence of merger activity. Provided below is commentary for each size group as to the factors that influenced this quarter's value:

\$0 to \$100,000 in New/Renewal Commission

All agencies financed in this size group by PPCLOAN in the fourth quarter of 2018 were part of a merger transaction. In 2017 and early 2018, the values of this size group struggled, realizing quarterly sales multiples of just 1.18, 1.60, and 1.43 times.

However, values increased in the 3rd Quarter of 2018 realizing an average multiple of 2.07 times. This trend was validated this quarter, as the average sales multiple hit 2.18 times this quarter. It will be interesting to watch how these sized agencies perform from a value perspective on a going forward basis, but the ability to merge smaller sized agencies appears to be a key component to healthy values for this size group.

\$100,000 to \$200,000 in New/Renewal Commission

The average sales multiple for this size group increased to 2.39 times this quarter, a significant increase after experiencing a 2.08 times multiple in the Third Quarter of 2018. Twenty-five percent

of the agencies in this size group were part of a merger transaction. It is also worth noting that all mergers were executed by an existing agency owner. The break down between merged agencies

ACQUISITION TYPE	SALES MULTIPLE
MERGER	2.71
MAINTAINED LOCATION	2.28

and those sold as a stand-alone location for this quarter are as follows:

Agencies in this size group are on an upward trend; however, the presence of merger opportunities drove these sized values to realize an increase of 15% over the last quarter. Given the mature nature of the buy / sell market for Allstate agencies, a 15% bump in a single quarter is a significant event. It will be interesting to watch how these sized agencies perform from a value perspective on a going forward basis.

\$200,000 to \$300,000 in New/Renewal Commission

Agencies in this size group realized a nice multiple increase from 2.35 times in the third quarter of 2018 to 2.49 times in the final quarter of 2018. This is extremely impressive as no agencies in this size group were sold as part of a merger transaction.

In fact, the 2.49 times sales multiple has not been realized for this size group since the 3rd quarter of 2016, when agencies between \$2million and \$3million in earned premium realized an average sales multiple of 2.54 times.

\$300,000+ in New/Renewal Commission

In a rare occurrence, agencies in the largest size group saw their average sales multiple drop below 2.70 times. This is the first such instance since the first quarter of 2016 when agencies in this size group realized a value of just 2.61. The driving factors for this drop in value can be summarized by the following:

- There was a single large sized agency that sold for a little more than TPP due to the termination of the seller.
- Three large sized agencies sold for less than 2.50X (a very rare occurrence for this size group)

In each of the first three quarters of the year this size group realized an average sales multiple of 2.90 or greater. There is no evidence to suspect this quarter's decrease is anything more than an anomaly. This quarter's value swing for large sized agencies demands we keep a close eye on their values as we move into 2019.

New Jersey 2018 Values

PPCLOAN has been involved in quite a few New Jersey transactions in 2018, therefore; we have enough data to release these updated statistics for 2018. 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 2018:

- Average 12 Month Moving Earned Premiums = \$5,076,957
- 12 Month Renewal Commission Income = \$517,850
- Average Commission Percentage = 10.2%
- Average Sales Price = \$1,072,500
- Sales Multiple of Renewal Commission Revenues = 2.07X

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.

Percentage of Agency Sales by Size Group						
	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR	2018 3rd QTR	2018 4th QTR
\$0 to \$100,000	4 %	4 %	11 %	0 %	5 %	4 %
\$100,001 to \$200,000	25 %	24 %	17 %	20 %	16 %	32 %
\$200,001 to \$300,000	21 %	44 %	11 %	28 %	32 %	36 %
\$300,001 and up	50 %	28 %	61 %	52 %	47 %	28 %

The Allstate buy/sell market in the fourth quarter of 2018 was dominated by agencies with over \$1 million in earned premium. Agencies with over \$1 million in earned premium represented 96%

of the agencies financed by PPCLOAN. The split between the three largest sized groups was very even, resulting in very reliable sales multiple results for each of these size groups.

Allstate Agency Value Ratios						
	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR	2018 3rd QTR	2018 4th QTR
Agency Price to New/Renewal Commissions	2.59	2.41	2.62	2.63	2.58	2.50
Agency Price to Total Revenues	2.35	2.22	2.40	2.35	2.21	2.34

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.