

Second Quarter 2018 Allstate Agency Value Index

Growth to Scale is Mandatory

Allstate agencies with over \$3 Million in earned premium continue to have a significant advantage over their smaller sized agency peers when it comes to value at the time of sale. This quarter, agencies with over \$3 Million in earned premium transitioned at an average sales multiple of just under 3.0 times, which compares very favorably to those agencies with under \$2 Million in earned premium, which sold for just over 2.0 times (see chart below).

Selling your business for a larger multiple is not the only advantage owners of larger sized Allstate agencies experience. Some of the advantages of being at scale (compared to owning a smaller sized agency) with regards to agency value and the ability to transition your business are as follow:

1. Ease of Selling:

Large Agencies – When an agency with over \$3 Million in earned premium hits the market to be sold, there is a line of both outside buyers and existing agents wanting to execute a purchase. The Seller typically receives multiple purchase offers to select from and the transition of the business will most likely happen in a reasonable time period at a value in step with the owner's expectations.

Small Agencies – Smaller sized agencies are harder for the seller to transition absent the opportunity for a buyer to merge two or more agencies together. Lack of cash flow creates hesitation for approved buyers looking to purchase smaller sized agencies, and this leads to a market saturation of smaller sized agencies being for sale for an extended period of time.

2. Merger Activities Effect on Value:

Large Agencies – The existence or absence of the ability to merge agencies has no effect on the value multiple for which larger sized agencies sell, as these books are already at scale and provide sufficient cash flow to the buyer.

Small Agencies – The value of smaller sized agencies is contingent upon the opportunity for an approved buyer to merge. This topic has been discussed at length in previous Allstate Agency Value Index reports. In fact, when mergers are seriously considered for

approval at the regional level, values of small agencies are up. When mergers are for the most part off the table, agency values struggle for smaller sized agencies.

3. Termination Payment Provision (TPP) Value Effect:

Large Agencies – TPP has shown to have no effect on larger sized agencies' final sales multiple. Agencies of this size transition for a multiple much larger than TPP, with PPCLOAN giving little to no consideration to the TPP value of a large sized agency during the loan approval process.

Small Agencies – TPP factors significantly in the value of smaller sized agencies, primarily those who do not have a fully vested TPP value (start-ups are subject to a 5-year vesting cliff). Not included in the AAVI (due to PPCLOAN not extending a financing offer) are many small sized agencies that had no vested TPP and sold for a sales multiple of between 0.5 and 1.0 times. PPCLOAN becomes aware of these situations due to our extensive participation in the lending market and our reputation as a good source of consultative advice. In all instances of a less than 1.0 times agency sale, the agency owner/seller either ran out of cash to operate their start-up business or did not pass the 6 & 63 series license within the allotted two year period. Both situations result in a distressed sale which often leads to a very low sales multiple received by the seller for those agencies with a non-vested TPP.

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR
\$0 to \$100,000	N/A	N/A	1.18	1.60	1.43	N/A
\$100,001 to \$200,000	2.21	2.09	2.43	2.20	2.21	2.15
\$200,001 to \$300,000	2.33	2.31	2.45	2.29	2.35	2.41
\$300,001 and up	2.82	2.71	2.84	2.90	2.90	2.93
Simple Average	2.61	2.39	2.59	2.41	2.62	2.63
Low	1.6	1.72	1.18	1.6	1.35	1.6
High	3.3	2.91	3.51	3.62	3.26	3.65

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

No agencies were financed in this size group by PPCLOAN in the Second Quarter of 2018.

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

The average sales multiple for this size group dropped to 2.15 times this quarter, after experiencing a 2.21 times multiple in the First Quarter of 2018. Smaller sized agencies have seen their values decrease since hitting a peak value of 2.45 times during the Third Quarter of 2017, during which time nearly 50% of agencies in this size group were part of a merger transaction. With less mergers occurring, it is to be expected that a drop in values was realized.

\$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 first quarter of 2018 to 2.41 times in the second quarter of 2018. One agency in this size group was sold as part of a merger transaction at a multiple of 2.7 times, and was a solid contributor to the increased value realized this quarter for this size group. History supports the statement that agency values will increase or hold strong when the opportunity to execute a merger transaction is on the table.

\$300,000+ in New/Renewal Commission

In the Fourth Quarter of 2017, Allstate agencies in this size group realized an eight-quarter high, trading at an average sales multiple of 2.90 (this was matched in the First Quarter of 2018). This quarter, the largest-sized agency group not only validated this result, but increased to an average sales multiple of 2.93 for the second quarter of the year. Existing agency owners contributed to this increase, as they paid on average a sales multiple of 3.33 for books with over \$3 Million in earned premium, while outside buyers paid an average sales multiple of 2.86 times.

Percentage of Agency Sales by Size Group						
	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR
\$0 to \$100,000	0 %	0 %	4 %	4 %	11 %	0 %
\$100,001 to \$200,000	17 %	21 %	25 %	24 %	17 %	20 %
\$200,001 to \$300,000	22 %	47 %	21 %	44 %	11 %	28 %
\$300,001 and up	61 %	32 %	50 %	28 %	61 %	52 %

The Allstate buy/sell market in the Second Quarter of 2018 was dominated by agencies with over \$2 million in earned premium. Agencies with between \$2 million and \$3 million in earned premium represented 28% of the agencies financed by PPCLOAN, while agencies with over \$3 million in earned premium represented 52% of agencies sold.

Allstate Agency Value Ratios						
	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR	2018 2nd QTR
Agency Price to New/Renewal Commissions	2.61	2.39	2.59	2.41	2.62	2.63
Agency Price to Total Revenues	2.35	2.18	2.35	2.22	2.40	2.35

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.