

# Second Quarter 2019 Allstate Agency Value Index

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## Values Increase for All Size Groups!

More than 25% of Allstate agency purchases financed by PPCLOAN in the second quarter of 2019 were either part of a merger transaction or an acquisition by an existing Allstate agency owner. In fact, the Second Quarter of 2019 marks the first time in over a year that PPCLOAN financed each of the following transaction types in a single quarter:

- Acquisition of an established agency by an Outside Buyer
- Acquisition of a satellite by an Existing Agency Owner
- Merger of two or more agencies by an Outside Buyer into a single location
- Merger of at least one agency into an Existing Agency Owner's current location

<b>Allstate Agency Price to New/Renewal Commissions Ratio (National Average)</b>						
	2018 1st QTR	2018 2nd QTR	2018 3rd QTR	2018 4th QTR	2019 1st QTR	2019 2nd QTR
<b>\$0 to \$100,000</b>	1.43	N/A	2.07	2.18	N/A	2.17
<b>\$100,001 to \$200,000</b>	2.21	2.15	2.08	2.39	1.46	2.35
<b>\$200,001 to \$300,000</b>	2.35	2.41	2.35	2.49	2.47	2.57
<b>\$300,001 and up</b>	2.90	2.93	2.96	2.69	2.64	2.98
<b>Simple Average</b>	2.62	2.63	2.58	2.50	2.44	2.77
<b>Low</b>	1.35	1.6	1.82	1.84	1.4	1.75
<b>High</b>	3.26	3.65	3.13	3.21	3.21	3.58

Clearly, a market that allows both existing agency owners and outside buyers to make purchase offers for both large and small sized agencies for the purpose of either a stand-alone location or a merger bodes well for Allstate agency values.

Entrepreneurs considering Allstate Insurance agency ownership will find different aspects of ownership that get them excited about joining the company as an agent. Some will be very satisfied with pursuing a scratch start-up or even purchasing a smaller sized agency that qualifies for ECP. Some of the best

outside buyer candidates, who would look to transition to Allstate after accomplished careers in another field, often prefer the prospect of purchasing a larger sized agency – one that is already cash flowing at a level that meets their needs.

When specifically addressing those entrepreneurs who want to join Allstate Insurance and immediately have ownership of a large amount of renewal commission dollars (say \$300,000 or greater), having the option to either buy a larger established agency, or purchase and merge two agencies to get to their desired cash flow level gives Allstate Insurance the best opportunity to secure elite talent. This quarter drives the point home as buyers have stated loud and clear that they will pay a little more if they can get what they want. This has always been the appeal of Allstate over other agent-based carriers like State Farm. Allstate Insurance lets you as the buyer negotiate your deal, select your location, and manage your business to your specifications – none of which are available with other carriers.

With many Allstate designated regions allowing for more opportunities to join the ranks as an Allstate agency owner (mergers, satellites, start-ups, ECP purchases and established agency purchases), values were certain to go up, as buyers can see the value in pulling off a strategic purchase that they believe gives them the best chance to succeed.

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

All agencies financed in this size group by PPCLOAN in the second quarter of 2019 were part of a merger transaction.

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

On the surface, the ECP program fully applying to those agencies with less than \$1.5 Million in earned premium appears to be making these sized books a more attractive purchase option than they have been in the past.

Additionally, one-third of the agencies in this size group transitioned this quarter were sold to an existing Allstate agency owner. The inclusion of existing Allstate agency owners as part of the approved purchaser group was a significant factor in this quarter's growth in value.

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

It has been a long time since Allstate agencies with \$2 Million to \$3 Million in earned premium realized an average sales multiple of 2.57 times as they did this quarter. In fact, the last time this mark was achieved was back in the 3<sup>rd</sup> Quarter of 2015, when agencies in this size group realized an average sale multiple of 2.71 times.

Good news for this size group is that all of the purchases this quarter were consummated by outside buyers. This is certainly a testament to not only the quality of the individual agencies that were sold specifically in this quarter, but also to the cash flow that all agencies in this size group afford to their purchaser.

### **\$300,000+ in New/Renewal Commission**

After a decrease in value the last two quarters, it is no surprise that the largest size group would realize an increase in value deeper into 2019. In fact, the 2.98 times multiple realized this quarter is the highest value this size group has experienced since a 3.05 times sale multiple was realized in the 3<sup>rd</sup> quarter of 2015.

The value increase realized this quarter can be attributed to:

1. Merger – It was a rare occurrence; however, this quarter an existing agency owner was able to purchase and merge an agency with over \$3 million in earned premium. This sale was a contributing factor to the increase value this size group experienced.
2. Existing Agent Buyers – It is no secret that existing agents, have historically made aggressive purchase offers when approved to purchase a satellite location. This quarter was no different, and existing agents were instrumental in driving the increase in this size group’s value.

<b>Percentage of Agency Sales by Size Group</b>						
	<b>2018 1st QTR</b>	<b>2018 2nd QTR</b>	<b>2018 3rd QTR</b>	<b>2018 4th QTR</b>	<b>2019 1st QTR</b>	<b>2019 2nd QTR</b>
<b>\$0 to \$100,000</b>	11 %	0 %	5 %	4 %	0 %	4 %
<b>\$100,001 to \$200,000</b>	17 %	20 %	16 %	32 %	11 %	13 %
<b>\$200,001 to \$300,000</b>	11 %	28 %	32 %	36 %	33 %	25 %
<b>\$300,001 and up</b>	61 %	52 %	47 %	28 %	56 %	58 %

The Allstate buy/sell market in the second quarter of 2019 was dominated by agencies with over \$2 million in earned premium. These represented 83% of the agencies financed by PPCLOAN.

Allstate Agency Value Ratios						
	2018 1st QTR	2018 2nd QTR	2018 3rd QTR	2018 4th QTR	2019 1st QTR	2019 2nd QTR
<b>Agency Price to New/Renewal Commissions</b>	2.62	2.63	2.58	2.50	2.44	2.77
<b>Agency Price to Total Revenues</b>	2.40	2.35	2.21	2.34	2.16	2.45

For those agency owners residing in a state where a good portion of the homeowner's 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.