Allstate Agency Value Index
Fourth Quarter 2010

As noted in the Third Quarter 2010 Allstate Agency Value Index Report, trends in the US Economy left analysts guardedly optimistic. Now that 2010 is complete, the year in review reveals a strong finish in the fourth quarter of 2010. Tax rates were not increased on any American and the Dow Jones and S&P 500 both finished the year with greater than 10% growth. However, there is still work to be done as we continue dealing with what appears to be a "jobless recovery" matched with historic levels of national debt.

Allstate Agency Values – Continued Stabilization

The Fourth Quarter 2010 Allstate Agency Value Index has resulted in little change to the value of Allstate Agencies — as very little changed during this period. Outside buyers continue to dominate the purchaser pool, and all 14 Allstate designated regions remained consistent in their policy and approach to transitions.

Regions that have been aggressively approving the purchase and merger of multiple agencies throughout the first three quarters of 2010 continued to do so in the fourth quarter. Likewise, those regions with a more conservative approach to agency transitions did not change their strategy as 2010 concluded.

Allstate Agency Price to Renewal Commissions Ratio (National Average)

	2006	2007	2008	2009	2010	1st QTR 2010	2nd QTR 2010	3rd QTR 2010	4th QTR 2010
$0 to $100,000	2.17	2.37	2.32	2.14	2.07	1.94	2.0	2.22	1.94
$100,001 to $200,000	2.65	2.65	2.41	2.35	2.29	2.29	2.27	2.26	2.33
$200,001 to $300,000	2.81	2.92	2.74	2.50	2.49	2.52	2.47	2.50	2.49
$300,001 and up	2.93	3.01	3.13	2.78	2.79	2.91	2.80	2.74	2.76
Simple Average	2.83	2.96	2.71	2.46	2.41	2.39	2.37	2.43	2.41
Weighted Average	2.64	2.74	2.65	2.44	2.41	2.41	2.39	2.43	2.38

Agency Analysis by Size Group

$0 to $100,000 in Renewal Commissions

Agencies in this size group realized a sharp fourth quarter drop from 2.22 times to 1.94 times renewal commission income. There was also a decrease in the number of merger transactions involving smaller agencies. In some instances, outside buyers were given the opportunity of purchasing and merging books of a larger class size — an additional factor explaining the drop in agency values.

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As noted in prior reports, buyers who had the opportunity to merge their newly acquired agency into their existing location experienced significant improvement in cash flow, as a result of the elimination of duplicative costs. They were also willing to pay more for an agency that would be purchased and merged than they were for an agency that would be purchased and maintained as a satellite location.

Clearly the prospects for improved value multiples for Allstate agencies in this size range in 2011 is highly dependent upon the agency transition policy/strategy of the Allstate regions with regard to mergers. Robust merger activity will result in increased values while continued curbs on merger activities will likely result in flat to downward trending multiples.

$100,000 to $200,000 in Renewal Commissions

It seems prices for this size group stabilized, as agencies experienced an increase in value multiple during the fourth quarter and ended on a year high. The stronger showing in this size group, relative to that of the $100,000 and under group, reflects continued buyer preference for larger agencies, and a slightly larger volume of acquisition/merger transactions.

$200,000 to $300,000 in Renewal Commissions

As seen in previous releases of the Value Index, Agencies with $200,000 to $300,000 in renewal commission income tend to gravitate towards an average value of 2.50 times renewal commission income. The fourth quarter of 2010 continues to support this trend. The significant increase in the value multiple paid for Allstate agencies of this size and larger, relative to that paid for those in the two, prior, smaller size groups, is chiefly a product of the fact that Allstate agencies in this class size and larger offer buyers cash flow, after operating costs, buyers living wage needs and acquisition debt service, available to be invested toward organic growth initiatives.

$300,000+ in Renewal Commissions

Agency values in this size group continued to hold strong at approximately 2.75 times renewal commission income. The fourth quarter brought an end to the negative trend this size group realized over the previous two quarters.

The current value for larger agencies seems to be very stable, as the buying pool was relatively limited to outside buyers in 2010. Should the buyer pool expand in 2011 to include more existing agency owners, this should further stabilize or even increase the values for which larger Allstate agencies are sold in the future.

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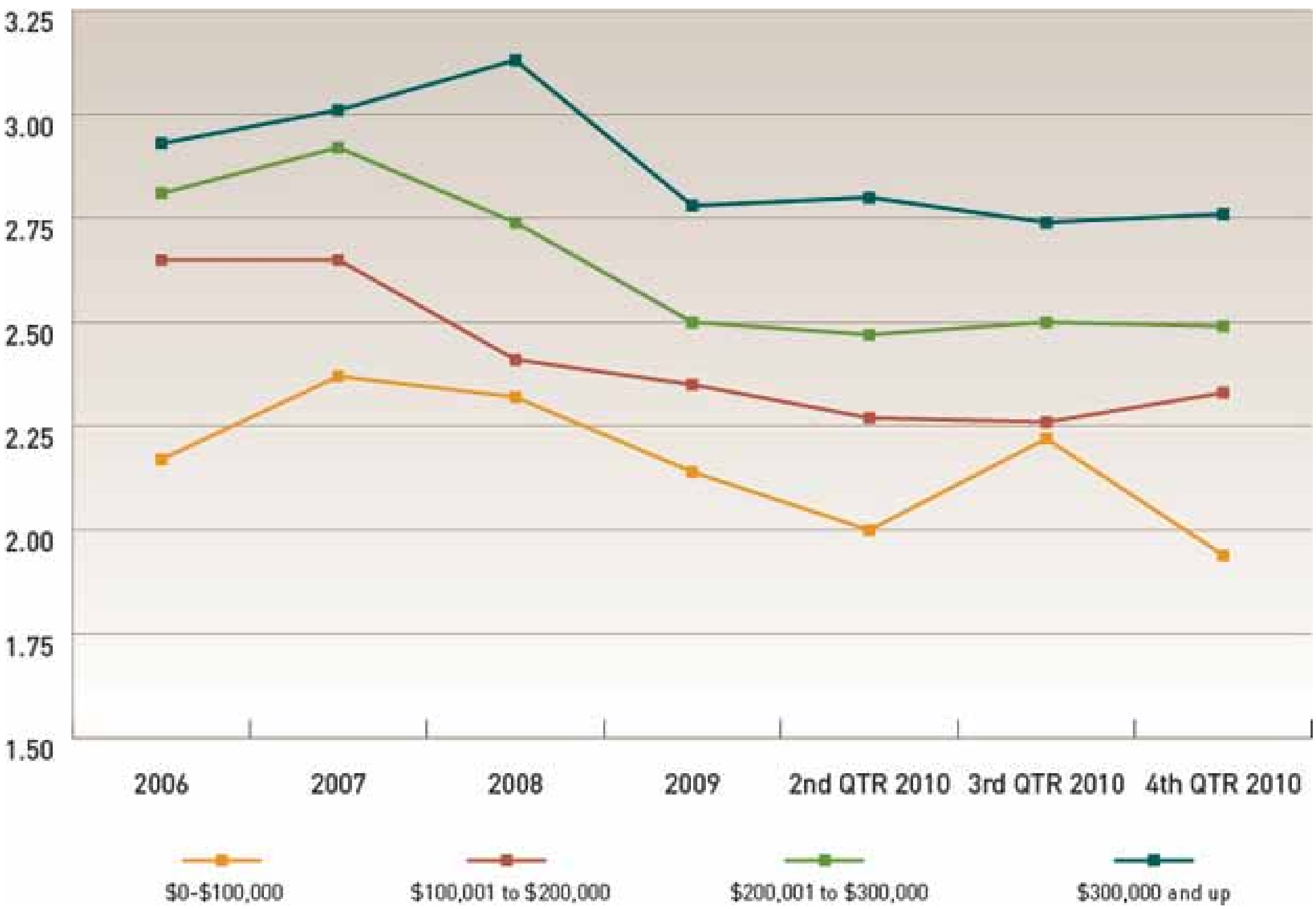

Allstate Agency Value Ratios												
	2008				2009				2010			
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
AGENCY PRICE TO RENEWAL COMMISSIONS	2.95	2.74	2.75	2.49	2.65	2.50	2.42	2.37	2.39	2.37	2.43	2.41
AGENCY PRICE TO TOTAL REVENUES	2.38	2.39	2.35	2.18	2.28	2.22	2.17	2.17	2.08	2.09	2.13	2.09

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Editorial – From the desk of Paul Clarke

Since developing the Allstate Agency Value Index several years ago, and having helped purchase over 800 Allstate agencies since 2000, I would like to share some learned insight with you, the Allstate agents and the executives and management of Allstate Insurance Company. As always, I welcome your opinion.

Thanks,

Paul Clarke
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A Shepherd Must Protect His Flock

All will agree that a hammer is a physical tool, and virtually all could quickly express its intended purpose.

In most business acquisition transactions two critical tools brought to bear are the non-compete and non-solicit covenants, which are contained within the purchase agreement. The purpose of this tool is to clearly express the intention of the seller and refrain from reentering that line of business in a way or place, which might damage its value.

Now, some lose sight of the primary purpose of this tool as they get lost in the degree, duration or extent that the non-compete and non-solicit is to be upheld. Essentially, that is the same as losing sight of the purpose of hammer due to a debate over how hard of a blow is required in a particular instance. For purposes of this discussion, the question on the table is, "Is the non-compete and non-solicit tool necessary in the sale of an Allstate Agency?" Again, the question is not to what degree of force it should be applied (i.e. 1 mile vs. 5 mile restriction or 1 year vs. 5 year duration) as the nuances of each job dictates the force required, just as every tool requires varying degrees of force depending on the job at hand.

PPCLOAN has provided financing for over 800 Allstate Agencies since 2000. In fact, given that the majority of the loans provided for the acquisition of these agencies have been for 90% or more of the purchase price, one could argue that PPCLOAN has made a decision to, and then executed on, the purchase of over 800 Allstate Agencies over the last 11 years. Taking that theoretical view of each of those transactions, our virtual partner in each has been the buyer.

A key role we have played in each Allstate agency acquisition, in which we have provided financing, has been to review the various legal contracts that are necessary in memorializing the various terms, agreements and representations surrounding the sale of the agency. In that capacity, I must say that I have found it amazing to have observed the surprisingly large number of attorneys, some for the buyer and some for the seller, that seemed to not understand the difference between a non-compete and a non-solicit agreement. (You can only imagine the mess that is our experience in deals where there are no attorneys involved).

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Non-solicit and non-compete are two separate but very important and necessary provisions or covenants contained within a business purchase agreement. The non-solicit prevents the seller from soliciting purchased clients or employees for a set period of time, and the non-compete prohibits the seller from setting up shop in the same or similar line of business within a certain radius or period of time as the agency being sold/purchased.

Well that covers it, but the reader may be wondering what has motivated me to spend time on this subject? It stems from the seemingly increased occurrence of Allstate agents who are making the decision to stay in the insurance business after the sale of their agency. A well-crafted non-compete covenant will go a long way in protecting a buyer, however, one could argue that the real protection for an agency purchaser comes in the form of a non-solicit covenant.

Yes, I know Allstate Insurance Companies R3001 contract stipulates a 1 year, 1 mile non-compete with its agents, however, one could assume Allstate Insurance chose this short term and small radius to ensure in front of a jury of peers that a big corporation is not trying to take advantage of poor old Joe Agent who is just trying to make a living.

So what's the deal? There are more and more sellers who say they are "retiring and moving out of state," however, when it comes to negotiating non-compete terms they are not as flexible as someone moving out of state would seem to be. As an agency purchaser or seller, where do you stand on this issue?

I think non-compete and non-solicit terms between a buyer and a seller in their private purchase agreement should be more stringent than those outlined by Allstate Insurance Company in their R3001 agreement (specifically the 1 year / 1 mile provision). My opinion stems from:

1. A purchaser is paying a premium over the TPP value (the max value Allstate Insurance is willing to pay for the agency) resulting in the purchaser needing a greater level of protection, as there is a greater level of investment risk on the line.

2. It's just the right thing to do. When you sell your business to another human being, you should transition that business in good faith and genuine hope that your purchaser realizes all the success that you realized when you owned the agency. To do any less is borderline criminal and reeks of faulty character. If competing against the business you sold is your way of "getting back at Allstate", you are sorely mistaken. The damage you do does not even register as a blow against Allstate, but can cause serious damage to your buyer who is simply trying to make a living to provide for his or her family.

3. Simply stated, an agency purchaser does not have the means to pursue a lawsuit to the severity that Allstate Insurance does. Should Allstate decide to make an example out of a seller for violating a covenant, they can make this happen without putting a dent in the old wallet.

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