

## Allstate Agency Value Index Second Quarter 2011 Report

### Mergers Abound

The debt ceiling is currently being negotiated by Congress with an August 2nd deadline, the stock market is coming off a relatively flat Second Quarter, and Greece is still working to finalize a bailout plan. Change is in the air, and that includes Allstate Insurance. Rumors of changes to the current compensation plan for Allstate Agents is all the buzz and Agency Values have moved significantly in the Second Quarter of 2011.

Why this move in agency values? One could look to the below excerpt from the Third Quarter 2010 AAVI Report which tells the story we seem to be currently living:

*“It does appear that the increase in value of smaller agencies may be affecting the value of larger agencies, as more Outside Buyers are opting to purchase and merge multiple smaller agencies instead of purchasing an existing large agency. With the option in some regions to purchase and merge multiple smaller Agencies, Outside Buyers are essentially picking up a larger Allstate Agency on the cheap. Sellers of larger agencies now have competition from not only other large agency sellers, but also two or three small agencies that might be geographically appropriate for a merger.”*

The increase in allowed mergers of small to medium sized agencies during the Second Quarter of 2011 has significantly increased the supply of available agencies with Renewal Commissions of \$300,000+. Simple supply and demand economics tells us that an increase in supply will drive down price. The most affected agencies are those with Renewal Commissions of \$300,000 or greater, which realized a decrease in value from 2.73 times to 2.53 times over the last quarter. It will be interesting to watch where larger sized agency values trend in the future. One could speculate that these larger agencies are primed for an increase in value in the near future as the current robust market for agency mergers is not sustainable over the long term.

The numbers don't lie:

- 100% of agencies transitioned with renewal commissions of \$100,000 or less were part of a merger transaction.
- 96% of agencies transitioned with renewal commissions between \$100,000 and \$200,000 were part of a merger transaction.
- 50% of agencies with renewal commissions between \$200,000 and \$300,000 were part of a merger transaction.
- 18% of agencies transitioned with over \$300,000 in renewal commissions were part of a merger transaction.

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Keep in mind that the numbers above only include Allstate agency acquisition transactions that PPCLOAN was involved with from a financing standpoint. Although not inclusive of all agencies transitioned during this quarter, the effect on agency values from Allstate's expanded allowance of merger transactions is very apparent. We have certainly moved a long way from agency mergers being limited strictly to those with an earned premium of \$800,000 or less. These developments show Allstate's commitment to allowing agencies to grow to Ideal Size via means outside of organic growth.

Allstate Agency Price to Renewal Commissions Ratio (National Average)							
	2009	2010 1st QTR	2010 2nd QTR	2010 3rd QTR	2010 4th QTR	2011 1st QTR	2011 2nd QTR
\$0 to \$100,000	2.14	1.94	2.0	2.22	1.94	1.78	1.99
\$100,001 to \$200,000	2.35	2.29	2.27	2.26	2.33	2.36	2.37
\$200,001 to \$300,000	2.50	2.52	2.47	2.50	2.49	2.49	2.41
\$300,001 and up	2.78	2.91	2.80	2.74	2.76	2.73	2.53
Simple Average	2.46	2.39	2.37	2.43	2.41	2.47	2.33
Weighted Average	2.44	2.41	2.39	2.43	2.38	2.34	2.33

## Agency Analysis by Size Group

### \$0 to \$100,000 in Renewal Commissions

As mentioned above, 100% of these agencies were part of a merger transaction, which likely served as the driving force behind increasing values relative to the first quarter of 2011. A healthy mix of existing agents and Outside Buyers were able to participate in purchasing and merging agencies in this group.

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

96% of the agencies in this group were part of a merger transaction for either an existing agent or an Outside Buyer. Although slight, these agencies continue to experience an increase in value, which can be directly attributed to the growing number of allowed merger transactions. Historically, the majority of agencies transitioned as part of a merger transaction was limited to the smallest agencies. Recently, however, agencies in this size group have been part of merger transactions.

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

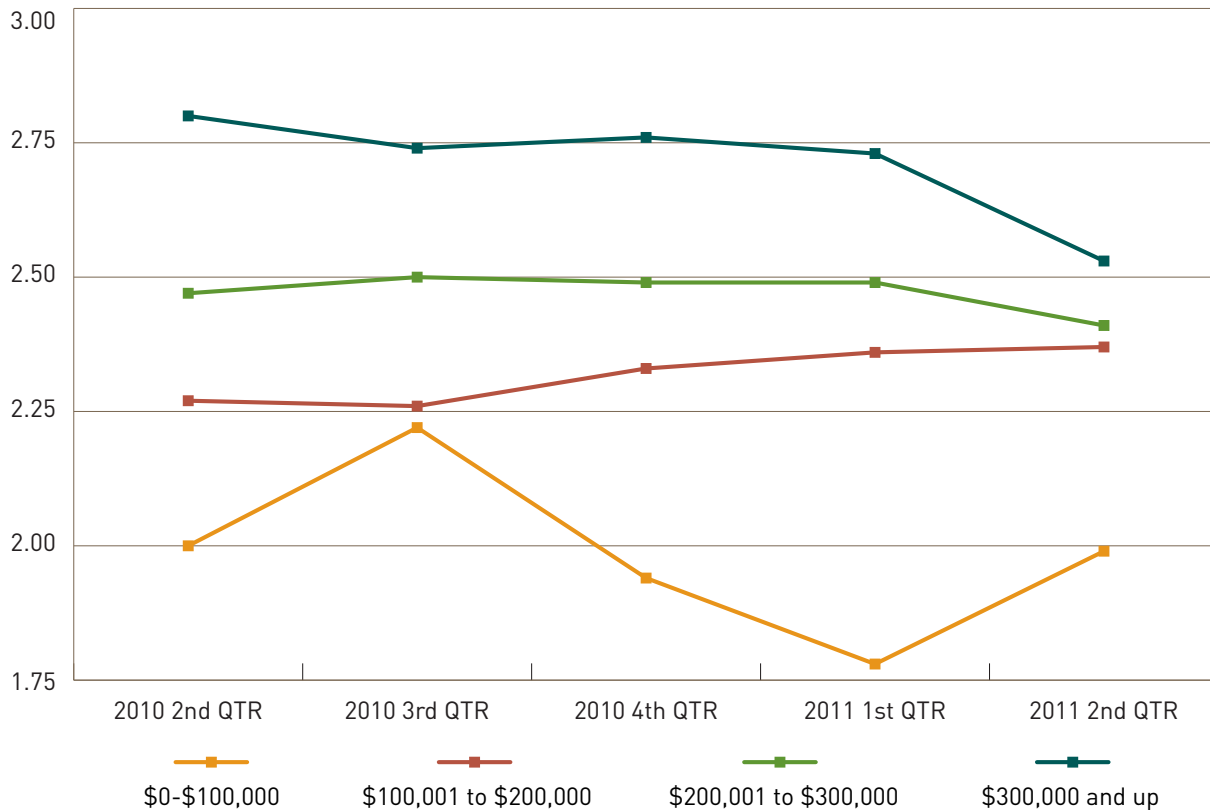
50% of the agencies transitioned in this size group were part of a merger transaction, with the majority going to an Outside Buyer who was also merging in another smaller agency. For the first time in quite a while, this group experienced its first negative movement away from a 2.50 multiple. It will be interesting to see where the values of these agencies trend in the future.

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### \$300,000+ in Renewal Commission

As mentioned above, this size group continues to compete against not only other larger agencies, but against two to three smaller agencies, which can be merged at the time of sale. Since buyers have a preference for larger agencies, this group remains the most valuable. Only time will tell if the current dip in value is the new reality for larger agency owners, or if it's attributable to the recent increase in supply of larger agencies due to robust merger activity, with a correction on the horizon.



Allstate Agency Value Ratios							
	2009 4th QTR	2010 1st QTR	2010 2nd QTR	2010 3rd QTR	2010 4th QTR	2011 1st QTR	2011 2nd QTR
Agency Price to Renewal Commissions	2.37	2.39	2.37	2.43	2.41	2.47	2.33
Agency Price to Total Revenues	2.17	2.08	2.09	2.13	2.09	2.18	2.05

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