

Second Quarter 2012

In the First Quarter 2012 Allstate Agency Value Index report, it was predicted that agency values would stabilize in 2012 and possibly see some level of growth as the year progressed. Now that the Second Quarter of 2012 is complete, it can be stated with some degree of certainty that agency values have stabilized.

The simple average multiple of 2.30 times renewal commissions realized in the First Quarter of 2012 increased to 2.32 times in the Second Quarter of the year, but within the various agency size groups (analyzed below), there was very little movement in agency values.

The groundwork has been laid for agency values to continue to maintain their current values or even increase for the rest of 2012. Variable compensation in its current form (9% base with relatively easy hurdles to get back to 10%) has been identified as an opportunity with minimal downside risk. Furthermore, the National Forum in Las Vegas was a successful meeting, and those agents who stopped by the PPCLOAN vendor booth overwhelmingly shared feelings of excitement for the future - especially with regards to the comments and initiatives shared by Matt Winter.

Agency Analysis by Size Group

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

Despite the overall reduced amount of merger transactions occurring in 2012 relative to 2010 and 2011, the majority of agencies in this size group were part of a merger transaction. The allowance of a merger serves to ensure that agencies of this size group realize only a minimal decrease in value from 1.87 times during the First Quarter of 2012, to 1.84 times during the current quarter.

It will be interesting to watch what happens to the value of these agencies throughout 2012.

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

Surprisingly, mergers of these sized agencies continued at a fairly significant pace, as the majority of agencies with between \$100,000 and \$200,000 in new/renewal commission were part of a merger acquisition during the Second Quarter of 2012. This certainly was a major factor in these agencies seeing a jump in value from 2.20 times in the First Quarter of 2012 to 2.27 times in the Second Quarter.

CONTACT THE AUTHOR

Paul Clarke, Executive VP and COO | (800) 456-2779 | paul@ppcloan.com

The future availability to merge agencies of this size will likely continue to be the leading factor in determining the value of these sized agencies. As a standalone business, buyers of these sized agencies will likely see a business that needs to grow for the cash flow to work in their favor, especially if a hefty debt load is required to consummate the purchase.

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

Agencies ranging from \$200,000 to \$300,000 in new/renewal commission have been the most steady of all size groups, consistently maintaining a value multiple of 2.40 to 2.50 times over the past two years. This trend continues into the Second Quarter of 2012 with the multiple of renewal commissions for which agencies were sold coming in at 2.40 times.

It seems that at this size or larger the level of cash flow available to cover agency overhead, the new owner's wage needs and service agency acquisition debt is sufficient to maintain a strong base of interested buyers irrespective of the availability of merger/acquisition opportunities.

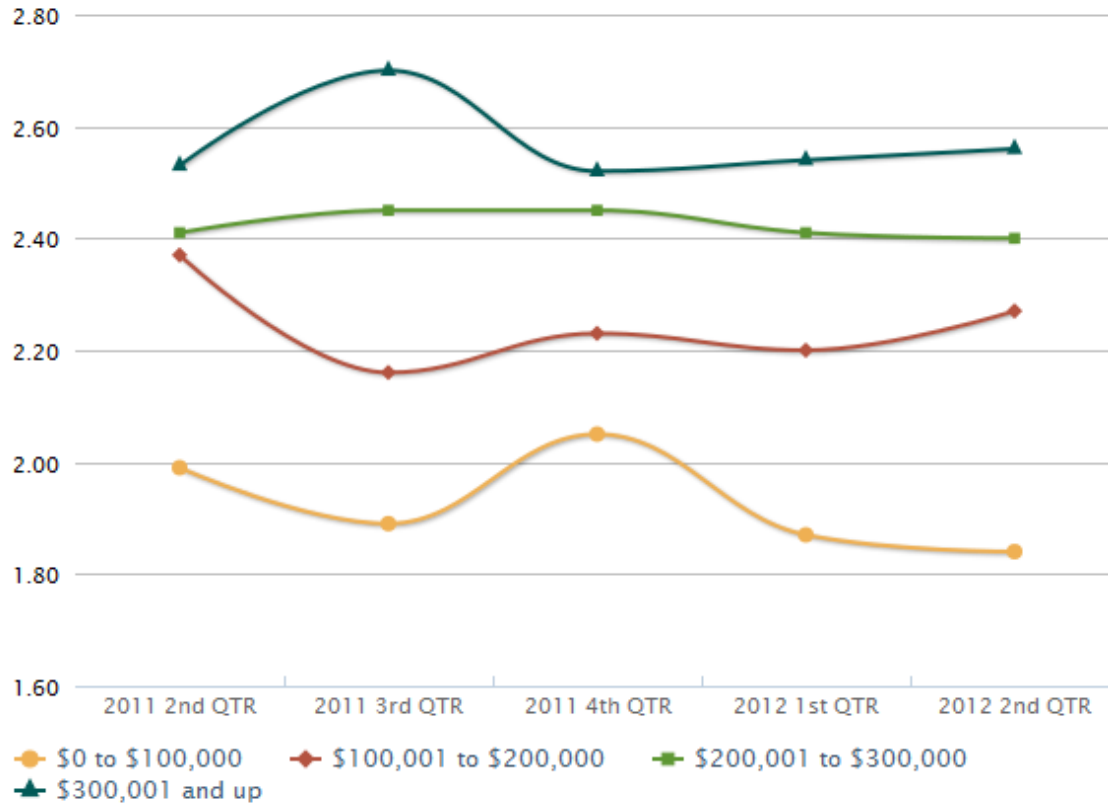
\$300,000+ in New/Renewal Commission

Agencies in this size group realized an average multiple of 2.56 times in the Second Quarter of 2012, an increase from 2.54 in the First Quarter and 2.52 times in the Fourth Quarter of 2011. Although subtle, this increase surely shows signs of stabilization if not a move towards growth for those agencies with new/renewal commission income greater than \$300,000.

Allstate Agency Price to Renewal Commissions Ratio (National Average)						
	2011 1st QTR	2011 2nd QTR	2011 3rd QTR	2011 4th QTR	2012 1st QTR	2012 2nd QTR
\$0 to \$100,000	1.78	1.99	1.89	2.05	1.87	1.84
\$100,001 to \$200,000	2.36	2.37	2.16	2.23	2.20	2.27
\$200,001 to \$300,000	2.49	2.41	2.45	2.45	2.41	2.40
\$300,001 and up	2.73	2.53	2.70	2.52	2.54	2.56
Simple Average	2.47	2.33	2.25	2.34	2.30	2.30
Weighted Average	2.34	2.33	2.30	2.31	2.25	2.25

CONTACT THE AUTHOR

Paul Clarke, Executive VP and COO | (800) 456-2779 | paul@ppcloan.com



Allstate Agency Value Ratios						
	2011 1st QTR	2011 2nd QTR	2011 3rd QTR	2011 4th QTR	2012 1st QTR	2012 2nd QTR
Agency Price to Renewal Commissions	2.47	2.33	2.25	2.30	2.30	2.32
Agency Price to Total Revenues	2.18	2.05	2.00	2.06	2.02	2.05



Paul Clarke, Executive
 Vice President and COO
 Phone: (281) 419-0400
 Email: paul@ppcloan.com

CONTACT THE AUTHOR

Paul Clarke, Executive VP and COO | (800) 456-2779 | paul@ppcloan.com



CONTACT THE AUTHOR

Paul Clarke, Executive VP and COO | (800) 456-2779 | paul@ppcloan.com