

## Third Quarter 2012

### The Evolving Merger Trend:

During the past few years, the AAVI has consistently reported that the flurry of merger activity that has occurred around the country has served to boost the value of Allstate Agencies. Certainly, an existing agent who purchases and merges premium into their existing location, without adding a significant level of expenses to the bottom line is highly motivated to pursue this opportunity. They are motivated to the point that they would likely pay significantly more for a purchase and merge transaction than they would if the purchased agency was going to be maintained as a satellite office.

Merger activity continues to thrive in the Third Quarter of 2012; however, we are seeing a greater percentage of merger transactions being consummated by Outside Buyers than previously experienced. Existing agency Owner's represent a mere fraction of Third Quarter mergers, with only 13% of merger transactions involving an Existing Agency Owner as the purchaser. The remaining 87% of merger transactions occurring in the Third Quarter of 2012 have been by Outside Buyers. Comparatively speaking, merger transactions consummated during the first 6 months of 2012 (Q1 & Q2) were split 32% by Existing Agency Owners and 68% by Outside Buyers.

Despite the shift in merger trend from Existing Agency Owners to Outside Buyers, the value of Allstate Agencies has not decreased in the Third Quarter. This is likely driven by Outside Buyers seeing the value in merging two, three or even four Allstate Agencies to achieve a size where the cash flow of the combined agencies is sufficient to justify such a price.

To further illustrate this fact, consider that under current market conditions Outside Buyers are regularly paying 2.0 times or greater for an agency with just \$80,000 in commission income provided that it is part of a merger transaction which often results in ownership of a \$3,000,000+ Earned Premium single location agency. However, this same Outside Buyer would likely not be interested in paying 2.0 times if the only opportunity was to maintain the \$80,000 commission agency as their sole agency location.

#### CONTACT THE AUTHOR

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

## **Agency Analysis by Size Group**

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

Agency Values with New and Renewal Commissions between \$0 and \$100,000 increased from 1.84 times in the Second Quarter of 2012 to 1.96 times this Quarter. A closer look at individual sales revealed higher multiples being paid for these sized agencies by Outside Buyers as part of a strategy to build a merged agency with Earned Premium in excess of \$3,000,000. 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.

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 Commissions have historically been the most steady of all Size Groups, consistently maintaining a value multiple of 2.40 to 2.50 times over the past three years. However, the Third Quarter of 2012, shows these sized agencies realized a decrease in value down to 2.33 times.

Third Quarter results revealed a decrease in the number of agencies with New and Renewal Commission between \$200,000 and \$300,000 being sold as part of a merger transaction. It is likely that future opportunities to purchase and merge agencies of this size (or an inability to merge), will have an effect on the value of agencies this size.

#### **CONTACT THE AUTHOR**

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

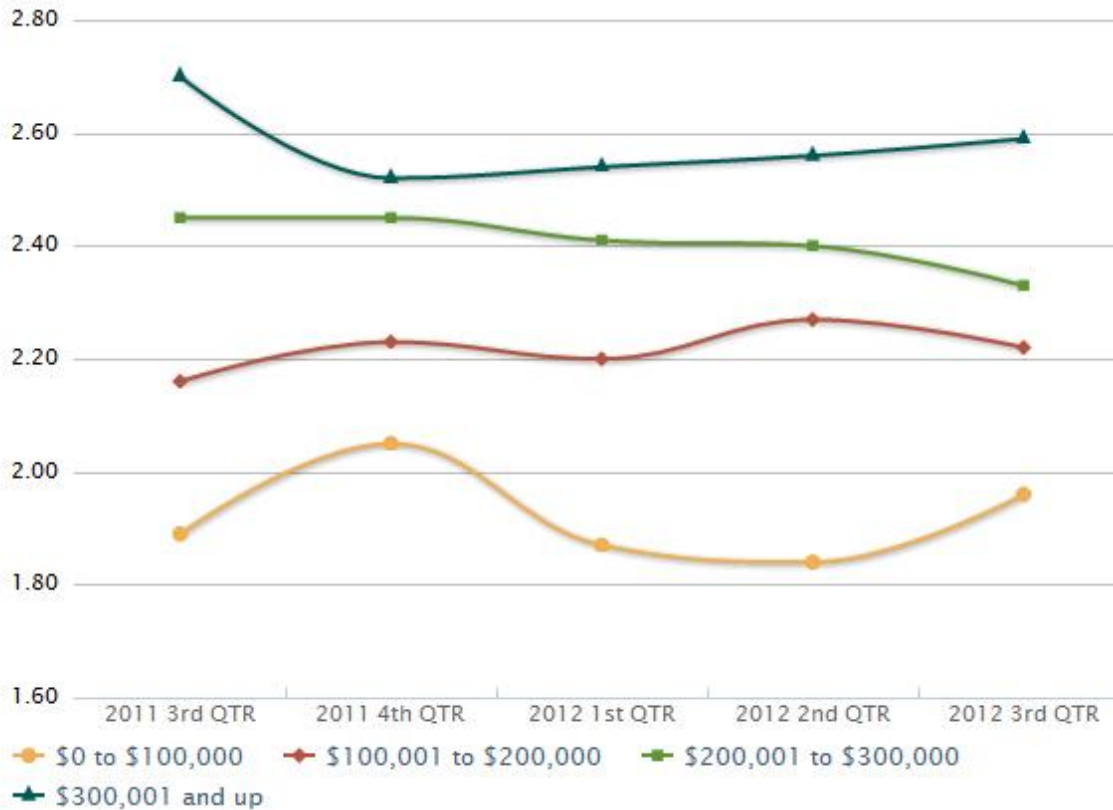
### \$300,000+ in New/Renewal Commission

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 2nd QTR	2011 3rd QTR	2011 4th QTR	2012 1st QTR	2012 2nd QTR	2012 3rd QTR
\$0 to \$100,000	1.99	1.89	2.05	1.87	1.84	1.96
\$100,001 to \$200,000	2.37	2.16	2.23	2.2	2.27	2.22
\$200,001 to \$300,000	2.41	2.45	2.45	2.41	2.4	2.33
\$300,001 and up	2.53	2.7	2.52	2.54	2.56	2.59
Simple Average	2.33	2.25	2.34	2.3	2.3	2.28
Weighted Average	2.33	2.3	2.31	2.25	2.25	2.28

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Allstate Agency Value Ratios						
	2008 3rd QTR	2009 1st QTR	2008 4th QTR	2012 1st QTR	2012 2nd QTR	2012 3rd QTR
Agency Price to Renewal Commissions	2.75	2.65	2.49	2.3	2.32	2.28
Agency Price to Total Revenues	2.35	2.28	2.18	2.02	2.05	2.05



Paul Clarke  
 President and COO  
 Phone: (281) 419-0400  
 Email: [paul@ppcloan.com](mailto:paul@ppcloan.com)

**CONTACT THE AUTHOR**  
 Paul Clarke, President and COO | (800) 456-2779 | [paul@ppcloan.com](mailto:paul@ppcloan.com)