

Fourth Quarter 2012

Strong Finish to 2012

For the first Three Quarters of 2012, Agency Values have showed significant signs of stabilization relative to Agency Values realized in 2011 and before. Many would be surprised to learn that the Fourth Quarter of 2012 finished as the strongest quarter of the year for Allstate Agency Values despite two theories that had many expecting agency values to finish the year on a decline:

- Theory 1 - Sellers would likely be willing to accept a lower than market value price for their agency as long as the transition took place in 2012 allowing them to avoid a larger tax bill than those sales taking place in 2013.
- Theory 2 - Sellers would be compelled to sell (at a presumably lower than market price) prior to January 1, 2013 to avoid a reduced commission under variable compensation should their agency not meet the standards required to return to a commission of 10% or greater.

Despite the theories above that were expected to negatively affect agency values, Allstate agency values saw a boost during the Fourth Quarter of 2012 as the simple average of all agencies transitioned was 2.39 times, an increase from Q3 of 2.28 times. In fact, the Fourth Quarter of 2012 was the strongest quarter of the year.

So what have we learned from Q4 - 2012?

For starters, I think we learned that the majority of Allstate agency owners / purchasers see Variable Compensation in its current form as an opportunity and not a hindrance to doing business. If this wasn't the case, I think we would have seen some measurable decrease in the value of Allstate Agencies during the latter part of 2012 – just prior to Variable Compensation starting in January of 2013. Second, I don't think a 5-10% tax savings was enough for agencies owners to rush to sale their agency.

At the end of the day, Allstate Agencies are very valuable businesses and a hasty move to sell was not deemed by the market of sellers advantageous enough to rush to sell for less than full market value. Stated another way, compulsion to sell based on the avoidance of taxes or variable compensation did not drive down the value of Allstate Agencies by any measurable amount.

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Merger update

Merger activity continues to thrive in the Fourth Quarter of 2012 at a slower pace than the previous three months of the year. Exactly 50% of the agencies purchased in the Fourth Quarter of 2012 were part of a merger transaction. Of those agencies merged, 19% were sold to existing agency owners, with the remaining 81% of agencies being purchased and merged by Outside Buyers. The average book size that was merged in the Fourth Quarter of 2012 was \$1,715,000 in Allstate Earned Premium.

When looking at single location agency purchases consummated in the Fourth Quarter of 2012 (the other 50% of transitions occurring), 12.5% were sold to existing agency owners as a satellite location, while the remaining 87.5% were sold to Outside Buyers who maintained the agency as their sole location.

Agency Analysis by Size Group

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

Agency Values with New and Renewal Commissions between \$0 and \$100,000 increased significantly during the Fourth Quarter of 2012 to 2.14 times (an increase from 1.96 times in the Third Quarter of 2012). A closer look at individual sales revealed higher multiples being paid for these sized agencies by Existing Agency Owners as part of a strategy to increase the size of an already well-established book of business.

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

Mergers of these sized agencies continued at a fairly significant pace, as over 80% of Agencies with between \$100,000 and \$200,000 in New and Renewal Commissions were part of a merger acquisition during the Fourth Quarter of 2012. These sized agencies maintained value just above 2.20 times for the fifth straight quarter (Second Quarter 2011 was 2.16 times), showing strong signs of stability at this level.

However, should the future opportunity to merge agencies of this size be reduced, this occurrence will likely have a negative effect on the value of these sized agencies. Absent a merger opportunity, Buyers looking to operate these sized agencies as a standalone or satellite will likely see a business that needs to grow for the cash flow to work in their favor, and will likely be inclined to pay less than if the agency was being merged.

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

Agencies ranging from \$200,000 to \$300,000 in New and 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

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three years. After a brief drop to 2.33 times in the Third Quarter of 2012, agencies in this size group have rebounded to 2.43 times in the Fourth Quarter of 2012.

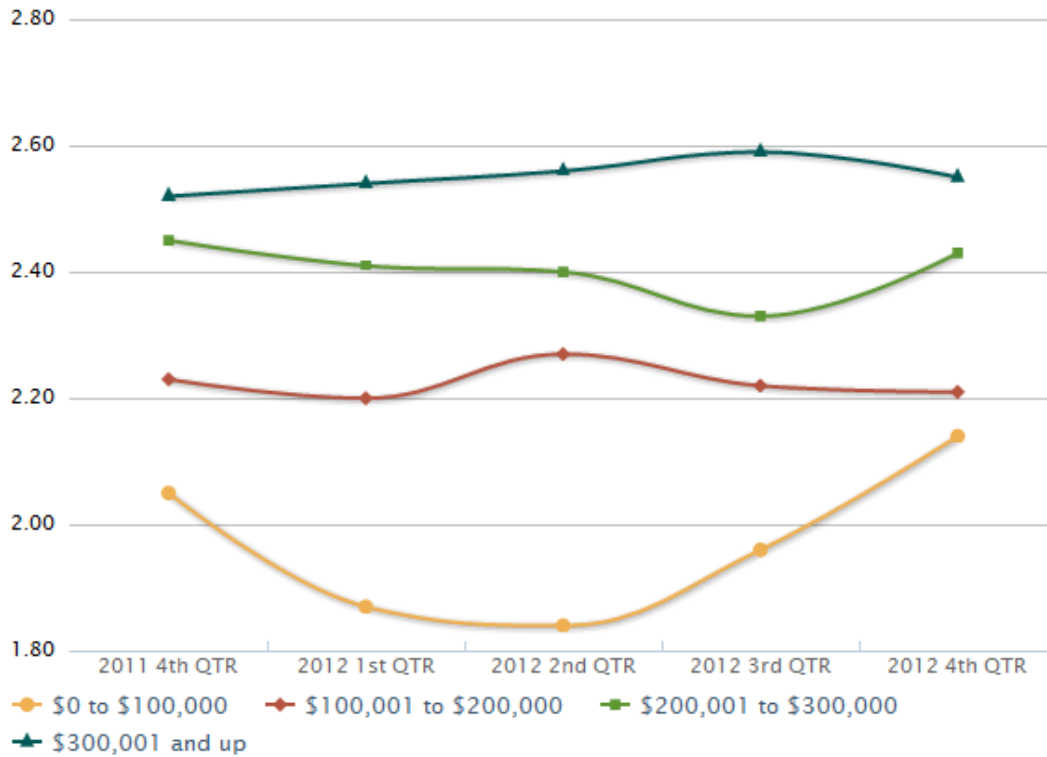
\$300,000+ in New/Renewal Commission

Agencies in this size group realized an average multiple of 2.55 times in the Fourth Quarter of 2012, keeping pace with the previous three Quarters of 2012. With all four Quarters of 2012 resulting in values for these larger sized agencies ranging from 2.54 to 2.59, this group appears to be the most consistent of all the size groups with regards to consistency in value.

Allstate Agency Price to Renewal Commissions Ratio (National Average)						
	2011 3rd QTR	2011 4th QTR	2012 1st QTR	2012 2nd QTR	2012 3rd QTR	2012 4th QTR
\$0 to \$100,000	1.89	2.05	1.87	1.84	1.96	2.14
\$100,001 to \$200,000	2.16	2.23	2.2	2.27	2.22	2.21
\$200,001 to \$300,000	2.45	2.45	2.41	2.4	2.33	2.43
\$300,001 and up	2.7	2.52	2.54	2.56	2.59	2.55
Simple Average	2.25	2.34	2.3	2.3	2.28	2.39
Weighted Average	2.3	2.31	2.25	2.25	2.28	2.33

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Allstate Agency Value Ratios						
	2011 3rd QTR	2011 4th QTR	2012 1st QTR	2012 2nd QTR	2012 3rd QTR	2012 4th QTR
Agency Price to Renewal Commissions	2.25	2.3	2.3	2.32	2.28	2.39
Agency Price to Total Revenues	2	2.06	2.02	2.05	2.05	2.11

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