



**First Quarter 2020**  
**Allstate Agency Value Index**



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# First Quarter 2020 Allstate Agency Value Index

## Large Sized Agency Values Hit Lowest Level Since 2002

Agencies that sold in the first quarter of 2020 with over \$4 million in earned premium realized an average factor of just .233, the lowest factor on record since agency values experienced a factor of .209 back in 2002. This is a massive drop from a recent high of .309 realized in the second quarter of 2019, just three quarters ago.

Certainly a .076 drop (25%) in value in a 9 month period has to be driven by something other than competitive factors or economic conditions, especially for business owners who are selling an inelastic product that is required to be purchased by the state (auto insurance) or mortgagee (homeowners insurance).

The only notable changes during the last 9 months that could be responsible for a quarter drop in agency values for large sized agency owners are:

1. Compensation Change: With recent changes to agent compensation that resulted in new business commissions ranging from 9% to 25%, along with renewals being paid at no more than 9%, the loss of the ability to earn a 10% commission on renewals was bound to have a negative impact on values. Even though the opportunity exists to make up lost renewal compensation on the new business side, this heightened new business income is simply an “opportunity,” and savvy buyers of Allstate agencies will not be willing to pay for an “opportunity.”
2. Integrated Services: Although still currently voluntary to enroll in this program, the negative stigma associated with outsourcing the customer experience to a call center has no doubt had an impact on agency values. With Allstate committing significant resources to building massive call centers, many agents believe it is just a matter of time before they are forced to opt-in to the program.

Allstate Agency Price to 12MM Earned Premium Ratio (National Average)						
	2015	2016	2017	2018	2019	2020 1st QTR
\$0 to \$2,000,000	0.208	0.224	0.232	0.226	0.216	0.224
\$2,000,001 to \$4,000,000	0.26	0.259	0.25	0.256	0.252	0.234
\$4,000,001 and up	0.298	0.288	0.278	0.299	0.274	0.233
<b>Simple Average</b>	<b>0.251</b>	<b>0.258</b>	<b>0.253</b>	<b>0.261</b>	<b>0.253</b>	<b>0.233</b>
<b>Low</b>	<b>0.126</b>	<b>0.081</b>	<b>0.118</b>	<b>0.135</b>	<b>0.140</b>	<b>0.145</b>
<b>High</b>	<b>0.431</b>	<b>0.378</b>	<b>0.362</b>	<b>0.365</b>	<b>0.358</b>	<b>0.297</b>
<b>Average Earned Premium</b>	<b>\$2,798,118</b>	<b>\$3,247,073</b>	<b>\$3,099,030</b>	<b>\$3,202,644</b>	<b>\$3,638,959</b>	<b>\$3,486,112</b>

## Size Group Analysis – Earned Premium

### \$0 to \$2,000,000:

For the second consecutive quarter, agencies in this size group realized a sales factor of .224. This is likely attributed to the fact that all agencies in this size group financed by PPCLOAN were bought by existing Allstate agents as part of a merger transaction.

Under the new compensation program, outside buyers would have difficulty obtaining financing through PPCLOAN for agencies of this size group, as the cash flow for these businesses will rarely meet our underwriting criteria. For the most part, Allstate agencies in this size group are unable to maintain positive cash flow while servicing any level of debt for a new agent.

### \$2,000,001 to \$4,000,000:

Agencies in this size group realized a factor of .234 in the first quarter of 2020. This is a nominal drop from the previous quarter, yet still on a negative trend line after experiencing a very solid factor of .262 in the second quarter of 2019.

Eight percent of agencies in this size group financed by PPCLOAN in the first quarter of 2020 were part of a merger transaction.

### \$4,000,001 and up:

The negative impact values of agencies in this group experienced this quarter has been addressed in the introduction. However, it is worth noting that just under 30% of the agencies purchased in this size group were by an existing agency owner. It has been well documented in previous editions of the AAVI that existing agents (on average) have more purchasing power than outside buyers and typically pay a higher price. This quarter was no different, as existing agents paid an average factor of .261, while outside buyers paid a factor of just .222.

Additionally, two agencies in this size group were sold at a factor under .200, certainly an anomaly that contributed to the decline in values experienced this quarter. Both instances appear to be sellers simply taking the offer on the table instead of waiting for a more attractive purchase offer.

