

Third Quarter 2020 Allstate Agency Value Index

Medium Sized Agencies Hit Lowest Value Ever

| Allstate Agency Price to 12MM Earned Premium Ratio (National Average) | | | | | | |
|-----------------------------------------------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | 2017 | 2018 | 2019 | 2020 1st QTR | 2020 2nd QTR | 2020 3rd QTR |
| \$0 to \$2,000,000 | 0.232 | 0.226 | 0.216 | 0.224 | 0.140 | N/A |
| \$2,000,001 to \$4,000,000 | 0.25 | 0.256 | 0.252 | 0.234 | 0.241 | 0.191 |
| \$4,000,001 and up | 0.278 | 0.299 | 0.274 | 0.233 | 0.254 | 0.264 |
| Simple Average | 0.253 | 0.261 | 0.253 | 0.233 | 0.234 | 0.223 |
| Low | 0.118 | 0.135 | 0.140 | 0.145 | 0.100 | 0.122 |
| High | 0.362 | 0.365 | 0.358 | 0.297 | 0.322 | 0.296 |
| Average Earned Premium | \$3,099,030 | \$3,202,644 | \$3,638,959 | \$3,486,112 | \$3,590,303 | \$5,481,622 |

MEDIUM SIZED AGENCY ANALYSIS \$2,000,001 to \$4,000,000:

Agencies with Earned Premium ranging from \$2 million to \$4 million saw their average value drop to a factor of .191 in the third quarter of 2020. This is the first time agencies of this size dropped below .200 since 2002, when the average factor was .199.

In fact, this is the lowest valuation realized by these sized agencies since PPC LOAN began tracking agency values back in 2000. It appears that three events are driving this significant drop:

1. Terminated Sellers – Let's be honest, if you are being terminated by Allstate Insurance and have a limited time window to sell your business, the odds are you will not get full market value compared with your peers who are operating under no compulsion to sell. Just under 25% of agencies transitioned this quarter of medium size were instances of seller termination, resulting in a drag on agency values.
2. No Vested TPP / Recent Start-Up – These agencies have always struggled when it comes to value relative to their more tenured peers. Who wants to pay top dollar for an agency that has no customer retention statistics of 5+ years? Furthermore, savvy buyers are unlikely to give a seller top-of-the-market value when that seller is lacking the alternative to take TPP from Allstate instead. That is just sound negotiating.
3. Very Tenured Agents Wanting Out Quickly – This quarter, there were a number of very tenured agency sellers who accepted what most would deem a “lowball offer” because they are either financially set and/or ready to hang it up quickly.

The takeaway: If you are not terminated, have a fully vested TPP and have patience to sell your business, you can still receive a good value.

LARGE SIZED AGENCY ANALYSIS \$4,000,001 and up:

Large Agencies Have a Great Quarter

After a massive drop in the first quarter of 2020 to a factor of .233 (from a 2019 average factor of .274 for large agencies), agencies in this size group are seeing a rebound in values. The factor for this quarter is up to .264. Very impressive, although not back to the level of value experienced prior to Integrated Services and the new comp plan, which reduced renewal compensation.

Quality Agents Leaving Allstate?

Sometimes good news has a hint of bad news buried in it and I think large sized values increasing hints at an underlying issue that may be brewing at Allstate.

Are values up because some of the most accomplished agents are leaving Allstate Insurance?

Certainly, some of the most accomplished agents based on size are leaving. This quarter, the average large sized agency financed was a whopping \$8,551,745 in earned premium, which marks an all-time record).

So, why would these top agents sell? They have great businesses and are able to sell for values at the top end of the market. This is good for values in the short run, but is it good for Allstate? Is it good for the customer experience?

SMALL SIZED AGENCY ANALYSIS \$0 to \$2,000,000:

No small sized agencies were financed by PPC LOAN in the third quarter of 2020, as these agencies have been deemed too risky to add to our quality loan portfolio at this time. PPC LOAN will pursue loan approval for smaller sized agency in instances where the buyer already owns an existing Allstate agency.

WHEN SELLING YOUR ALLSTATE AGENCY – BE A BETTER SALESMAN:

Often, I get a call from an angry Seller who tells me the AAVI is costing them money! They might say their book is worth .270, but the AAVI says .250.

If you are picking up the phone to complain about the Allstate Agency Value Index numbers, then you need to be a better salesman. Let me tell you why:

- Every quarter I provide the high and low sales factors. If your agency is exceptional (great retention, great staff, great overall performance, premium growth and low business expenses), you should be able to sell this to your buyer(s) and receive a value much higher than the average. But you must take the time to really sell your business and convince the market of buyers why your agency is more valuable than the average.
- Every quarter, I provide narrative as to why agency values are moving a certain direction. If you own a medium sized agency (\$2million to \$4million), agency values for your peer group are way down in the 3rd quarter of 2020. But I have taken the time to explain why. If you are not terminated, if you have a vested TPP and you can be patient in the selling of your business, you should be able to sell for more than the average.
- Allstate agencies are not like real estate. Most of the houses in my neighborhood would sell for between \$190 and \$200 a square foot. All values are within 5% of each other based on a square footage measurement. Allstate on the other hand is very different. One Allstate agency might sell for 2 or 3 times what another one might sell for. There is significant volatility in this market based on many value-driving factors! If the factors are in your favor, get to work and let the market of buyers know about your agency. If those factors are not in your favor, be prepared to price your agency accordingly.