

Allstate Agency Value Index - 2020 Q4

Comp Change Takes Toll on Values in 2020

Allstate Agency Price to 12MM Earned Premium Ratio (National Average)						
	2019	2020	2020 1st QTR	2020 2nd QTR	2020 3rd QTR	2020 4th QTR
\$0 to \$2,000,000	0.216	0.168	0.224	0.140	N/A	N/A
\$2,000,001 to \$4,000,000	0.252	0.226	0.234	0.241	0.191	0.230
\$4,000,001 and up	0.274	0.249	0.233	0.254	0.264	0.246
Simple Average	0.253	0.233	0.233	0.234	0.223	0.240
Low	0.140	0.100	0.145	0.100	0.122	0.162
High	0.358	0.322	0.297	0.322	0.296	0.288
Average Earned Premium	\$3,638,959	\$4,102,072	\$3,486,112	\$3,590,303	\$5,481,622	\$3,817,842

Review of 2020

2020 Highlights:

Occurrence	Trend
2020 simple average lowest since 2012	Negative
All size groups' values down compared to 2019	Negative
Large sized agencies fall below .250 – first time since 2012	Negative
Agency size continues to grow	Positive

Comp change main culprit for negative value trends in 2020:

Despite significant growth in average agency size since 2012, the lack of growth in agency valuations from a simple average perspective clearly points to the recent compensation change as the culprit.

The average sized agency in 2012 transitioned with PPC LOAN's financing assistance was only \$2,342,175 in earned premium and the simple average at the time was .229. With the average book size in 2020 being \$4,102,072, you would expect the simple average to be much higher than its current level of .233.

At the end of the day, agencies can only be valued on GUARANTEED renewal compensation. When Allstate reduced the maximum renewal compensation to 9%, agents immediately lost significant value.

Any commission received above the 9% base is solely a reward to the owner at the time for their efforts in hitting fluid, annually changing business objectives which may not even be received. Just like bonus compensation, there is no ability to include commission income received above the 9% base as part of the

business's enterprise value, as the path to receiving this revenue is subject to change by Allstate on an annual basis.

Any future reduction in Allstate agents guaranteed portion of renewal compensation will have a swift and dramatic effect on agency values.

Fourth Quarter of 2020

Quarter Highlights:

Occurrence	% of deals	Good for values?
Seller's agency was part of a merger transaction	10%	Yes
Seller was under constricted timeline due to termination	20%	No
Purchaser was an existing agency owner	30%	Yes

The presence of existing agents on 30% of acquisitions allowed this quarter's values to remain right in line with the yearly average for 2020. Mergers were also a positive for agency values, while the slew of terminations continued to be a drag on values. The fact that 20% of agency owners sold under the distress of a shortened sales timeline bestowed on those terminated by Allstate is concerning and something we will have to watch in 2021.

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

No small sized agencies were financed by PPC LOAN in the fourth 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 promote 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 a given 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.