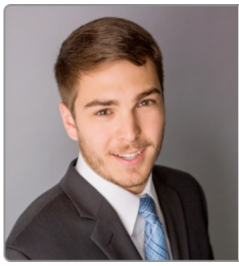
PPCLOAN
Allstate Agency Value Index

Fourth Quarter 2016 Allstate Agency Value Index Editorial

Being the creator and author of the Allstate Agency Value Index has afforded me the opportunity to write countless articles and to travel on behalf of PPCLOAN to speak to both Allstate Management and the Agency force. In the process, I have learned of the issues often faced at loan closing, such as the restrictive covenant.

So, this quarter I have asked Aaron Racino to share his expertise in the area of seller financing. If you would like to discuss financing with Aaron he can be reached at aaron@ppcloan.com or toll free at 800-456-2779.

Paul Clarke
President of PPCLOAN



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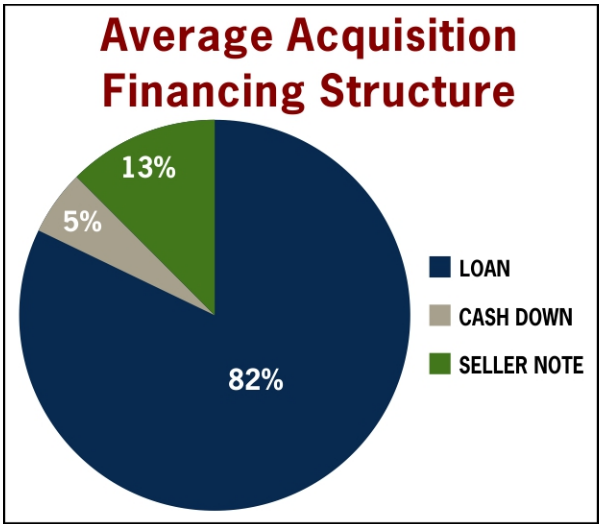
Seller Financing: What to Expect in Real World Acquisitions

This editorial is the second part of a two-part series on seller financing the sale of an Allstate agency. To refresh your memory, the first part of this editorial discussed the good, the bad, and the ugly aspects of seller financing to weigh the risk and reward of self-financing the sale of an agency. Now that we have laid the groundwork to determine the pros and cons, we are going to take a look at the last 100 Allstate acquisitions by non-existing Allstate agency owners that were financed through PPCLOAN to determine how these sales are structured in real world scenarios.

Before we dig into the numbers, let's take a moment to discuss some of the nuances that impact the outcome of our findings. It is important to keep in mind that these figures do not include acquisitions that were 100% seller financed, purchased for cash, or financed through another lender. However, this data gives us great insight into agency acquisitions that are financed traditionally through a bank. As a result of PPCLOAN offering up to 100% financing, this information is going to be as accurate as possible because the loan structure is mostly geared toward buyer and seller preferences rather than financing restrictions from the lender. If we were looking at data gathered from a lender with pre-determined down payment requirements, all acquisitions would look the same and we would not have any insight into buyer and seller preferences because everything is determined by the bank.

Each business acquisition is unique and has characteristics that impact how the purchase will be financed. For example, some buyers prefer to put down as much cash as they are able while others prefer to put down the minimum required in order keep to cash on hand to invest into the agency during the beginning of their Allstate career. Similarly, some sellers prefer to seller finance a large portion and others want to get all cash at closing. While both sides have their merits and flaws, there are a handful of these atypical circumstances in our data. By including these deals that do not fit the "norm", we get a more accurate conclusion by encompassing all available information.

The Data



After reviewing data from the last 100 outside buyer acquisitions financed through PPCLOAN, we find a lot of telling data. The average Allstate agency purchase price was $769,667 and the average financing structure included $632,112 from PPCLOAN, $98,091 carried in the form of a seller note, and $39,465 cash down from the buyer. This equates to an average loan structure consisting of 82% financing from PPCLOAN, 13% seller financing, and 5% cash from the buyer.

To illustrate this financing structure under a few different scenarios, see the chart below:

Allstate Premium	Purchase Price	PPCLOAN Financing	Seller Financing	Cash Down Payment	Cash to Seller at Closing
$1,500,000	$351,000	$287,820	$45,630	$17,550	**$305,370**
$2,500,000	$605,000	$496,100	$78,650	$30,250	**$526,350**
$3,500,000	$966,000	$792,120	$125,580	$48,300	**$840,420**

The purchase price column is calculated as 10% of Allstate premium times the latest 4th Quarter 2016 multiples of the respective agency size. The remaining columns are calculated according to the 82/13/5 financing split

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What does this mean for the Seller?

Under these averages, the seller receives 87% of the purchase price at closing (82% from loan proceeds and 5% from the Buyer) and finances the remaining 13%. With this loan structure, the Seller is undertaking only a minimal amount of risk and is receiving a majority of the proceeds from the sale at closing. This helps alleviate many of the undesirable characteristics that we spoke about in the previous editorial. For example, two major examples of this is that you are mitigating most of your risk of loan default and you outsource the responsibility of choosing a creditworthy buyer to a specialized lender, among other things.

Logically analyzing the results of our study, this loan structure makes a lot of sense for a seller. Using the figures from the average agency acquisition, the purchase price would be $770,000 and the seller would receive $672,000 at closing. With a seller financing need of $98,000, the seller would receive more than $1,000 per month assuming a 5% interest rate over a 10 year term. This acts as a monthly annuity type payment that could be a nice supplement to your income after selling your agency or during retirement. Getting 87% of the sales price at closing allows you to do any number of things with these funds while simultaneously reducing your risk and responsibility.

Final Thoughts

So, what are we to make of all of this information? It doesn't tell us in a one-size-fits-all way that seller financing or bank financing is best for the seller. However, it does tell us that there is some middle ground between seller and bank financing that theoretically maximizes the benefits for all parties. Although there are special circumstances that may dictate that the loan structure falls well outside of this norm, the middle ground seems to be a fair and equitable compromise. The seller gets most of the cash up front and still receives a small monthly payment, the buyer only has to put 5% cash into the purchase, and the bank is taking most of the risk, what more could you ask for?

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