

First Quarter 2018 Allstate Agency Value Index

Values Realize Strong Start to New Year

With the exception of agencies under \$1 million in earned premium every size group analyzed by PPCLOAN maintained or increased its value during the First Quarter of 2018 in comparison to the final quarter of 2017. Larger-sized agencies continue to be the most appealing purchase option, as the chart below shows agencies with over \$3 million in earned premium were trading at a multiple of 2.90, while agencies with under \$1 million in earned premium sold for an average sales multiple of just 1.43 times.

The smallest-sized agencies (those with less than \$1 million in earned premium) realized a value less than half of those with over \$3 million in earned premium. A driving factor is these smaller sized agencies lack the necessary cash flow to cover base business expenses, and as a result, agencies in this size group struggle to sell as a standalone business. The fact that it takes a significant amount of capital to grow these smallest-sized agencies to a level of scale where the owner can begin taking a salary is a primary driving factor in the low multiples that this size group continues to realize.

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2016 4th QTR	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR
\$0 to \$100,000	1.80	N/A	N/A	1.18	1.60	1.43
\$100,001 to \$200,000	2.34	2.21	2.09	2.43	2.20	2.21
\$200,001 to \$300,000	2.42	2.33	2.31	2.45	2.29	2.35
\$300,001 and up	2.76	2.82	2.71	2.84	2.90	2.90
Simple Average	2.57	2.61	2.39	2.59	2.41	2.62
Low	1.65	1.6	1.72	1.18	1.6	1.35
High	3.24	3.3	2.91	3.51	3.62	3.26

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

All agencies financed in this size group by PPCLOAN in the First Quarter of 2018 were part of a merger transaction. Half of these sized agencies were purchased and merged by existing agency owners, and the other 50% were purchased and merged by outside buyers. Despite the fact that

100% of agencies with less than \$1 million in earned premium were sold as part of a merger transaction, the value for this size group is just 1.43 times in the First Quarter of the year.

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

Although none of the agencies in this size group were part of a merger transaction this quarter (last quarter 33% of the agencies in this size group were part of a merger transaction) the average sales multiple increased from 2.20 times in the Fourth Quarter of 2017 to 2.21 times this quarter. One positive contributor to this increase is a significant participation by existing agents as purchasers within this size group.

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

Agencies in this size group realized a nice multiple increase from 2.29 times in the last quarter of 2017 to 2.35 times in the First Quarter of 2018. One agency in this size group was sold as part of a merger transaction at a multiple of 3.0 times, and was the sole driver in the increased value for this size group. History supports the statement that agency values will increase or hold strong when the opportunity to execute a merger transaction is on the table.

\$300,000+ in New/Renewal Commission

In the Fourth Quarter of 2017, Allstate agencies in this size group realized an eight-quarter high, trading at an average sales multiple of 2.90. This quarter the largest-sized agency group validated this result, by maintaining an average sales multiple of 2.90 for the second straight quarter. Many larger-sized agencies contributed to this healthy sales multiple, as the average earned premium in this size group was significant this quarter at just over \$5.5 million.

Percentage of Agency Sales by Size Group						
	2016 4th QTR	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR
\$0 to \$100,000	4 %	0 %	0 %	4 %	4 %	11 %
\$100,001 to \$200,000	17 %	17 %	21 %	25 %	24 %	17 %
\$200,001 to \$300,000	22 %	22 %	47 %	21 %	44 %	11 %
\$300,001 and up	57 %	61 %	32 %	50 %	28 %	61 %

The Allstate buy/sell market in the First Quarter of 2018 was dominated by agencies with over \$3 million in earned premium, with agencies of this size representing 61% of agencies sold.

Allstate Agency Value Ratios						
	2016 4th QTR	2017 1st QTR	2017 2nd QTR	2017 3rd QTR	2017 4th QTR	2018 1st QTR
Agency Price to New/Renewal Commissions	2.57	2.61	2.39	2.59	2.41	2.62
Agency Price to Total Revenues	2.37	2.35	2.18	2.35	2.22	2.40

For those agency owners residing in a state where a good portion of the homeowners insurance is written through a third party brokerage company (primarily coastal counties), looking at the multiple of revenues may be your best measuring stick for agency value as it takes into consideration both Allstate and brokered (i.e. non-Allstate) revenues. Certainly, the brokerage book is a reliable source of renewal income and has a level of value that is not presented in the traditional multiple applicable to Allstate commissions.