

Fourth Quarter 2015 Allstate Agency Value Index

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Simple Average Dips Amid More Small Agency Sales

During the final quarter of 2015, agencies with less than \$2 million in Earned Premium represented 45% of the Allstate Agencies transitioned in the Quarter. This is a significant shift compared to the same period in 2014, where only 3% of agencies transitioned in the Fourth Quarter of 2014 had Earned Premium of less than \$2 million (see chart below).

Percentage of Agency Sales by Size Group						
New/Renewal Commissions	2014 3rd QTR	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR
\$0 to \$100,000	0%	0%	0%	4%	5%	14%
\$100,001 to \$200,000	5%	3%	12%	22%	32%	31%
\$200,001 to \$300,000	43%	36%	41%	44%	27%	24%
\$300,001 and up	52%	61%	47%	30%	36%	31%

Mergers helping small book values

55% of those Allstate Agencies with less than \$1.7 million in Earned Premium were part of a merger transaction in the final Quarter of 2015. Certainly, the ability to merge smaller sized agencies was a major contributing factor to the growth in value these smaller sized agencies saw this Quarter (see chart below). In comparison, 6% of agencies with greater than \$1.7 million in Earned Premium were part of a merger transaction. Mergers represented just 9% of all transactions in the 3rd Quarter of 2015, while spiking significantly as 24% of all agencies transitioned through PPCLOAN in the final Quarter of 2015 were part of a merger transaction.

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2014 3rd QTR	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR
\$0 to \$100,000	N/A	N/A	N/A	1.48	1.26	1.86
\$100,001 to \$200,000	2.52	2.43	1.99	2.40	2.04	2.22
\$200,001 to \$300,000	2.54	2.54	2.45	2.50	2.71	2.39
\$300,001 and up	2.77	2.79	2.66	2.85	3.05	2.91
Simple Average	2.66	2.69	2.50	2.54	2.55	2.43
Low	1.97	1.94	1.69	1.34	1.26	1.68
High	3.45	3.52	3.35	4.31	3.66	3.31

Limitations on what cash flow can support

Those agencies with Earned Premium of \$2 million or greater were due to see some level of value stabilization or even some level of correction due simply to the limitations of free cash flow to support higher levels of debt repayment. In the Third Quarter of 2015 the value of those agencies with \$2-3 million in Earned Premium hit 2.71X. At this multiple, the cash flow of businesses this size was being stretched to a point where many Allstate Agency Owners would struggle to operate a successful/growing business due to cash flow tightness. As a result, it should not be a surprise to see a correction in value for agencies with \$2-3 million in Earned Premium this Quarter, as the market of agency purchasers are diligent in ensuring they do not allow debt to become a burden on the future growth of their business.

Allstate New Jersey 2015 Values

It has been some time since the AAVI discussed agency values specific to New Jersey, and since PPCLOAN has been involved in quite a few New Jersey transactions in 2015, we have enough data to release some statistics. First, it is important to note that Allstate New Jersey is a separate company from Allstate Insurance, and that Agents have a compensation model which pays a base commission rate of 6.5% with an opportunity to make well over 10%.


Below is an overview of the characteristics of New Jersey Agencies PPCLOAN financed in 2015:

- Average 12 Month Moving Earned Premiums = \$4,020,195
- 12 Month Renewal Commission Income = \$390,864
- Average Commission Percentage = 9.7%
- Average Sales Price = \$760,000
- Sales Multiple of Renewal Commission Revenues = 1.94X

In general, New Jersey agencies are very profitable to the owner due primarily to large average customer premiums. The sales multiples in New Jersey are below what we see in the rest of the country, and this is primarily due to the wide range commission scale which starts at a base compensation of 6.5%. The sales multiples in New Jersey clearly back the theory that guaranteed renewal income holds a greater value over contingent or transactional compensation.

Allstate Agency Value Ratios						
	2014 3rd QTR	2014 4th QTR	2015 1st QTR	2015 2nd QTR	2015 3rd QTR	2015 4th QTR
Agency Price to New/Renewal Commissions	2.66	2.69	2.50	2.54	2.55	2.43
Agency Price to Total Revenues	2.31	2.32	2.19	2.21	2.24	2.14

For those 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.



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