

Allstate Agency Value Index First Quarter 2011 Editorial | First Quarter 2011 Report

I want to start 2011 off a little different by presenting my editorial as the start piece to the Allstate Agency Value Index. Excuse me for my selfishness in this matter, but I feel this piece addresses the current, pressing issue that Allstate Agents and Allstate Managers bring to our attention, and that is “What is PPCLOAN really lending?” I hope this information is helpful, as I not only share the numbers, but the method behind our madness. Our goal as a company is longevity. We have been lending to Allstate Agents for over 10 years, and we want to continue doing that for 20 and even 30 years from now.

Editorial - From the Desk of Paul Clarke

I want to start this Quarters editorial by saying thanks to those of you who provided the great feedback regarding my coverage of covenant not to compete agreements, and the need for strict language to protect Allstate Agency Purchasers from the threat of potential injurious seller activity. It seems that those offering comment generally observed/noted some firsthand knowledge of a covenant violation, and were appreciative of the subject being brought to light.

What is PPCLOAN really lending?:

I constantly receive calls from Allstate Agents, Prospective Agents and various members of Allstate Management interested in understanding more about, or concern with, the following elements of PPCLOAN’s Allstate Agency Acquisition Lending Program:

- How much cash should an agency seller expect to receive at closing?
- How much money does a purchaser typically put down?
- What about seller financing?
- Is 100% financing really available?

My goal with this Quarter’s editorial is to answer all of these questions. First, I must point out the criteria a loan had to meet to be included in this analysis:

- **Outside Purchasers** only (transactions involving existing agency owners were excluded as they use the availability of their existing agency’s equity in lieu of cash down or a seller note, etc.)
- The agency being acquired has **Earned Premiums ranging between \$2,000,000 & \$4,000,000**
- **No distressed agency sales**
- **No Family Member to Family Member, or discount sales**

During the first quarter of 2011, Allstate Agency acquisition transactions meeting these conditions, which were financed by PPCLOAN, exhibited an average earned premium total of under \$3,000,000, and were sold for an average of approximately \$750,000 or 2.51 times renewal commission income.

Highlights:

- Buyers in these transactions put an average of roughly 4% towards the purchase price for the agencies
- Sellers retained roughly 10% of the purchase price in the form of a seller note
- PPCLOAN provided financing for roughly 86% of the purchase price. Including the 4% down payment from the buyer, Sellers received roughly 90% of the value for which their agencies were sold in the form of cash at closing.
- On average, PPCLOAN also provided buyers with an additional \$23,000 in funds to support their sundry costs associated with the acquisition transaction and post-closing working capital needs
- In total, PPCLOAN extended on average 2.24 times the renewal commissions of the agency being purchased

	Earned Premium	Sales Price	Amount Lent to Buyer	Amount PPCLOAN Lent Seller	Working Capital to Buyer	Buyer Cash	Seller Financing
Average	\$2,999,426	\$751,692	\$671,538	\$648,462	\$23,077	\$27,308	\$75,923
Percentage				86.3%		3.6%	10.1%
Multiple		2.51	2.24	2.16	0.08		

Additional Data:

To provide further data regarding PPCLOAN’s lending program, the chart below shows the amount of financing received by Funded Outside Buyers, as a percentage of the agent’s agreed purchase price with their seller. As you can see, over 50% of Allstate agents who received loans through PPCLOAN received a minimum of 90% total financing of their purchase price, with 23% of Outside Buyers receiving financing greater than 100% of their agreed purchase price, i.e., these agents received 100% financing plus additional working capital.

Financing % Provided	
75% to 89%	46%
90% to 100%	31%
101% to 106%	23%

These are the facts, but despite this we continue to hear the periodic rumors from Allstate Management and Agents in various parts of the country, such as, “I hear PPCLOAN is not lending in certain states,” or, “I hear PPCLOAN does not provide financing greater than 80% of the purchase price.” Why the rumors? It’s because at the root of them each has a kernel of truth. We all tend to experience reality on our doorstep and if you were declined by PPCLOAN for financing that is your reality. The problem arises when you decide your reality is everyone else’s reality and spread the word of this false assumption. The bottom line is that since April of 2000 PPCLOAN has provided and continues to provide financing to Allstate agents secured by

their commissions. To date, PPCLOAN has financed roughly \$425 million in loan fundings in all 50 states. It is PPCLOAN's goal to thoroughly investigate each and every financing request involving an Allstate agency that is brought to our attention.

However, it is a fact that virtually no two Allstate agency acquisition transactions are exactly alike. This is because of the myriad of mixes of Allstate agency locations, markets, staffing, and reasons for sale, combined with the variety of buyers in terms of the mix of their professional experience, personal liquidity, personal wealth, personal credit history, and more. Consequently, though frustrating or at the least confusing to some buyers and sellers, the mere fact that two agencies generating \$300,000 in commissions are being sold for \$600,000 and are located in the same ZIP Code, does not make them equal when it comes to securing approval for financing. Some deals represent an ill fit of buyer experience and/or personal financial condition with the agency acquisition target, and others represent an ill fit of buyer experience with agency operational and sales demands. This very necessary "fit" issue in business acquisition transactions is often dealt with through the structure of the acquisition transaction and thus calls into play seller financing, buyer cash down, purchase price modifications, additional collateral, supporting guarantors and more. The idea is to fund agency acquisition transactions where both the lender and the buyer have the opportunity to come out of the process in one piece and in terms of the buyer — healthier and wealthier.

I am proud to say that thus far PPCLOAN has been true to, and effective in, pursuit of this core aim of our financing activities as our instances of loan loss involving Allstate agency acquisition transactions has been extremely small. Rather, we have had the tremendous opportunity to have participated in the creation of hundreds of millions of dollars of personal wealth for Allstate agents across the country and look forward to the opportunity to do the same for many more in the coming years.

As always, I welcome feedback from Allstate agents and the executives and management of Allstate Insurance Company.

Thanks,

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First Quarter 2011 Report | First Quarter 2011 Editorial

As noted in the Fourth Quarter 2010 Allstate Agency Value Index Report, the stock market finished 2010 on a strong note in spite of the significant depressed jobs and housing headwinds. The First Quarter 2011 seems to have produced much the same result as the Dow and S&P Indexes both increased over 5% despite continued problems with jobs and housing, and the addition of Mideast turmoil and the devastating Japanese earthquake.

Interest rates have also remained stable from Quarter to Quarter, and it is expected that the accommodative monetary policy will continue over the near term as FRB Chicago President Charles Evans noted in March 2011, "When we look at the past two years as a whole, the improvements have been disappointing,...Too many people remain unemployed - and some for extended periods - and too many businesses have not yet returned to full operations."

Reflecting this relatively stable climate is the value for which Allstate agencies were sold relative to their renewal commission revenues, continuing the recent trend of stabilization. The simple average agency value multiple for the first quarter of 2011 was 2.47 compared to 2.41 and 2.43 for the fourth and third quarters of 2010, respectively. During the first quarter, PPCLOAN processed far fewer small agency acquisition financing transactions relative to the number of large agency transactions. Consequently, the degree to which this seemingly anomalous acquisition transaction mix effected the simple or weighted average that the agency value multiple moved relative to the prior quarter's results, is less important than the fact that, as noted, the trend of stabilizing values has continued.

Allstate Agency Price to Renewal Commissions Ratio (National Average)										
	2006	2007	2008	2009	2010	1st QTR 2010	2nd QTR 2010	3rd QTR 2010	4th QTR 2010	1st QTR 2011
\$0 to \$100,000	2.17	2.37	2.32	2.14	2.07	1.94	2.0	2.22	1.94	1.78
\$100,001 to \$200,000	2.65	2.65	2.41	2.35	2.29	2.29	2.27	2.26	2.33	2.36
\$200,001 to \$300,000	2.81	2.92	2.74	2.50	2.49	2.52	2.47	2.50	2.49	2.49
\$300,001 and up	2.93	3.01	3.13	2.78	2.79	2.91	2.80	2.74	2.76	2.73
Simple Average	2.83	2.96	2.71	2.46	2.41	2.39	2.37	2.43	2.41	2.47
Weighted Average	2.64	2.74	2.65	2.44	2.41	2.41	2.39	2.43	2.38	2.34

[See line chart](#)

Agency Analysis by Size Group

\$0 to \$100,000 in Renewal Commissions

Coming off of a sharp drop in value in the fourth quarter, smaller agencies continued to take a beating, having their average value drop to 1.78 - an all-time low since we began tracking values in 2006. However, it is important to note that this size group had the lowest number of agency transitions involving PPCLOAN during the first quarter of 2011, leaving the possibility for this drop to be a statistical anomaly.

\$100,000 to \$200,000 in Renewal Commissions

Agencies in this group continue to see an increase in value, which can be directly attributed to the growing number of allowed merger transactions. Historically, the majority of agencies transitioned as part of a merger transaction was limited to the smallest agencies. Recently, however, agencies in this size group have been part of merger transactions for outside buyers and existing agents. This phenomena drives home the theory that any agency being transitioned as part of a merger transaction will likely result in an increased value relative to the agency being sold as a stand-alone agency.

\$200,000 to \$300,000 in Renewal Commissions

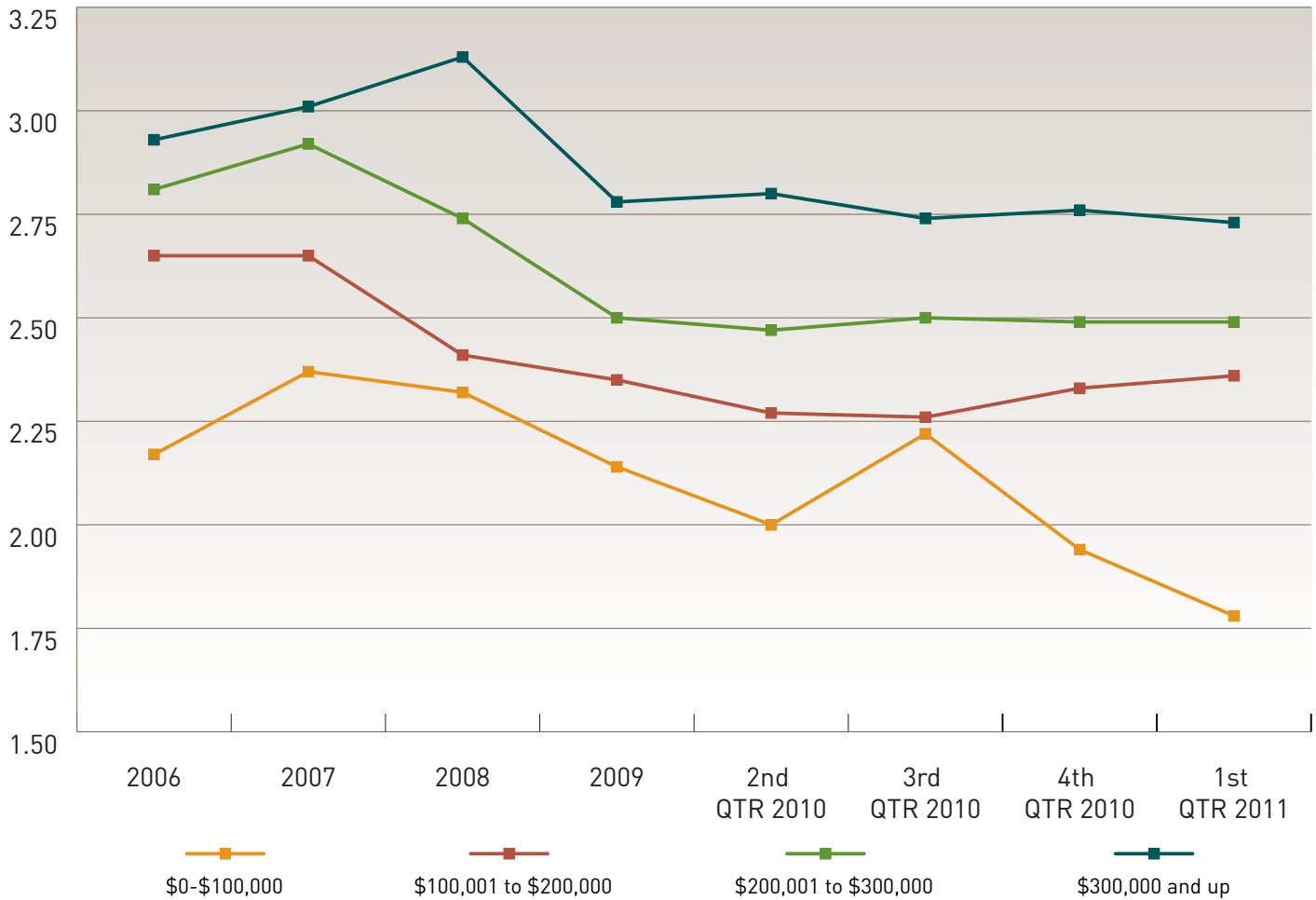
Agencies in this size group seem to be the most stable, as the average value continues to gravitate towards a 2.50 multiple of renewal commission income.

The evidence of the buyers' preference for larger Allstate agencies is on clear display, as they offer new owners ample cash flow to cover routine operating costs, their own living wage needs and agency acquisition debt servicing costs with plenty to spare for investments in organic growth initiatives.

\$300,000+ in Renewal Commission

Agency values in this size group continued to hold strong at approximately 2.75 times renewal commission income. Buyers have a preference for larger sized agencies, however, the days of buying on impulse seem to be gone. Today, buyers are focused on an agency's historical cash flow ("Economic Value") and give little or no weight to the future potential of the agency when looking to make a purchase offer.

Further stated, the market value of Allstate agencies, for which willing buyers and sellers are reaching an agreement on price, is very near the agency economic value, i.e., what the cash flow will support,, implying that the transitions occurring today are economically sound and much less likely to result in Agency transition failures due to insufficient cash flow.



[See data points](#)

Allstate Agency Value Ratios													
	2008				2009				2010				2011
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR
AGENCY PRICE TO RENEWAL COMMISSIONS	2.95	2.74	2.75	2.49	2.65	2.50	2.42	2.37	2.39	2.37	2.43	2.41	2.47
AGENCY PRICE TO TOTAL REVENUES	2.38	2.39	2.35	2.18	2.28	2.22	2.17	2.17	2.08	2.09	2.13	2.09	2.18