

Allstate Value Index

First Quarter 2012

In 2011 the Allstate Agency Value Index's sampling of Allstate Agency sales transactions reflected a slight 3% decrease in value relative to 2010. However, this decrease is a bit anomalous as the presence of Allstate Agency Sales during 2011 arising out of a compulsion to sell (i.e. as a result of a 90 day Termination Notice) or those who sold due to their own personal negative perception of Variable Compensation, typically sold their agency for what one could easily argue was a discounted purchase price. Healthy agencies with good performance numbers, where the agency owner had no compulsion to sell, received very healthy multiples in 2011.

So, where does this leave us? Well, I will start 2012 by predicting that agency values this year will stabilize and even possibly see some level of growth. However, I must do it with a disclaimer. I feel some agencies will increase in value and some will decrease in value as it is dependent on the size of the agency (discussed in further detail below).

Agency Analysis by Size Group

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

As mergers appear to be wrapping up around the country, the value of small agencies will likely decline. Outside Buyers during the vast majority of 2010 and 2011 were given the opportunity to purchase and merge multiple small agencies. This phenomenon helped vault the value of small agencies during that time period.

In 2012, if these small agencies are only sold as a stand-alone agency (absent additional cash flow from a merger), purchasers of these agencies would likely be faced with an ownership opportunity that provides little to no excess cash flow after overhead and acquisition loan payments. As a stand-alone office, most agency owners of books under \$1,000,000 in Premium will have a hard time convincing an Outside Buyer to purchase their agency for more than the current TPP value on the agency.

During the First Quarter of 2012, the value of agencies in this size group decreased to 1.87 times, a value slightly lower than the 1.94 times these sized agencies realized in 2011. It will be interesting to watch what happens to the value of these agencies throughout 2012.

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

Agencies with between \$100,000 and \$200,000 in New/Renewal Commission also benefited significantly in 2011 from the relatively vigorous purchase/merger opportunities Allstate approved and supported. Therefore, Agencies in this range have and will likely continue to experience some downward pressure on their Value Multiples in 2012 as the level of Allstate Agency purchase/merger transactions is significantly reduced. Buyers of these sized agencies will likely see a business that needs to grow for the cash flow to work in their favor, especially when a hefty debt load is required to consummate the purchase.

During the first quarter of 2012 the multiple of renewal commissions for which Agencies in this size group were sold decreased slightly to 2.20 from the 2011 average of 2.28.

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

Agencies ranging from \$200,000 to \$300,000 in New/Renewal Commission have been the most steady of all Size Groups, consistently maintaining a Value Multiple of 2.40 to 2.50 times over the past 2 years. This trend continues in 2012 with the multiple of renewal commissions for which agencies were sold coming in at 2.41 times. It seems that at this size or larger the level of cash flow available to cover Agency overhead, the new owner's wage needs and service Agency acquisition debt is sufficient to maintain a strong base of interested buyers irrespective of the availability of merger/acquisition opportunities. .

\$300,000+ in New/Renewal Commission

Agencies in this size group ended 2011 with an average multiple of 2.52 times in the Fourth Quarter. Furthermore, these sized agencies have started the First Quarter of 2012 on a slight uptick from where they ended 2011, at 2.54 times. As the level of merger activity likely decreases in 2012, we will see an increase in the demand for and subsequent increase in value of agencies with New/Renewal Commission income greater than \$300,000.

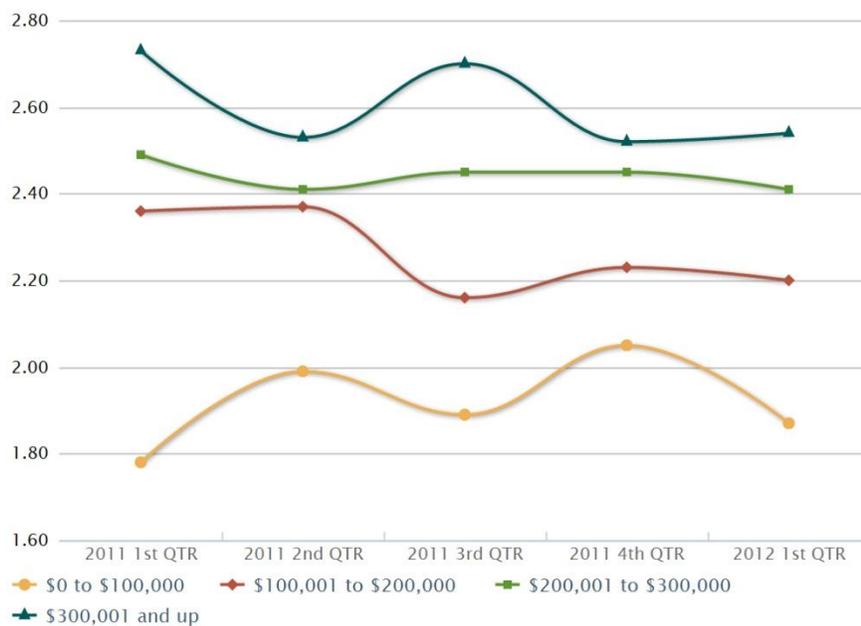
In 2010 and 2011 there was more than one way to purchase a large agency. You could do it the traditional way, by purchasing an existing large agency for a value of 2.5 times or greater, or you could purchase multiple small agencies for a multiple of around 2.0 times each and merge them together. This "Value" received by purchasing and merging multiple small agencies to achieve scale was an appealing opportunity for Outside Buyers and created competition for those agencies trying to sell their large agencies. Demand for larger agency will not cool down as Outside Buyers will continue to purchase an agency at "Scale";

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however, should mergers activity continue to cool in 2012 compared to prior years, agency owners looking to sell their larger size agency will likely see greater demand, and as a result, a greater value for the sale of their large sized agency.

Allstate Agency Price to Renewal Commissions Ratio (National Average)						
	2007	2008	2009	2010	2011	2012 1st QTR
\$0 to \$100,000	2.37	2.32	2.14	2.07	1.94	1.87
\$100,001 to \$200,000	2.65	2.41	2.35	2.29	2.28	2.20
\$200,001 to \$300,000	2.92	2.74	2.50	2.49	2.45	2.41
\$300,001 and up	3.01	3.13	2.78	2.79	2.62	2.54
Simple Average	2.96	2.71	2.46	2.41	2.33	2.30
Weighted Average	2.74	2.65	2.44	2.41	2.32	2.25



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Allstate Agency Value Ratios						
	2010 4th QTR	2011 1st QTR	2011 2nd QTR	2011 3rd QTR	2011 4th QTR	2012 1st QTR
Agency Price to Renewal Commissions	2.41	2.47	2.33	2.25	2.34	2.30
Agency Price to Total Revenues	2.09	2.18	2.05	2.00	2.06	2.02



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