

First Quarter 2014

Allstate Agency Values Remain Strong – Fewer Large Agency Sales

During the First Quarter of 2014, larger sized agencies with new and renewal commission income of \$300,000 or greater represented only 21% of agencies sold during the Quarter. This is extremely low, as these larger sized agencies represented 41%, 52%, and 33% of the total agencies sold in the previous three Quarters (see highlighted below).

Percentage of Agency Sales by Size Group					
New/Renewal Commissions	2013 1st QTR	2013 2nd QTR	2013 3rd QTR	2013 4th QTR	2014 1st QTR
\$0 to \$100,000	17%	0%	7%	0%	6%
\$100,001 to \$200,000	28%	21%	15%	25%	15%
\$200,001 to \$300,000	27%	38%	26%	42%	58%
\$300,001 and up	28%	41%	52%	33%	21%

With larger sized agencies selling for the largest multiples, the simple Average has suffered during the First Quarter of 2014, as agencies with over \$300,000 in New and Renewal Commission income represented a smaller percentage of total sales. This trend reminds us of the importance of focusing on the sales multiple for each size group, with the remainder of this report focusing on analyzing those Allstate agency sales that took place for each size group.

Allstate Agency Price to New/Renewal Commissions Ratio (National Average)						
	2012 4th QTR	2013 1st QTR	2013 2nd QTR	2013 3rd QTR	2013 4th QTR	2014 1st QTR
\$0 to \$100,000	2.14	2.1	N/A	2.19	N/A	1.74
\$100,001 to \$200,000	2.21	2.15	1.99	2.18	2.2	2.32
\$200,001 to \$300,000	2.43	2.38	2.3	2.39	2.48	2.35
\$300,001 and up	2.55	2.51	2.57	2.68	2.74	2.7
Simple Average	2.39	2.3	2.34	2.5	2.5	2.38
Low	1.53	1.28	1.88	1.59	1.07	1.07
High	3.36	2.95	3.07	3.07	3.49	3.16

Agency Analysis by Size Group

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

Of the agencies financed by PPCLOAN in this size group, all were purchased as part of a merger transaction by an Allstate approved Outside Buyer. In each instance, this small-sized purchase was executed as part of a transaction where the Outside Buyer's combined / merged Earned Premium was approximately \$3,000,000 at the time of purchase.

Representing only 6% of the total agencies financed in the First Quarter of 2014, it is hard to rely on the statistical accuracy of the resulting 1.74 times multiple reported above. Certainly, the multiple for which an agency is sold depends heavily on the quality of the agency's performance and for what purpose the agency is being purchased (satellite or merger). However, my gut tells me a 2.0 times multiple is certainly in the ballpark of a fair price, especially in those instances where the agency is part of a merger transaction.

\$100,001 to \$200,000 in New/Renewal Commission

Of the agencies financed by PPCLOAN in this size group, most were purchased as part of Allstate's Agency Development Bonus (ADB) program where incoming agents receive 80% of the start-up tiered incentive compensation when purchasing an agency between \$800,001 to \$1,500,000 in Earned Premium.

Financing Agencies with Earned Premium below \$1,500,000 as a stand-alone agency is a new phenomenon for PPCLOAN, and we are starting to extend capital for agency purchases that qualify for ADB and have Earned Premium between \$1,000,000 and \$1,500,000. Based on conversations members of PPCLOAN had with Sales Leadership at the March 2014 National Forum, it is expected that demand for these sized agencies that qualify for ADB will remain strong due to the competitiveness of the underlying product being sold, matched with the opportunity to reinvest ADB funds for growth purposes.

\$200,001 to \$300,000 in New/Renewal Commission

Almost 60% of the agencies financed by PPCLOAN in the First Quarter of 2014 were in this size group – a sweet spot for Outside Buyers wanting to join the ranks of agency ownership, or existing Allstate agency owners looking to take on a satellite location. Of the agencies in this size group, the transitions had the following makeup:

- 58% were purchased by **Outside Buyers** as their sole agency location
- 11% were purchased by **Outside Buyers** and merged with another agency into a single location
- 26% were purchased by **Existing Agency Owners** as a satellite location
- 5% were purchased by **Existing Agency Owners** and merged into their existing location

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Recent history shows that Agencies in this size group traditionally sell for a 2.30 to 2.40 sales multiple. At 2.35 times for the First Quarter of 2014, agencies in this size group are selling at a multiple well in line with recent averages.

Agencies of this size tend to be attractive to individuals looking to join the ranks of Allstate Insurance, as:

- they are of a manageable size
- they are large enough that the cash flow is positive
- they do not require large amount of capital or debt to execute a purchase
- they have great growth opportunity

\$300,001+ in New/Renewal Commission

All agencies purchased in this size group during the First Quarter of 2014 were purchased as a single location by an Outside Buyer. At 2.70 times, the multiple for these sized agencies is very strong, especially considering just one year ago the average multiple paid for these sized agencies was 2.51 during the First Quarter of 2013.

Allstate Agency Value Ratios						
	2012 4th QTR	2013 1st QTR	2013 2nd QTR	2013 3rd QTR	2013 4th QTR	2014 1st QTR
Agency Price to New/Renewal Commissions	2.39	2.3	2.33	2.5	2.5	2.38
Agency Price to Total Revenues	2.11	2.06	2.11	2.21	2.19	2.17

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