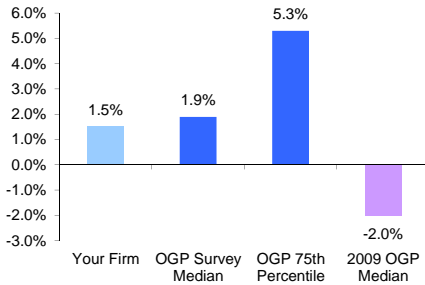


**Organic Growth & Profitability Survey (OGP) - Year-End 2010**

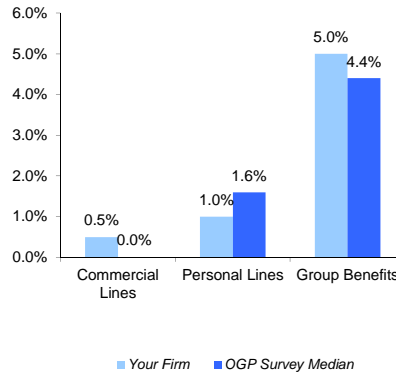
- Median annualized revenue for surveyed firms is over \$12 million, average is approximately \$29 million. All U.S. geographies represented.
- In this Year-End survey, we have provided a comparison to 2009 OGP results in lieu of public broker results, as all public broker results have not been released.

**Organic Growth**

**Total Agency Organic Growth**



**Organic Growth by Product Line**



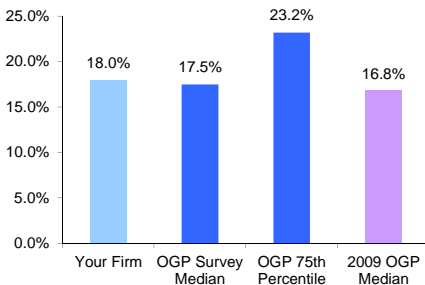
**Reagan Consulting Observations**

- Median organic growth rose again in the fourth quarter, ending at 1.9% for 2010 - this figure is almost the opposite of last year's negative 2.0% organic growth
- Commercial lines growth was flat in 2010, the first time since the OGP survey was introduced in 2008 that it was not negative
- Even with improving growth figures, over one-third of all firms reported negative organic growth and only 7% of all firms reported double-digit growth in 2010
- **OGP Projected 2011 Growth: 4.1%**

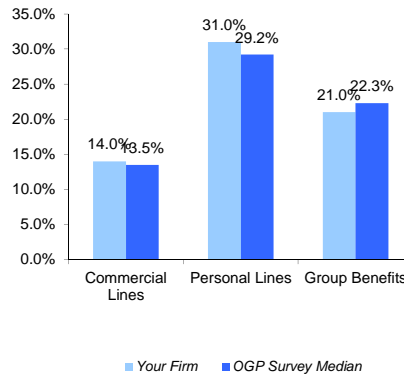
Your organic growth rank: **40th - 50th percentile**

**Profitability**

**Total Agency EBITDA Margin**



**EBITDA Margin by Product Line**



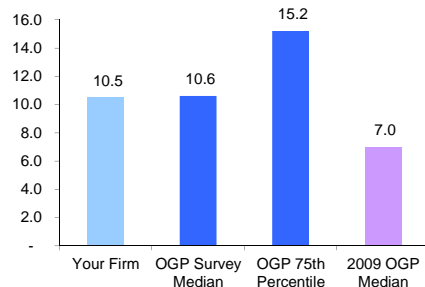
**Reagan Consulting Observations**

- Median EBITDA margin improved slightly in 2010, finishing at 17.5% for the year versus 16.8% in 2009
- Personal lines profitability continues to lead the way, posting a 29.2% margin in 2010 - more than double the margin of commercial lines
- Contingent income, an important driver of profitability, was up 0.3% for the median firm in 2010
- To be in the top 25% of OGP firms in 2010 required EBITDA of 23.2% or higher
- **OGP Projected 2011 Margin: 17.5%**

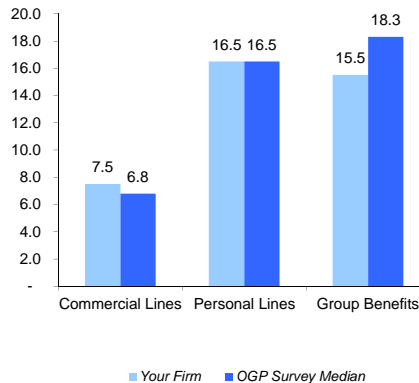
Your profitability rank: **50th - 60th percentile**

**The Rule of 20<sup>(1)</sup>**

**Total Agency Rule of 20**



**Rule of 20 by Product Line**



**Reagan Consulting Observations**

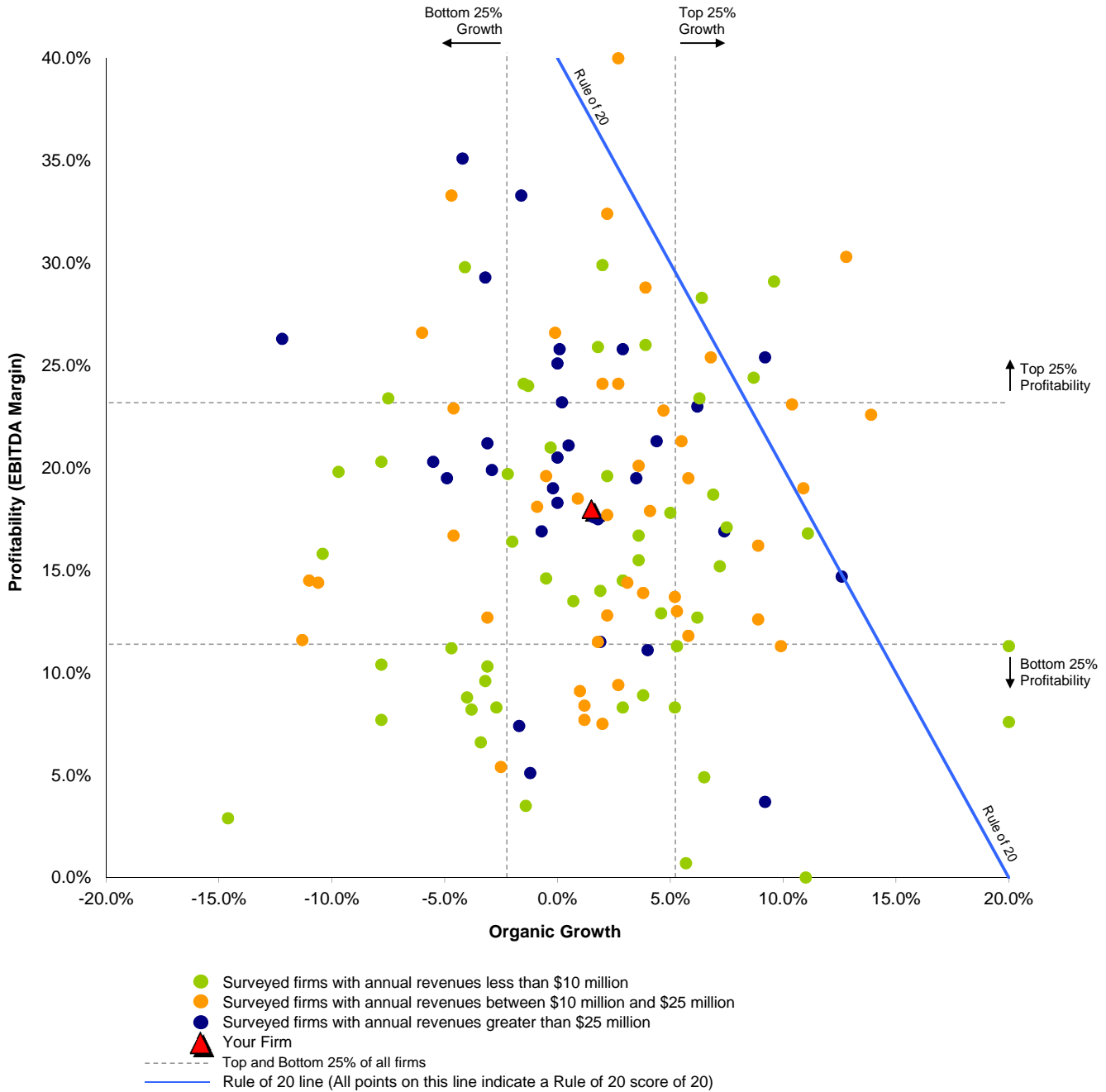
- Rule of 20 results, buoyed by increased organic growth, improved by over 50% from 2009 to finish at 10.6 in 2010
- Almost 10% of all OGP firms achieved a Rule of 20 score of 20 or better in 2010
- While concerns about the impact of healthcare reform persist, group benefits divisions continue to generate the highest returns among major product lines
- **OGP Projected 2011 Score: 12.8**

Your Rule of 20 rank: **40th - 50th percentile**

(1) Reagan Consulting has developed a metric called the "Rule of 20" to provide a quick means of benchmarking an agency's shareholder returns. The Rule of 20 is calculated by adding half of an agency's EBITDA margin to its organic revenue growth rate. An outcome of 20 or higher means an agency is likely generating, through distributions and / or share appreciation, a shareholder return of approximately 15% - 17%, which is a typical agency / brokerage return under normal market conditions. Given current market conditions, however, few firms are achieving a score of 20 or better.

NOTE: If data for your firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.

Agency Organic Growth & Profitability Scatter Plot



**About the Scatter Plot**

In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and the total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple of guidelines on the graph to help in interpreting the data. The grey dotted lines show the top and bottom 25% of firms in organic growth and profitability. The solid blue line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20. Finally, we've broken the firms into groups based on revenue size, as distinguished by the different colored dots. The goal of this scatter plot is to show the wide range of organic growth and profitability results in the industry and to benchmark where your firm falls.



# Will 2011 usher in the return of the Seller to the M&A marketplace?

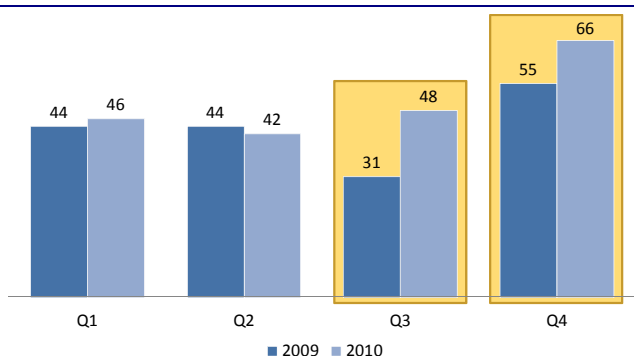
*Kevin Stipe & Brian Deitz*

For a couple of years, M&A activity in the insurance brokerage industry has been slow. In our M&A market commentary in early 2010, we noted that the reason the market hadn't come back after the crash in 2008 was seller reluctance. Economic realities and soft market conditions were keeping sellers on the sidelines – hesitant to sell when valuations had declined (due to agent and broker performance more than buyer pricing) and earn-outs looked difficult to achieve.

In 2009, when both buyers and sellers were hesitant, just 174 deals were announced, a 40% decline from the 290 transactions announced in 2008. In 2010, as buyers jumped back into the ring, 202 mergers and acquisitions were announced – a slight rebound from 2009, but still below average for the past ten years, and nowhere near the volume of 2006 through 2008.

In looking closer at 2010, however, there are indications that sellers are starting to trickle back into the marketplace. The entire increase in deal volume in 2010 – 28 transactions – came from the last two quarters of the year. First half volume was identical to 2009. But is the end-of-year increase in activity indicative of true momentum in the marketplace, or is this bump due primarily to the capital gains tax increase that wasn't?

Deal Activity Gained Momentum in the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of 2010



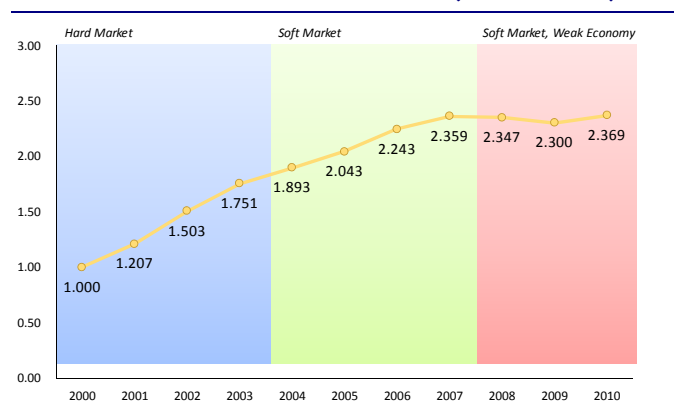
Source: SNL, includes North American Deals

Through the first month of 2011, the activity has continued, as 24 deals were announced. While some portion of recent activity may have been influenced by the threat of increased taxes, the jump in volume is hard to ignore. Will this momentum continue through 2011? Will this be the year that sellers return to the M&A marketplace?

## It's the Economy, Stupid

President Bill Clinton's famous phrase of the early 1990s has some direct application to the insurance distribution M&A marketplace in 2011. The weak economy, and its negative impact on performance and value, has been the primary reason that sellers have yet to embrace M&A activity as they have in the past.

An Index of Private Broker Values (2000 = 1.000)



Source: Reagan Value Index

The graph above shows how private broker valuations, as measured by the Reagan Value Index (an index of over thirty firms that we appraise every year), have changed over the past decade. We have broken the graph into three periods: the hard market that lasted until 2004, the soft market from 2004 through 2008, and the soft market and weak economy that began in 2008. In the first two periods, even though market pricing changed dramatically for the worse, agency values increased – as did M&A activity. It is only with

# Organic Growth & Profitability Survey

## M&A Market Commentary (Q4 2010)

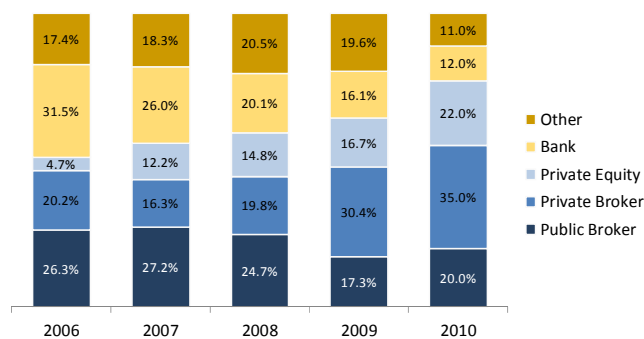
the advent of the weaker economy in 2008 that agency performance and value have declined – and taken M&A activity down with them.

What would happen if the industry in general – and sellers in particular – began to have a more positive outlook for future performance? M&A activity may be driven somewhat by the *perception* of economic recovery, not only the recovery itself. In order to maximize the value in a transaction, sellers don't necessarily need a positive economic environment prior to a sale as much as they need one after the sale. If, after the deal closes, economic activity is strong and businesses are hiring, the increased exposures will help sellers achieve a healthy portion of the earn-out and maximize their value.

### The Buyers are Ready and Waiting

Buyers, amidst all of this seller reluctance, are still eager to get deals done. But the buying group has a slightly different composition than it has had over the past several years. The two leading buying groups in 2010, in terms of deals completed, were privately held brokers (35% of all deals) and private equity backed brokers (22% of all deals). This represents an interesting change from just two years ago in 2008, when public brokers and banks were the leading acquirers. Though Arthur J. Gallagher and Brown & Brown were the two leading acquirers in 2010, public brokers were the third-leading buyer group, totaling only 20.0% of completed deals. Some of this shift is obviously due to Hub and USI changing teams in 2007 – moving from public to private equity backed brokers.

Deal Volume by Buying Group (2006 - 2010)

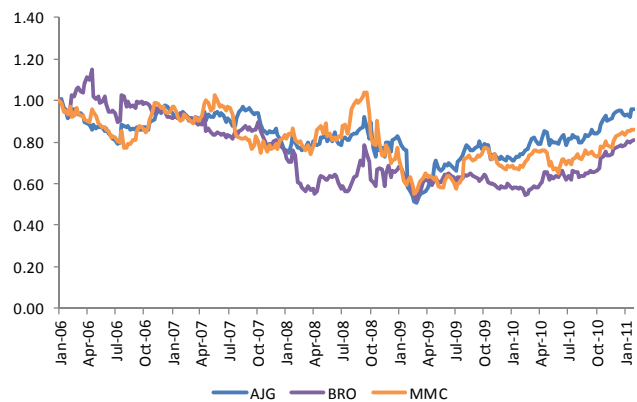


Source: SNL, includes North American Deals

Privately-held brokers have dramatically increased their share of M&A activity over the past five years, completing 70 transactions in 2010. Private-to-private transactions have boomed in an era where the playing field has been somewhat leveled. Typically, there are two factors that give other buying groups a big advantage over privately-held brokers – public broker valuations and access to / cost of capital. In 2009 and 2010, however, public broker valuations were relatively depressed (along with the rest of the market) and capital was limited for all buyers. These dynamics allowed privately-held buyers to capitalize on the “culture” factor in order to get deals done.

2011, however, could be the year when the bigger names start to reclaim more market share. As the stock market has increased in recent months, the most active public broker acquirers have done quite well. As can be seen in the chart below, the stock prices for Gallagher, Brown & Brown and Marsh are almost back at pre-crash levels of 2008.

Indexed Public Broker Stock Prices (1/1/2006 = 1.00)



Source: Yahoo! Finance

As the stock valuations have increased, so have EBITDA multiples for these public brokers. Now trading with multiples reaching into double digits for the first time in years, public brokers are poised to be able to take advantage of the arbitrage factor they've enjoyed in the past: Acquire at 6-to-8 times EBITDA and get credit in the marketplace for 10 times or more. With this advantage back in play, will the private buyers be able to keep pace?

# Organic Growth & Profitability Survey

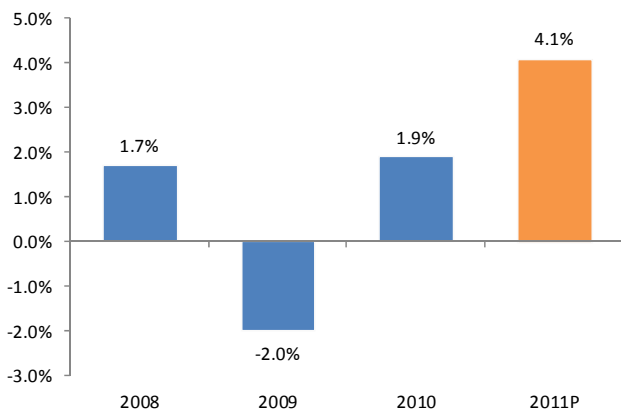
## M&A Market Commentary (Q4 2010)

The strong buyer demand – even in these times and even as the buying group is evolving – bodes well for the M&A market in the insurance distribution system. There are several proven constituencies that have demonstrated an interest in acquisitions regardless of market conditions. With buyer demand appearing solid, the direction of the market is left in the hands of the sellers.

### Where Will the Market Go in 2011?

We believe that the M&A market for insurance agents and brokers will pick up steam in 2011 as sellers start to get comfortable with a positive perception of the economy and future growth. We don't believe there will be an immediate return to the number of transactions at height of the market from 2006 to 2008, as the past couple of years have indeed taken a toll on the industry. Many prospective sellers want time to recover before capitalizing on the value they've created. We do believe, however, that a more optimistic forecast will allow some sellers to approach the market with the confidence that has been missing for the past couple of years.

### Organic Growth in the Industry (2008 - 2011P)



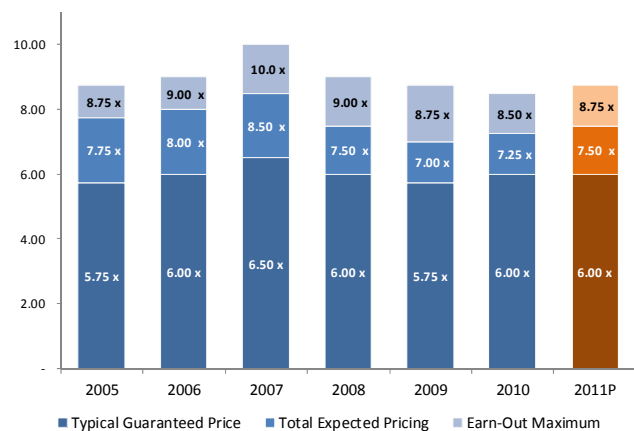
Source: OGP Survey

In the year-end 2010 OGP survey we asked participants to forecast growth and margin for 2011 – the first time we've asked for forward-looking data. The result – median projected organic growth for 2011 of 4.1% – is indicative of a more optimistic outlook than we have seen in a while. In fact, if the projection

holds, the median firm will grow *more than twice as much* in 2011 as it has grown from 2008 through 2010 combined. Wouldn't that make it easier for sellers?

We're projecting that deal activity will increase again in 2011 as more sellers decide that the future looks bright enough to capitalize on the value they have created and the growth they can achieve over the next several years. Our estimate is that the industry will see between 225 and 250 transactions announced in 2011.

### Typical Deal Valuations (2005 - 2011P)



Source: Reagan Consulting Analysis

We believe that valuations will also increase, based on the opportunity for buyers to offer larger, yet more realistic, upsides and the opportunity for sellers to capture more of the upside opportunity. There is even the potential that guaranteed multiples could climb above the 6.0 x in the graph above.

The market is warming, from both a valuation standpoint and an activity standpoint, but we're still a ways from the frenzy of 2007 and early 2008.

*A final note: In May 2011 Reagan Consulting will once again hold its biannual M&A and Internal Perpetuation workshop in Atlanta, GA. This event, regularly attended by over 100 of the industry's top agents and brokers, is a "who's who" of industry leaders. Below is information about this year's workshop, which is designed to explore the trends and best practices in ownership transfers in the industry today. Sign up today to ensure a spot.*