



The GPS Industry Snapshot | Q4 2023

- 10.3% Median industry organic growth
- 9.7% Projected year-end 2024 organic growth
- 23.8% Median industry EBITDA margin
- 22.5% Projected year-end 2024 EBITDA margin
- 10.9% Median commercial lines organic growth
- 10.3% Median personal lines organic growth
- 6.5% Median group benefits organic growth

Stat of the Quarter

22.8

Median Rule of 20 Score

Brokers posted the highest full-year Rule of 20 score in GPS history, surpassing the previous records of 22.2 set in 2022 and 20.6 set in 2021. This was fueled by both record organic growth and EBITDA margins.

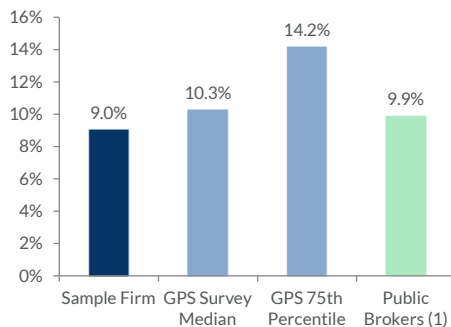
Reagan's Growth & Profitability Survey is a real-time, quarterly look at the key drivers of value creation in the brokerage industry: organic growth and EBITDA margin. In Q4 2023, approximately 180 agencies participated in the GPS, with median annual revenues of approximately \$17.7 million.



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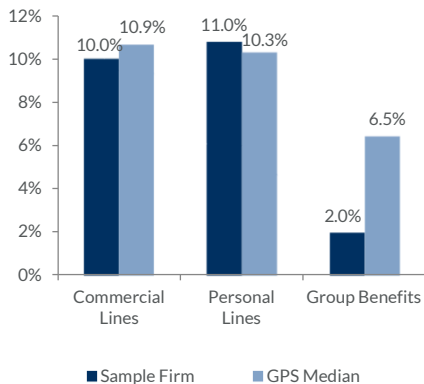
ORGANIC GROWTH

TOTAL AGENCY ORGANIC GROWTH

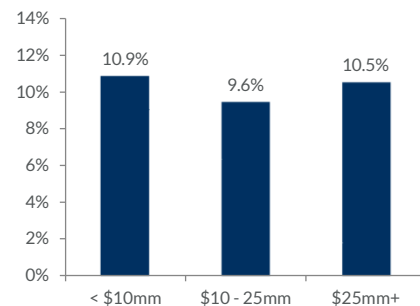


Sample organic growth rank: 30th - 40th percentile

ORGANIC GROWTH BY PRODUCT LINE

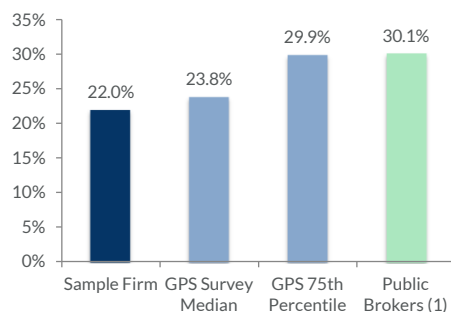


ORGANIC GROWTH BY SIZE CATEGORY



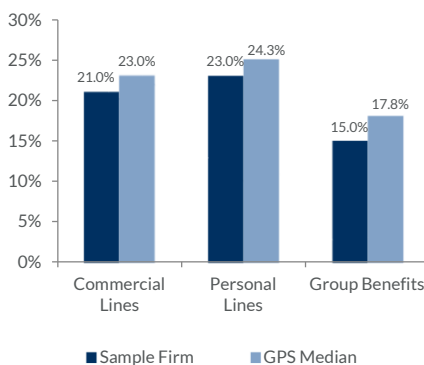
PROFITABILITY

TOTAL AGENCY EBITDA MARGIN

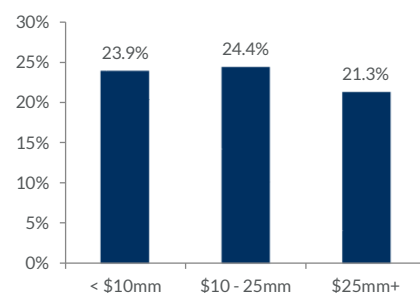


Sample profitability rank: 40th - 50th percentile

EBITDA MARGIN BY PRODUCT LINE

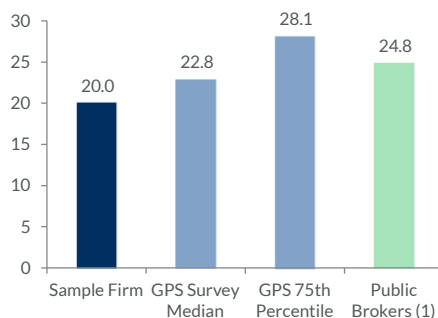


EBITDA MARGIN BY SIZE CATEGORY



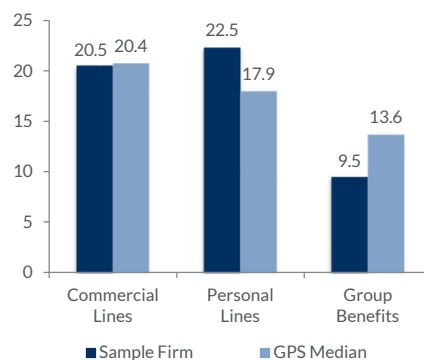
THE RULE OF 20

TOTAL AGENCY RULE OF 20

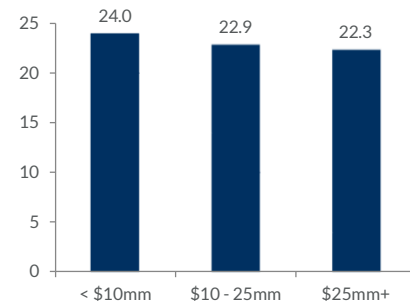


Sample Rule of 20 rank: 30th - 40th percentile

RULE OF 20 BY PRODUCT LINE



RULE OF 20 BY SIZE CATEGORY

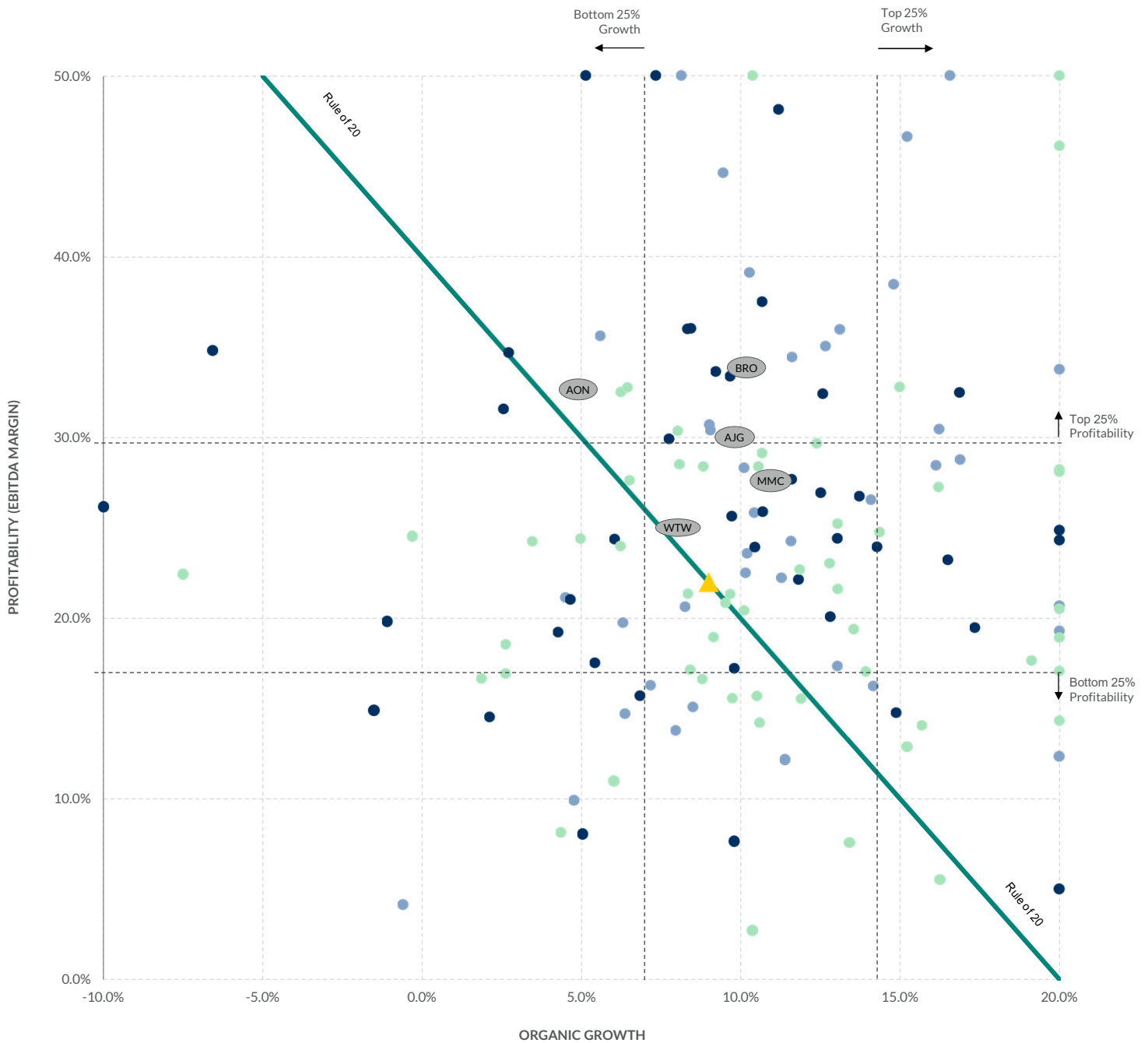


The Rule of 20

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 profit distributions and / or share price appreciation, a shareholder return of approximately 15% - 17%, which is a typical agency / brokerage return under normal market conditions.

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

(1) Represents Q4 2023 results for AJG, AON, BRO, MMC and WTW.



- Surveyed firms with annual revenues less than \$10 million
- Surveyed firms with annual revenues between \$10 and \$25 million
- Surveyed firms with annual revenues greater than \$25 million

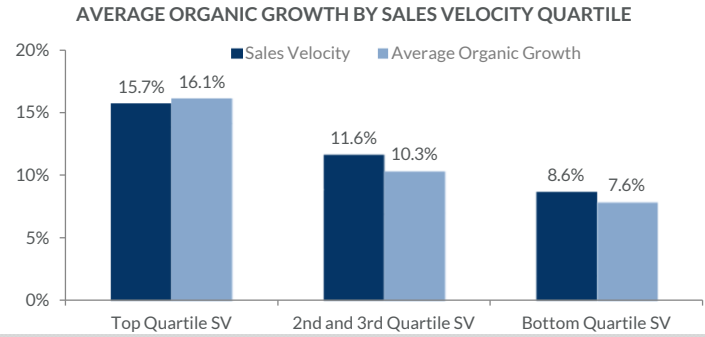
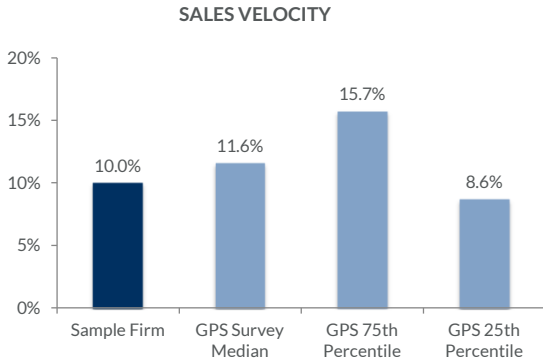
- ▲ Sample Firm
- Top and Bottom 25% of all firms
- Rule of 20 line (All points on this line indicate a Rule of 20 score of 20)

Scatter Plot

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. It shows every firm that completed the survey's total agency organic growth section and 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. The grey dotted lines show the top and bottom 25% of firms in organic growth and profitability. The solid green line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20. The firms are broken into groups based on revenue size, as distinguished by the different colored dots.

Note: Scatter plot represents Q4 2023 results for AJG, AON, BRO, MMC and WTW.

SALES VELOCITY

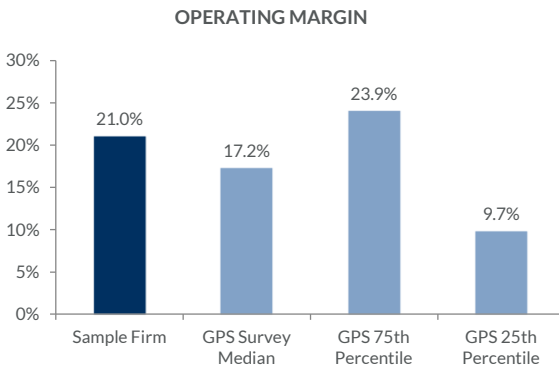


Sales Velocity

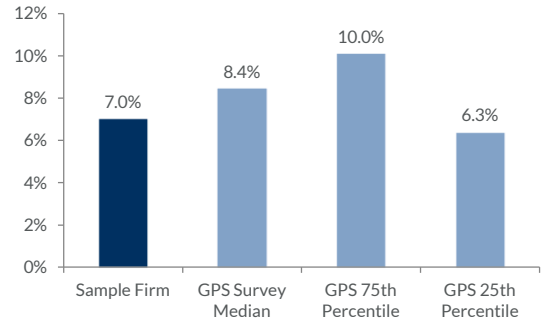
Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results. Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. The above graph shows average organic growth by sales velocity quartile - firms with the highest Sales Velocity post outsized organic growth.

Sample Sales Velocity rank: **30th - 40th percentile**

OPERATING MARGIN & CONTINGENT INCOME AS % OF REVENUE



CONTINGENT/BONUS/OVERRIDE INCOME AS A % OF REVENUE



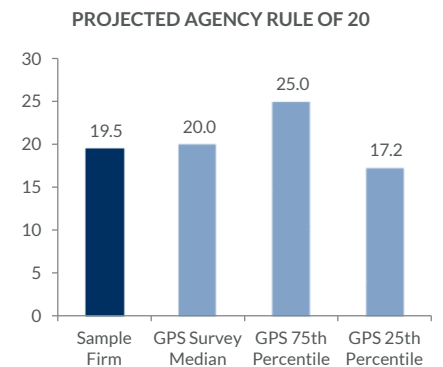
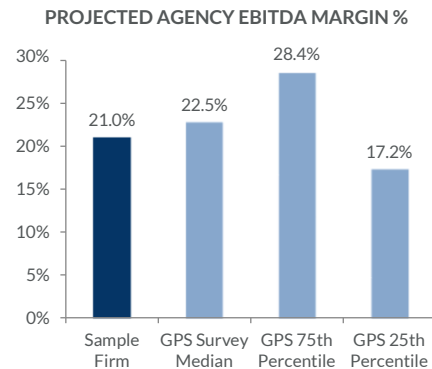
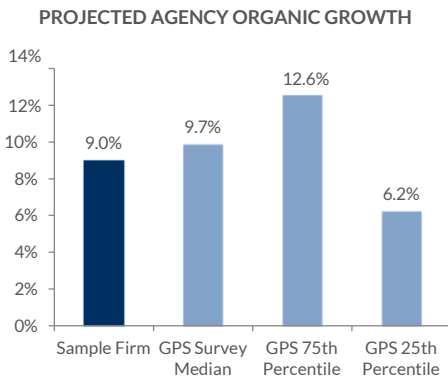
Sample Operating Margin rank: **60th - 70th percentile**

Sample Bonus Inc. as % of Revenue rank: **30th - 40th percentile**

Operating Margin

Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.

2024 PROJECTIONS

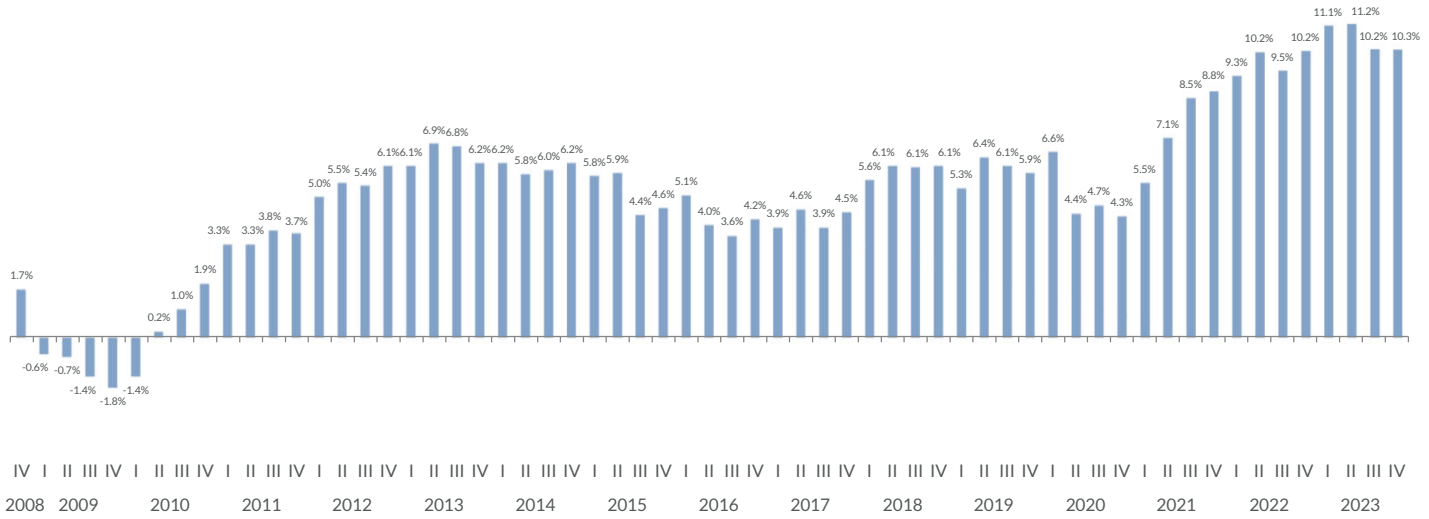


Sample organic growth rank: **40th - 50th percentile**

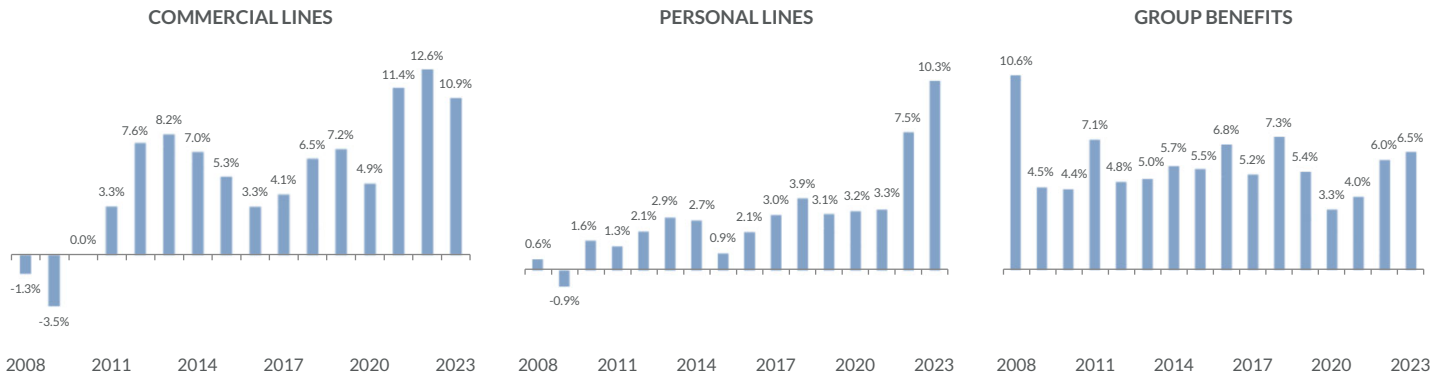
Sample EBITDA margin rank: **40th - 50th percentile**

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

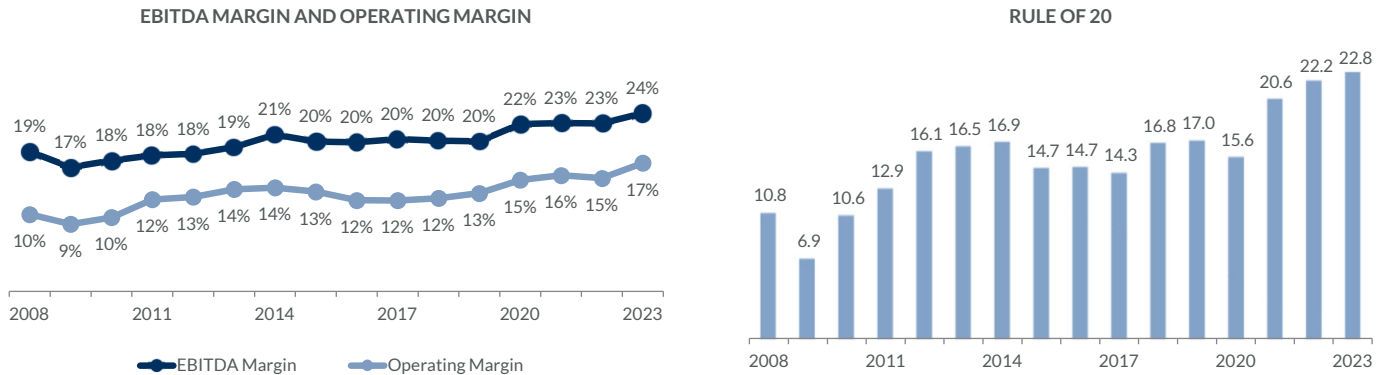
QUARTERLY ORGANIC GROWTH - TOTAL AGENCY MEDIAN
(Q4 2008 - PRESENT)



COMPARATIVE MEDIAN ORGANIC GROWTH BY PRODUCT LINE
(FOURTH QUARTER NUMBERS, 2008 - 2023)



COMPARATIVE MEDIAN PROFITABILITY AND RULE OF 20 ANALYSIS
(FOURTH QUARTER NUMBERS, 2008 - 2023)



EBITDA Margin and Operating Margin
EBITDA Margin is calculated by dividing a firm's pro-forma EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by the firm's pro-forma net revenues. Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.



Hopes for Soft Landing Replaced by Expectation of No Landing at All

by Kevin Stipe

A year ago, brokers were torn. They were celebrating record results – but also feeling like the party was nearing the end. Rising interest rates, the tapering-off of hardening P&C pricing and widespread predictions of a 2023 recession had brokers on edge. Most were bracing themselves for a tougher 2023. It was taken as a given that growth and profitability levels would decline – the only question was how steep the decline would be. Would the economy (and brokers by extension) experience the elusive “soft landing?”

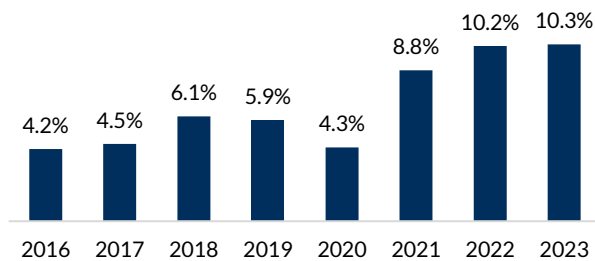
What a difference a year makes.

Brokers ended up setting new records for growth and profitability in 2023. Perhaps even more stunning is that they are now projecting a repeat performance for 2024.

Organic Growth: The Numbers

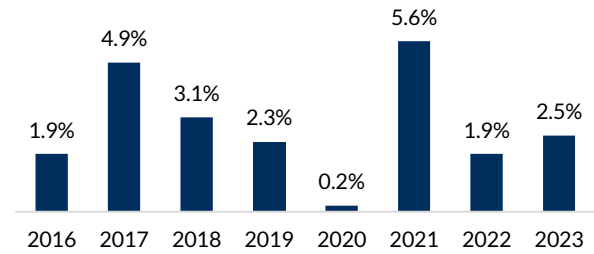
The Q4 2023 organic growth of 10.3% is the highest annual level achieved since our quarterly study was launched in 2008.

ORGANIC GROWTH - TOTAL AGENCY



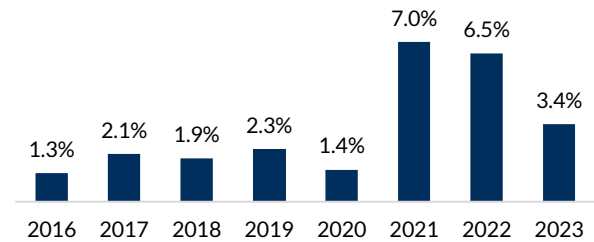
Two key drivers of this growth were from general economic trends - the U.S. economy grew faster than expected, with Real GDP growth at 2.5%, and inflation remained relatively high at 3.4%.

REAL GDP



Source: Bureau of Economic Analysis

INFLATION

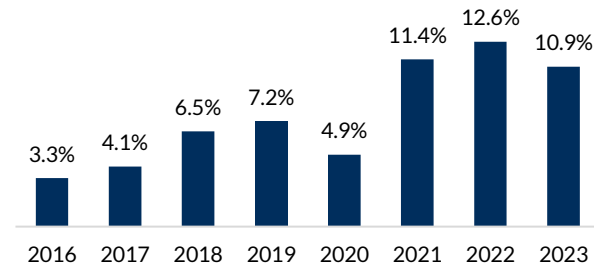


Source: U.S. Labor Department

There were also unique factors that drove organic growth on a line-by-line basis.

Commercial P&C, which represents the largest single line of business for the typical GPS survey participant, grew by double-digits once again, at 10.9%.

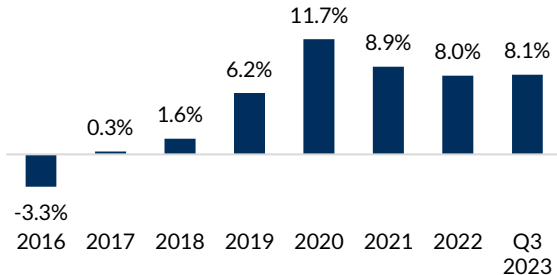
ORGANIC GROWTH - COMMERCIAL LINES



Note: All graphs not specifically attributed are from the Reagan Consulting Growth and Profitability Survey.

The primary growth driver for Commercial P&C remained the hard market – with the CIAB reporting that Q3 2023 pricing jumped by 8.1% - extending the current hard market to a remarkable six full years.

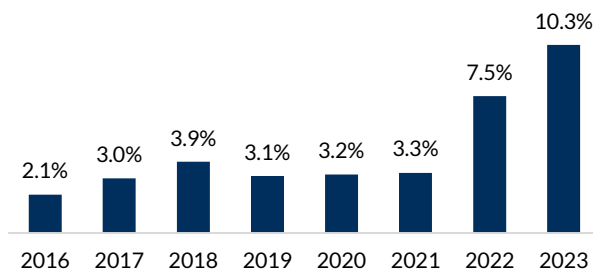
P&C ANNUAL RATE INCREASES



Source: CIAB Pricing Survey

For Personal P&C, we are witnessing something unprecedented. The line of business that has historically grown by only 2%-3% jumped to a record 10.3% growth in 2023.

ORGANIC GROWTH – PERSONAL LINES



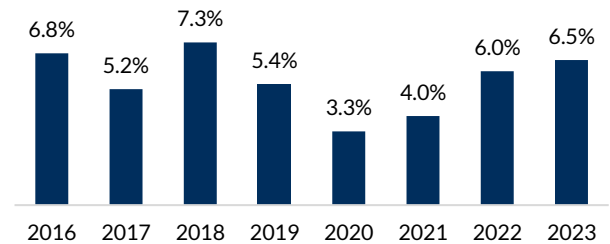
Personal lines, especially the affluent segment of the market frequently served by GPS agencies, is in an extended hard market of its own. Homeowners rates have skyrocketed as insurers have pulled back from coastal areas, while inflation has caused building costs to soar.

Personal auto rates are increasing as auto repair and replacement costs have increased. Personal lines rates are also rising due to a sharp rise in “nuclear verdicts” - jury awards of \$10M or more. These verdicts are driven by the plaintiffs’ bar’s increased sophistication as well as a rising propensity among juries to use large awards as a tool for “social justice.”

Since there is a lag effect in these politically sensitive lines driven by state required approval for price increases, it is reasonable to expect that 2024 will be another year of solid growth for personal lines.

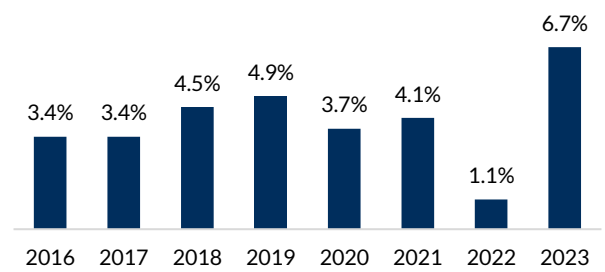
Group Benefits grew by 6.5%, which was lower than the other two major sources of revenue, but its highest growth rate since 2018.

ORGANIC GROWTH – EMPLOYEE BENEFITS



The acceleration of Group Benefits growth seems to be driven by an uptick in the cost of employer-sponsored health insurance. After several years of annual increases in the 3%-5% range, premiums jumped by nearly 7% in 2023.

EMPLOYER-SPONSORED FAMILY COVERAGE

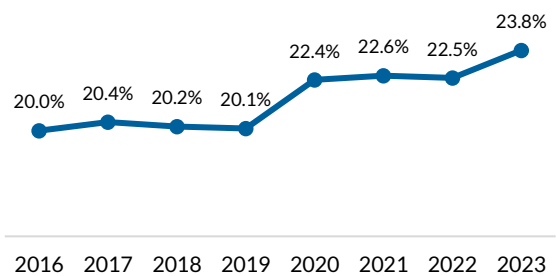


Source: Kaiser Family Foundation

Profitability

EBITDA margins also set a new record in 2023, topping 23% for the first time.

EBITDA MARGIN

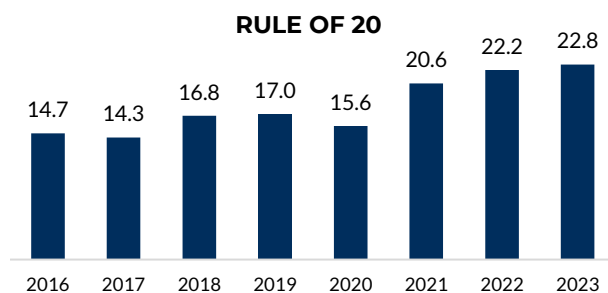


In one sense it is no surprise that another EBITDA record was set in 2023. The GPS survey has taught us that EBITDA margin trends correlate with organic growth trends: When organic growth is relatively high, margins tend to expand and vice versa. This is likely due to the underlying structure of insurance brokers – which are primarily people-businesses. The majority of a broker’s expenses are compensation related – and when top-line growth exceeds wage growth, broker margins expand.

But in another sense, today’s record levels of profitability remain surprising. During Covid, EBITDA margins jumped by over 2 percentage points, driven by the temporary elimination of certain selling costs. Many believed that this spike in profitability would subside once the world returned to normal. But that hasn’t happened. Instead, brokers have held on to the margin gains achieved during Covid – and actually built on top of them with another 130 basis point gain in 2023. While higher profits are attractive, our hope is that brokers aren’t under-investing in hiring merely to meet a margin objective.

Investor Returns

GPS firms hit a new record Rule of 20 score of 22.8 in 2023. The Rule of 20 is a blended metric derived by combining the organic growth rate with half of the EBITDA margin. Achieving a score of 20 or higher means that a brokerage is meeting or exceeding the historically-expected investor returns for the sector. It goes without saying this year’s record Rule of 20 result means that agency owners did quite well in 2023!

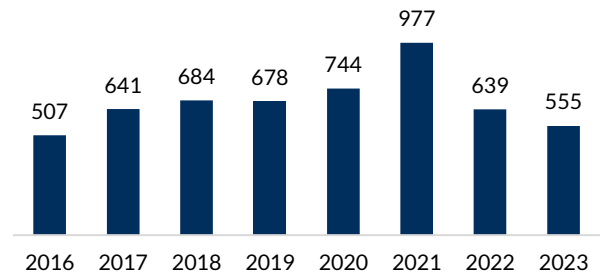


Valuation and M&A

Deal activity fell in 2023, with 555 deals announced. By historical standards, this is a respectable level of deal activity, but it was the lowest number of deals

since 2016. It has been well-documented that the deal slow-down was largely due to the 2022 spike in interest rates, which hit buyers with significant amounts of debt particularly hard.

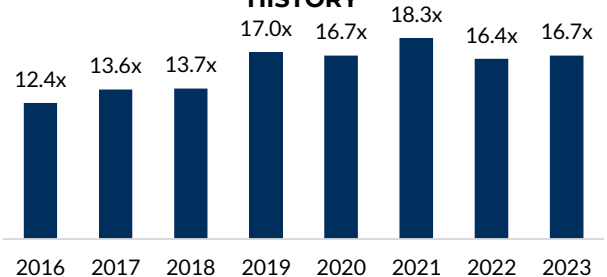
RECENT DEAL ACTIVITY



Source: SNL Financial as of February 2, 2024 (based on Announcement Date). Includes whole company, franchise and asset sales.

The slowdown in deal activity has not significantly impacted deal valuations. Publicly traded broker stocks are still trading at EBITDA multiples above 16 which gives them a powerful currency with which to fund deals. So long as these multiples remain strong, deal valuations should remain strong as well.

PUBLIC BROKER EBITDA MULTIPLE HISTORY



Source: Public Broker SEC Filings, market data. Includes AON, AJG, BRO, and MMC.

The Future?

GPS brokers are a more confident bunch heading into 2024 than they were a year ago. Much of this is likely fueled by recent reports suggesting the U.S. economy continues to defy gravity and that the “inevitable” recession may remain missing in action.

When asked to forecast their results for 2024, most brokers are suggesting it will look nearly identical to 2023 – organic growth of 10%, with EBITDA margins pushing 23%.

But their optimism likely runs deeper than the latest economic forecast. It is also fueled by the amazing resilience that our business has demonstrated over the past several decades. Outside investors are attracted by the unique combination of attributes

that characterize our industry. As more than one investor has asked – “In what other business do the worst performers still retain 80% of their customers every year?”

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