

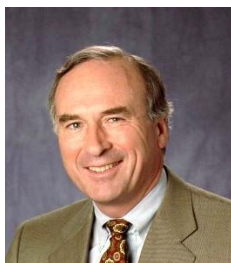
M & A PERSPECTIVES

from the Most Active Acquirers

Reagan Consulting recently completed our bi-annual Mergers & Acquisitions Conference and had over 130 industry leaders in attendance. One of the presentations was a panel of the most active buyers within the industry. As a follow-up to the Workshop, we thought it would be helpful to our friends to hear current M&A market perspectives from the most active acquirers within our industry. We greatly appreciate their willingness to share their perspectives and insights; they are not only the most active acquirers but they are also truly outstanding industry leaders.



David Eslick
Chairman
Marsh & McLennan
Agency



Marty Hughes
Chairman & CEO
Hub International



Wade Reece
Chairman & CEO
BB&T Insurance
Services



Dave Zuercher
EVP and Group Head
Insurance Services
Wells Fargo



Pat Gallagher
Chairman & CEO
Arthur J. Gallagher



Mike Sicard
*Chairman, President
& CEO*
USI



Powell Brown
Chief Executive Officer
Brown & Brown

In light of what you know today and what you anticipate for the future, what is your outlook for the future of our industry?

Powell Brown: We believe we are in a great industry which will continue to see great changes in its landscape. There will be continued consolidation in the agency community and to a lesser degree in the carrier community.

This has always been an industry that has succeeded with high quality people. Those firms with the most high quality people with the right operating model will see the most success.

Pat Gallagher: I continue to believe that the insurance brokerage business is, by far, the greatest business on earth! We're a true growth business. If you look at the expansion of economic activity on a global basis, the developed nations will continue to grow in the 2-3% range. Emerging nations will grow closer to 5-6%. If you recognize that there's presently approximately \$1.8 trillion of non-life premium that circulates our globe and apply these growth factors to it, you'll find that the industry needs to grow some \$40+ billion of premium a year! Put another way, we need more than one Lloyd's of new risk-taking capacity each and every year to manage the risks of the world.

The world is getting riskier. The need for risk consultancy and risk mitigation will only continue to grow. Then, when you look at the number of agents and brokers there are on a global basis, you recognize that no single agent or broker has any leading or commanding share of the market. Expertise is going to be more and more valued and acquisition activity will only increase as the baby boomers begin to face retirement. To me, that spells growth, growth and more growth.

Our single biggest challenge in the industry is recruiting the right young people to face that opportunity and to seize it. If we do not do that, someone else will.

Insurance is one of those areas that rewards creativity. We've done over 300 acquisitions since 1986. It never ceases to amaze me how creative people are at making money in our business. Of course, at the center of making money is taking care of clients. The ability to do so on a creative basis time and time again shows me that we still are an industry where no dreams are too crazy to contemplate if they solve clients' problems.

I can go on and on about our industry and why I think it's the greatest business on earth. But lastly, we are an industry that does our job! We put peoples' lives back together. We are at the crux of human suffering and finding a way to put people back into productive positions in our society. We are a noble profession!

David Eslick: The outlook for the future of our industry is very bright. The combination of growing complexity of risk and regulatory involvement, makes the need for resource-rich advisors even more critical for businesses of all sizes. Risk avoidance, mitigation, and financing continue to increase in importance within

the “C Suite” of all companies. Regulatory changes in healthcare have these same companies looking even more to our industry for education, understanding and guidance. This requires all participants in our industry to look forward in their ability to differentiate the value proposition provided to their clients, at a much higher level than in the past. We do believe that the industry will continue to consolidate as the advantage of size will provide the ability to afford and deliver increasing levels of value added and consultative resources.

Marty Hughes:

The future continues to look promising for those who remain entrepreneurial and nimble. Change is coming and it will alter the way we do business. Social media has not dramatically impacted our business yet, but it will. Also, it is not hard to imagine that Google or Amazon, or someone like them, will take aim at certain segments of our business.

Wade Reece:

I'll focus on three major factors that are constantly evolving and changing. First, brokers are being challenged to define, architect, and execute on bringing greater value to the client. Clients are looking for ways to reduce their cost structure and need our expertise. While having a solid relationship with the client is important, it is not enough. Understanding the client's business intimately to help the client achieve his goals is becoming more and more critical. This tends to lead to having industry specialization to achieve these goals at a high level. Secondly, this leads to the demand for top talent. Our industry continues to suffer from an image problem that makes talent recruitment difficult. However, implicit in this is that enormous opportunity exists for sharp, hard-working, insightful people. As an industry, we've got to find better ways to attract talent. Finally, increasing regulatory demands continue to put pressure on brokerage operating structures and profit margins. As client demands for a higher level of professional services increase, regulatory burdens can be counterproductive.

Here's the good news. We provide a valuable service to our client administering complex financial products. We'll continue to grow and prosper as an industry because we bring value to the client.

Mike Sicard:

The core fundamentals of the industry remain strong: It's a “required” spend by clients, recurring 90%+ when done well, it requires a broker, we don't take capital risk, the P&C market is likely to be less soft ahead, the EB market rate and exposure is stabilizing, and the economy is slowly improving.

However, the Middle Market landscape is changing and facing increasing pressure on: a) Compensation - more transparency, fees and carrier compensation pressure makes our price and value more visible and important to demonstrate. b) Competition - more large broker migration into the middle market due to the size of the market and profitability compared to the large account segment, and small broker pressure up to the middle market, particularly in EB. c) Solutions and Value – clients, especially in this economy, see the cost of insurance and expect brokers to add real quantifiable solutions and value beyond just relationship.

As a result, we have focused since we went private on innovating and investing in the resources to provide our people with the solutions that a) clients value and need, and b) competitors are not consistently providing.

Dave Zuercher:

This industry will continue to have a bright future. Given the state of litigation and the nature of risk insurance, risk management and transfer of risk will continue to be important elements in any successful business. No matter how sophisticated technology becomes, people are still going to be required to assess risk, develop solutions, and convince customers of the appropriate methods. Once something happens someone is needed to interpret information and determine the appropriate solutions. Fortunately for our industry these tasks cannot and should not be left to computers and technology solely. They require interpretation and experience that only seasoned practitioners can provide.

Given the present day demographic of our workforce we will need to continue to recruit and train new talent to fill the ranks of those likely to retire in the future.

With all that is going on how optimistic are you about the future of your Employee Benefits Practices?

Marty Hughes:

The Employee Benefits industry will change dramatically. I think we have to assume that all groups with under 100 lives will be gone, so we will have to be creative in order to replace that revenue. In addition, revenue and margins will be pressured, so again, only the nimble and entrepreneurial will do well.

Wade Reece:

I am very optimistic about our Employee Benefit practice. However, our Employee Benefit practice five years from now will look very different from today. It will provide more value added, consultative services than we do today. We'll be focused more on directing our sales efforts to large group accounts. For brokers who execute well in this transformation, the future is bright.

Powell Brown:

Employee Benefits are very complex, expensive and frequently utilized. We believe such a product necessitates the use of an agent or broker. We may have further changes in how we get paid, but we think Employee Benefits is a great business now and in the future.

Dave Eslick:

Based on Marsh & McLennan Agency's current market position, we are bullish about the future of our Employee Benefits Practice. The term "market position" is the key to our optimism and should be the evaluator for all other firms' Employee Benefits Practices. Our primary market position is serving firms who today and into the future view their benefit program as a key competitive differentiation in hiring, retaining and motivating their colleague base. These are also firms who value disclosure and transparency of compensation to be measured against the services that they receive. This will

further highlight the benefits that scale can provide with the ability to deliver continuous education, compliance, benefit administration capabilities, technology, wellness, and other forms of value-added resources. Our market position was greatly enhanced with our acquisition of Trion in December, 2010, then the largest private employee benefit advisor in the market. Trion has a history of investing in their capabilities and resources, which we are now able to leverage throughout the entire MMA employee benefit practice.

Pat Gallagher:

I'm very optimistic about our Employee Benefits Practice. The new law in the U.S. only enhances our position. It's becoming more and more apparent to the buying public that this law is untenable. It's unmanageable. I believe that all small employee benefit practices are a thing of the past. Simply put, this law is too complicated for the small employee benefits person to be able to deal with on any group of any size over 100 lives. We believe that under 100 lives, these groups will move to the Exchanges. Therefore, smaller players are getting squeezed at the bottom. Again, expertise is becoming more and more recognized as being important. This is an area that causes employers far more headaches than their property/casualty and we as an organization continue to get stronger.

Don't get me wrong – I think this act was a bad piece of legislation for our country. Nonetheless, we will benefit significantly.

Mike Sicard:

We have a large percentage of our business in EB so we know the space very well. We are excited about the future of Employee Benefits for those brokers prepared and positioned well.

Healthcare Reform has created a fundamental set of changes plus a state of "perpetual uncertainty". "Perpetual uncertainty" on behalf of clients means a critical role for the right broker/consultant/advisor. Rate increases will continue and make the total spend and rate of increase critical for companies' bottom lines and they will need answers, especially in the CEO/CFO suite. Broker compensation will face both more pressure and more transparency and the value being provided to clients will need to be demonstrated. Small group (under 50 lives) faces the most current uncertainty with the future of state by state exchanges in 2014 and beyond still unclear. The resources that are required - including underwriting, compliance, wellness, communications, administration, client management, reform navigation – will favor brokers who are focused and making heavy investments in Employee Benefits.

We have made heavy investments in resources, healthcare reform solutions, account management and production in anticipation and response to the opportunity presented by this rapidly changing landscape.

Dave Zuercher:

Given what we have seen in states that have adopted mandatory health care platforms, we feel that the employee benefits business will do well in a mandatory health care environment. The mandates will drive more employers to market and they will be seeking more alternatives to provide the most cost effective benefits for them to their employees. This will require advice, placement assistance, and possibly some administrative support....all classic

functions of an agent or broker. The delivery methods may be varied, but the need for the service is necessary.

Are you going to be acquiring Employee Benefit operations in 2011 and 2012? If so, what type and how?

- Marty Hughes:** We will look at employee benefits operations, but we will discount small group business. Those firms that focus on larger employers and who have taken a consultative approach to customer service will be attractive to us.
- Wade Reece:** We are not shying away from Employee Benefit practices, but we are being very careful about what we value. Agencies with predominantly 100 life or smaller groups in their portfolio are much less desirable. We will be looking for agencies with strong producer skill levels capable of delivering value through architecting a perfect solution for the client to mitigate and lower costs. Agents and agencies that see the paradigm shift and need sophisticated resources to succeed are desirable.
- Powell Brown:** Yes – we continue to look for high-quality firms that fit culturally with Brown & Brown. We continue to believe this is a very good business segment. We focus on firms that typically serve groups over 50 lives and we are interested in the mix of medical vs. non-medical revenues.
- Dave Eslick:** There is really no limit on the type of operations which we would be interested in acquiring. We already have the advantage of scale and value-added deliverables that we can leverage and provide to new partners. We also see great value in being able to provide both property & casualty and employee benefit capabilities to our clients in a cross-service environment. Accordingly, we plan to continue to acquire a mix of Employee Benefit and P & C operations in the future. We have the opportunities to leverage resources, establish a position in a new geographic location, or to attach a firm to one of our existing platforms.
- Pat Gallagher:** We will continue to expand our employee benefit business by virtue of acquisition. We have diversified away from being strictly health and welfare. We now do a significant amount of retirement, life, voluntary benefits, etc. We will continue to be acquisitive across the entire benefit spectrum this year and in the years ahead.
- Mike Sicard:** Yes, we are excited about the market. Brokers who are looking to plug into resources and solutions to retain and grow their client base are good conversations we want to have. Brokers who have resources and recognize the importance of scale in this reform market are also good conversations we want to have. It will be important for us to understand the composition of the business (how much > 50 lives vs. < 50 lives). If majority < 50 lives, pricing will be critical. We have made heavy investments in EB resources, healthcare reform solutions, account management and production so partnering with the

right EB operations through acquisition can protect and accelerate growth for those operations working together.

Dave Zuercher: Yes. We are looking at various types and will use the resources available to us.

What will your acquisition appetite be for the balance of 2011 and 2012 for Commercial P&C oriented firms?

Wade Reece: We will continue to look for good strategic matches as we always have. We have a long term view of acquisitions, which means we always want to find strategic matches where both the seller and we are “better off together than apart.” Therefore, we don’t look at moving in and out of the acquisition arena, but rather, we are more of a steady player who is always there looking for strategic advantages.

Powell Brown: Our appetite for acquisitions is the same as it has always been. We are always looking all over the county for firms that fit culturally with Brown & Brown.

Marty Hughes: We have been prolific, but disciplined, acquirers over the last twelve years and we will continue to be one in 2011 and 2012. Those that have joined us have been dramatically rewarded because of the shareholder value we have generated, and we expect that to continue in the future.

David Eslick: Our acquisition appetite will be consistent with what we have accomplished over the last couple of years. There are still a number of geographic regions where we are looking for platform member to lead development and growth in that region. We are also looking for firms to expand our geographic reach into new cities as part of existing regional platforms. We are also interested in firms who embrace joining our teams where we have a current position in a city or key location. Our appetite is strong for all sizes of quality firms, with quality leadership, and a thirst to be able to do more for their organization, colleagues and clients.

Pat Gallagher: We believe 2011 and 2012 is ripe with good acquisition opportunities for us in the P/C commercial arena. Our pipeline has never been stronger. The tax law giving beneficial treatment to capital gains has been renewed for a finite period of time. As I mentioned above, baby boomers are recognizing that at some point they have to capitalize their largest asset. We’re a great fit for those P/C operations who want to join up with someone who’s a bit larger, has areas of expertise that do differentiate us in the marketplace, and who has a culture that we believe is a significant competitive advantage.

Mike Sicard: We will be very active in P&C and excited about the right partners. On one hand, we have unlimited appetite and access to essentially unlimited capital through our private equity partner. At the same time, we have no internal/external pressure to acquire a certain amount as a private company. So

we want to do the right transactions with the right partners. In the last couple of years we acquired but were somewhat less active as we focused on investing heavily in P&C resources and differentiating “total cost of risk” solutions that help our people deliver solutions that clients value and competitors are not consistently providing - especially important in a soft market with declining premiums to provide solutions that are not just premium quoting. We’ve built core capabilities for organic growth, so that we can provide a platform for our existing and future acquisition partners to expand their growth.

Dave Zuercher:

We remain very interested in the right fits for our business.