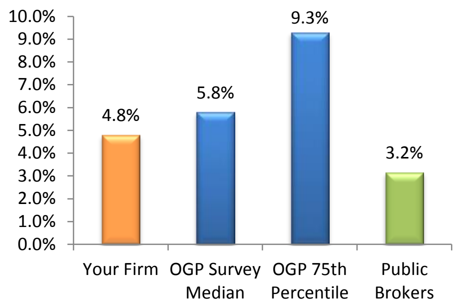
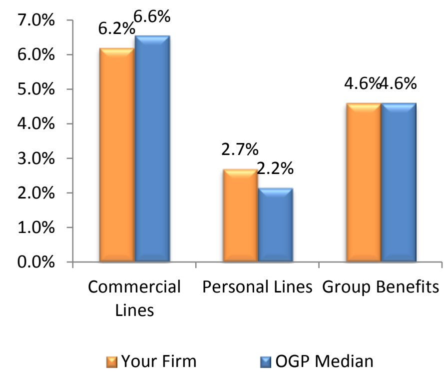
Organic Growth

Total Agency Organic Growth



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

Organic Growth by Product Line

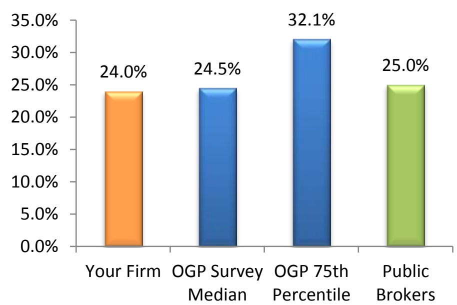


Reagan Consulting Observations

- Median organic growth was 5.8%, down from 6.2% in the last two quarters
- The 5.8% growth recorded in the second quarter is the lowest growth since the third quarter of 2012 (5.4%)
- Commercial lines growth took the biggest step backward, falling to 6.6% from 8.4% in the first quarter of 2014 and from 8.2% in the second quarter of 2013
- **OGP Projected 2013 Growth: 7.0%**
  Despite a slight pull back in growth for the first two quarters, brokers continue to project strong full-year growth of 7.0%

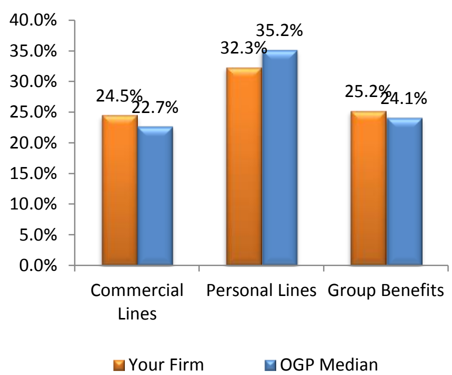
Profitability

Total Agency EBITDA Margin



Your profitability rank:	**40th - 50th percentile**

EBITDA Margin by Product Line

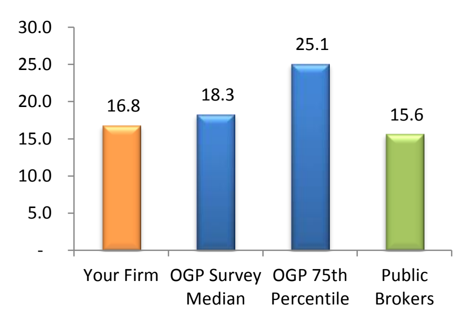


Reagan Consulting Observations

- While organic growth numbers were down versus 2013, profitability numbers were up: the 24.5% median EBITDA margin is a 50 basis point jump from Q2 2013 (24.0%)
- Median EBITDA figures are inflated by the cash-basis recognition of contingent income, which is largely received in the first half. Thus, as in past years, EBITDA margins will decline throughout the course of 2014.
- Median growth in contingent income was 12%
- **OGP Projected 2013 Margin: 20.0%**
  Brokers remain confident in a 20% full-year EBITDA margin, which would be the highest in seven years.

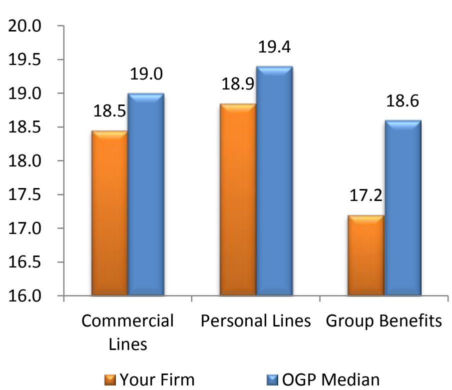
The Rule of 20 (see note below)

Total Agency Rule of 20



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

Rule of 20 by Product Line



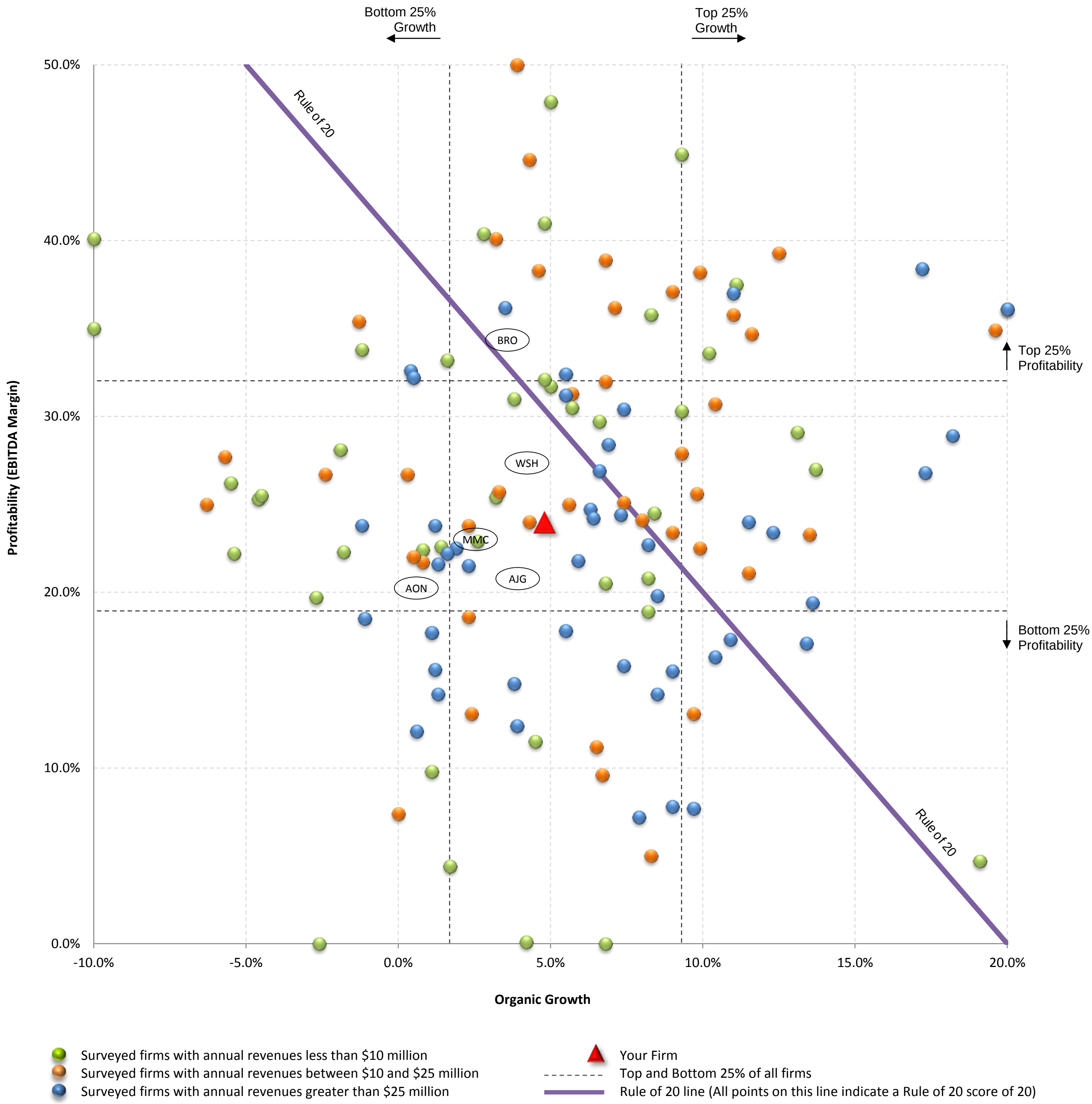
Reagan Consulting Observations

- The 18.3 median Rule of 20 score is the down slightly from the 18.7 recorded in the second quarter of 2013
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- Rule of 20 scores in the first half of 2014 were almost identical among product lines - 0.8 points separates CL, EB and PL
- **OGP Projected 2013 Score: 17.5**

About 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.

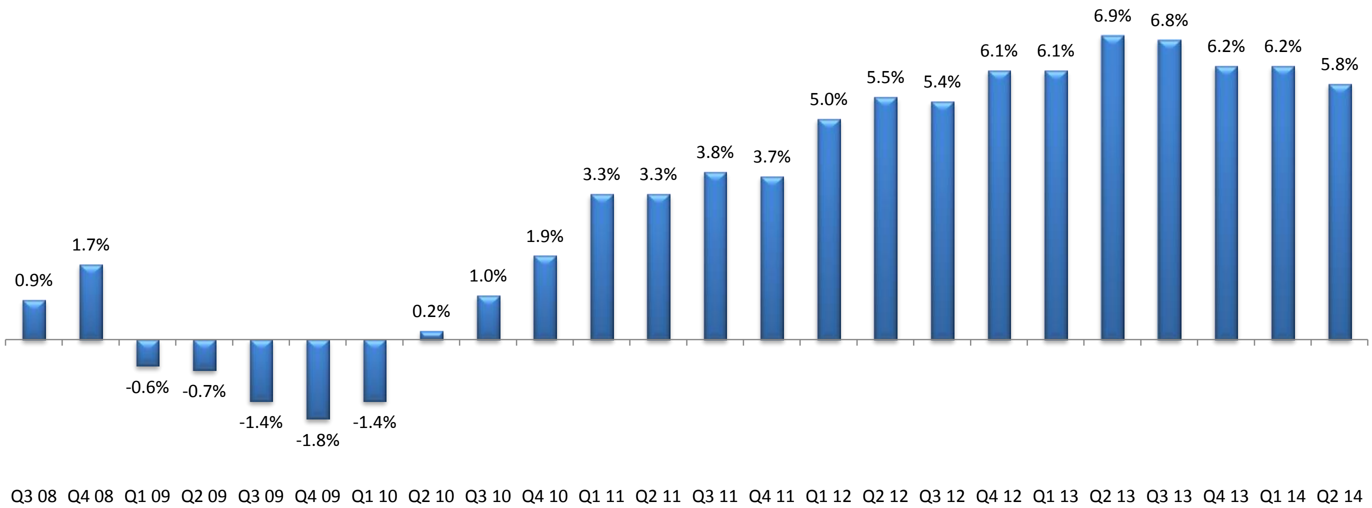
Note: If data for your firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.



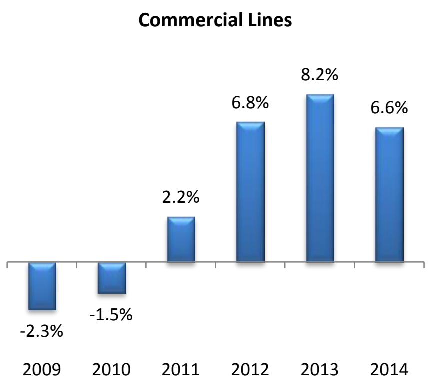
About the Scatter Plot

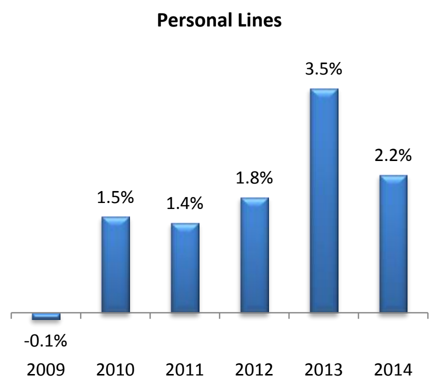
In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and the total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple 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.

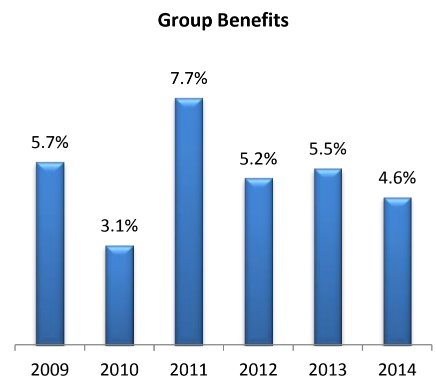
Quarterly Organic Growth - Total Agency Median (Q4 2008 - Present)



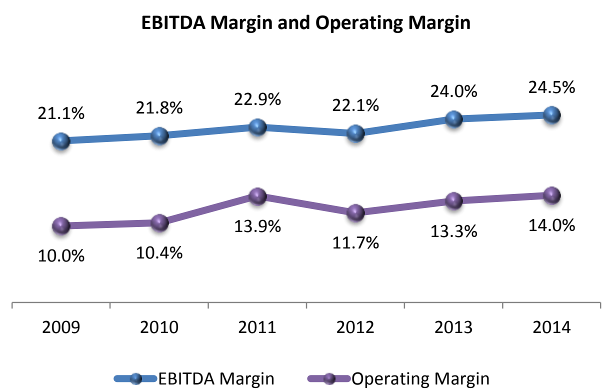
Comparative Median Organic Growth by Product Line (Second Quarter Numbers, 2009 - Present)

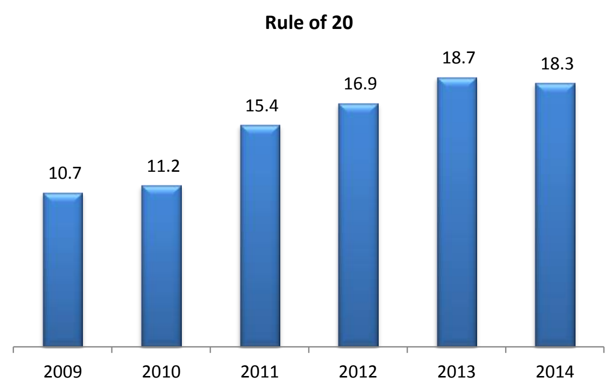






Comparative Median Profitability and Rule of 20 Analysis (Second Quarter Numbers, 2009 - Present)

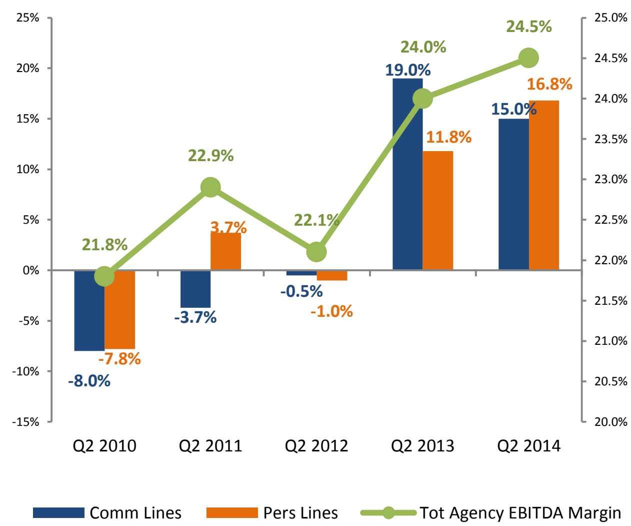




About EBITDA Margin and Operating Margin

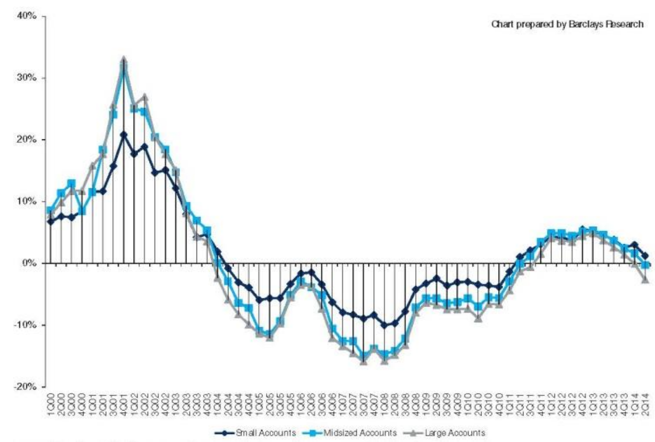
EBITDA Margin is calculated by dividing a firm's pro-forma EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by the firm's pro-forma net revenues. Operating Margin is calculated as EBITDA less contingent income, divided by pro-forma net revenues less contingent income.

P&C Contingent Growth by Line



Average CL Premium Rate Changes

Source: CIAB. Chart prepared by Barclays Research.



So, what's behind this most helpful spurt in P&C contingency growth and what does the future likely hold?

First, the good news. We have enjoyed a trifecta of good news over the past several years that has positively affected both P&C contingent results and agency profitability levels. P&C pricing has remained slightly hard. Organic growth has been positive. Post hurricane Sandy, insurance company operating profitability (as measured by combined ratios) has been steadily improving.

Now for the bad news. We may be heading into stiffer headwinds. As the most recent CIAB P&C Commercial Pricing data confirms, the commercial P&C marketplace is once again soft. During the second quarter of 2014, pricing for the average commercial account declined by 0.5%. The run of 12 straight quarters of P&C commercial P&C price increases has ended.

As noted earlier, organic growth for OGP agents and brokers in Q2 totaled 5.8%, down from 6.2% in Q1. It seems likely that this decline is tied directly to the softening P&C marketplace. If history is any indication, a continued soft P&C market should continue to put downward pressure on organic growth for agents and brokers.

Finally, early 2014 P&C insurance company results show that their fortunes may be slipping, too. According to *Property Casualty 360*, through the first quarter of 2014, P&C carrier combined ratios rose to 97.3% from last year's 94.9% Q1 result. Still under 100%, but closing fast.

All told, none of this bodes well for a continuation of the contingent income party enjoyed over the past several years. As a result, it's a distinct possibility that agency profitability may face some challenges by this time next year. Stay tuned!