Q1 2013
OGP ID: 9999
Current Value Driver Comparison

Organic Growth & Profitability Survey

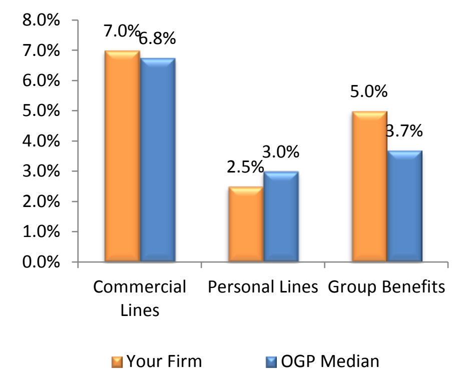
Reagan Consulting

Organic Growth

Total Agency Organic Growth

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

Organic Growth by Product Line

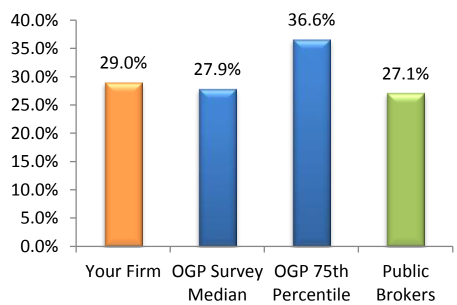


Reagan Consulting Observations

- Median organic growth was 6.1%, extending the solid growth of 2012
- Privately-held firms held a growth advantage over the public brokers, growing 1.3% faster than the public brokers' 4.8% average rate *(Public broker data includes most recent data for AJG, AON, BRO, MMC and WSH)*
- Group benefits growth slowed to 3.7%, just faster than personal lines growth of 3.0%
- **OGP Projected 2013 Growth: 6.0%**
  Agents and brokers project that organic growth for all of 2013 will remain at the level achieved in the first quarter

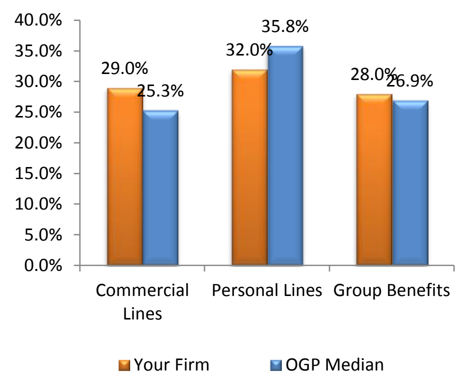
Profitability

Total Agency EBITDA Margin



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

EBITDA Margin by Product Line

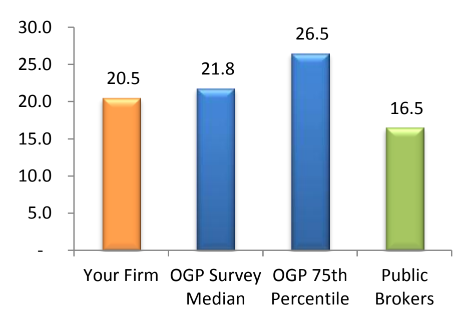


Reagan Consulting Observations

- Q1 2013 was the highest margin quarter recorded in the OGP survey at 27.9%. This result was nearly 4 percentage points higher than the Q1 2012 margin (24.1%).
- Median EBITDA figures are inflated by the cash-basis recognition of contingent income, which is largely received in the first quarter. As in past years, these margins will decline throughout the course of 2013.
- Median contingent income was up nearly 16%
- **OGP Projected 2013 Margin: 20.0%**
  This forecast would be a record for the OGP survey, besting 2008's 18.7% median margin

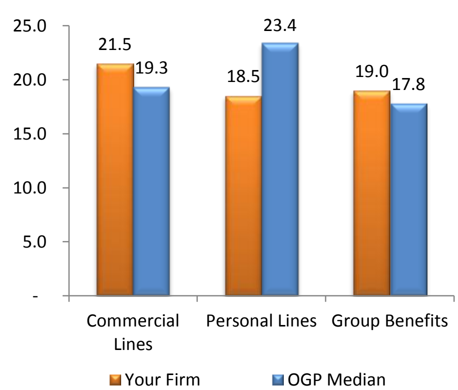
The Rule of 20 (see note below)

Total Agency Rule of 20



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

Rule of 20 by Product Line



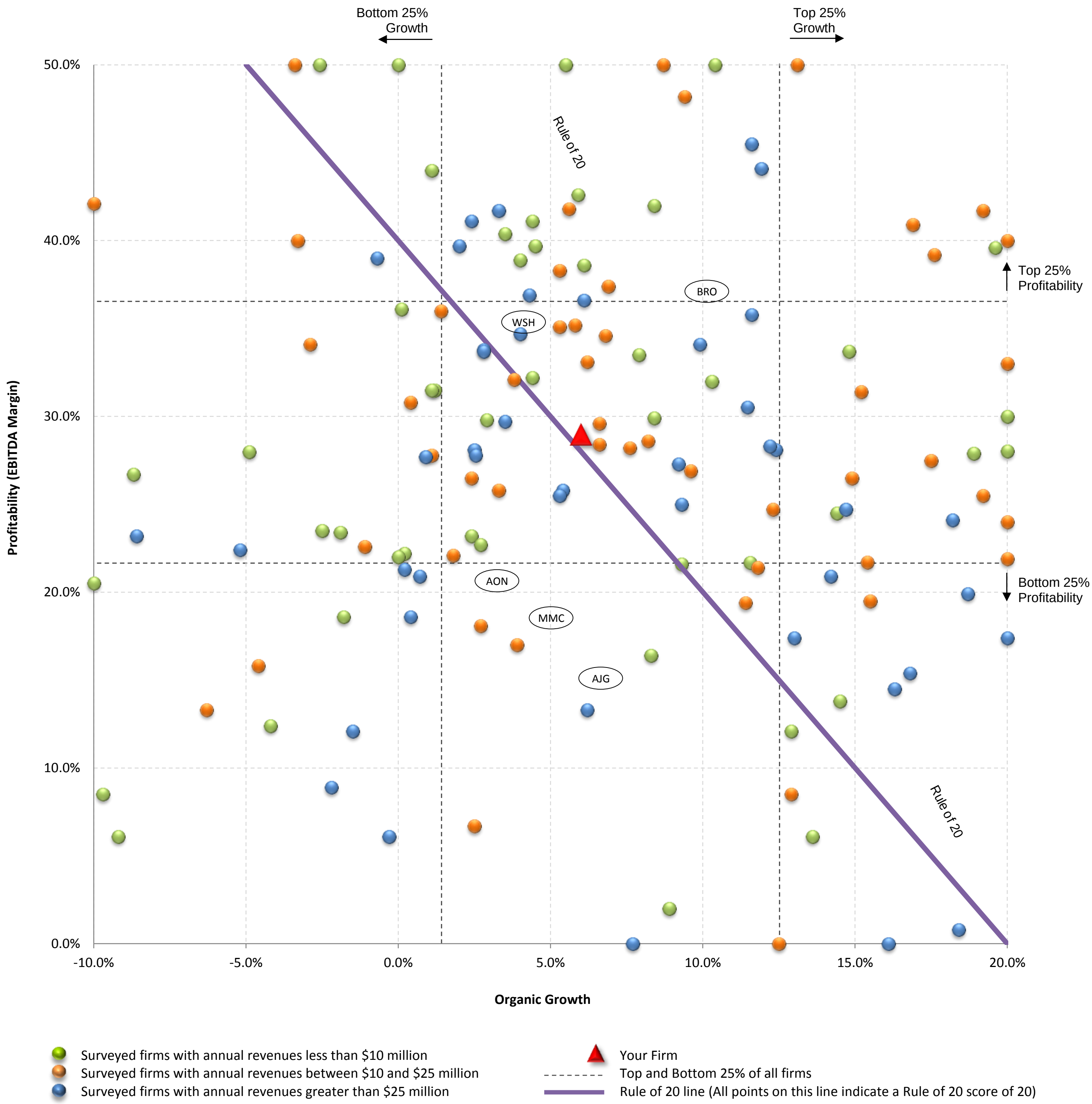
Reagan Consulting Observations

- The 21.8 median Rule of 20 score is the highest Q1 figure in OGP history, beating last year's Q1 number by 4 points
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- Personal lines produces the highest share-holder returns in Q1 on the back of the division's 35.8% EBITDA margin
- **OGP Projected 2013 Score: 17.0**
  The 17.0 projected 2013 Rule of 20 score is projected to be about 1 point higher than last year's figure

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.

Q1 2013
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Historical Trending

Organic Growth & Profitability Survey

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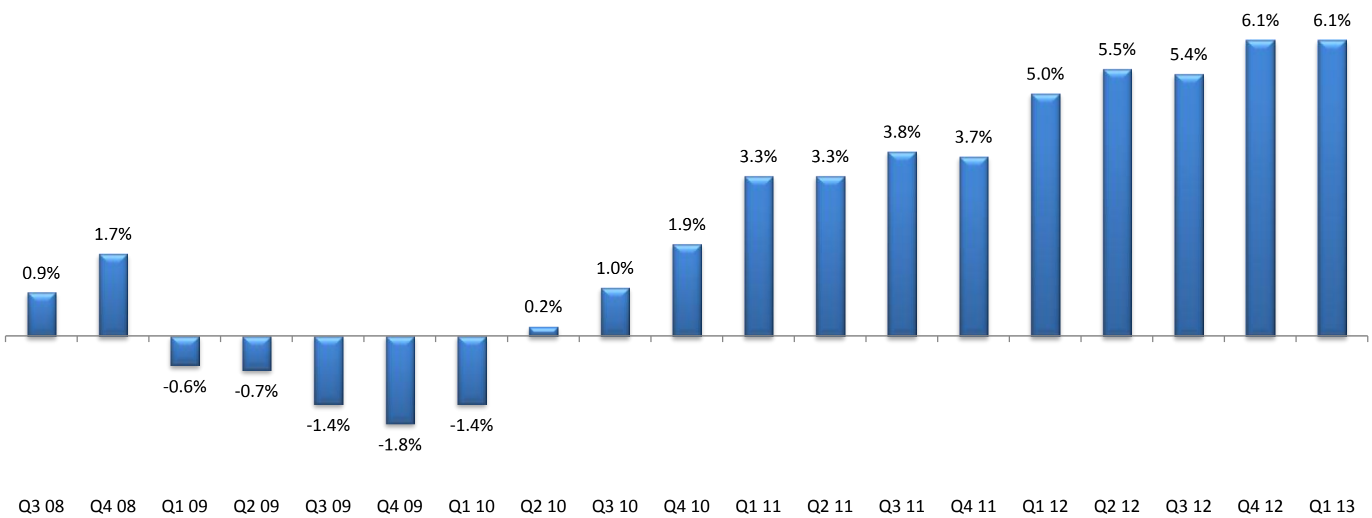
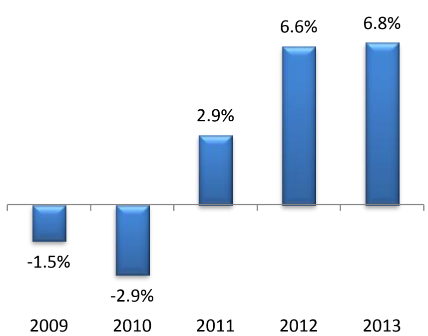
Quarterly Organic Growth - Total Agency Median (Q4 2008 - Present)

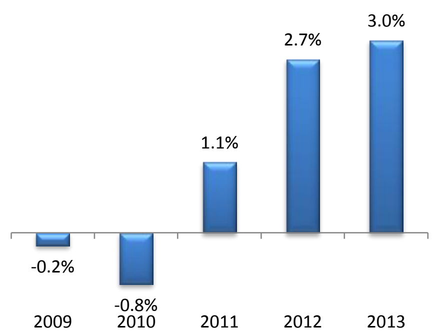


Comparative Median Organic Growth by Product Line (First Quarter Numbers, 2009 - 2013)

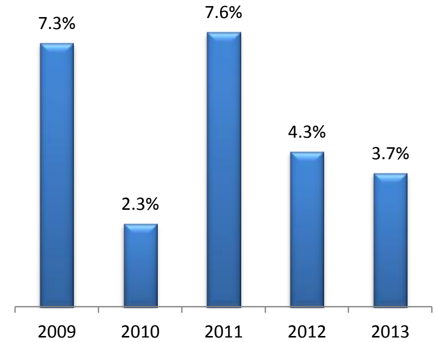
Commercial Lines



Personal Lines

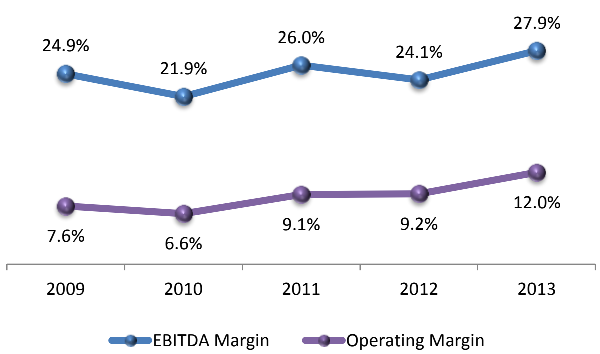


Group Benefits

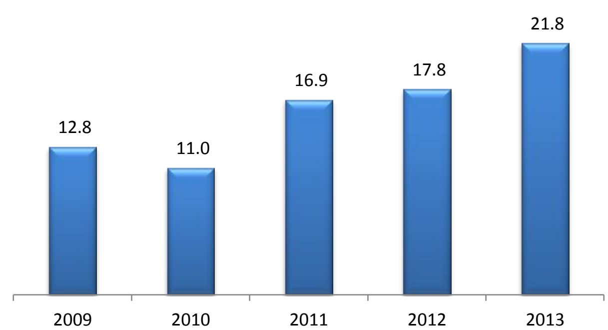


Comparative Median Profitability and Rule of 20 Analysis (First Quarter Numbers, 2009 - 2013)

EBITDA Margin and Operating Margin



Rule of 20



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.

Industry Tailwinds Extend into 2013

Momentum of recent months continues – but for how long?

by Tom Doran

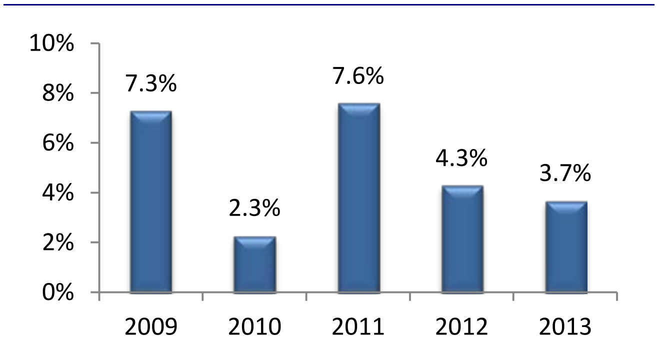
Much of the positive momentum enjoyed by the industry in recent quarters continued through the first quarter of 2013. A few elements of the industry continue to lag, but overall the industry's performance is *finally* validating the positive results anticipated when the recession ended in 2009 and the soft P&C market finally hardened in 2011. In the first quarter of 2013, we continued to see healthy organic growth levels and solidly improving levels of profitability.

Organic Growth

Median organic growth for brokers through the first quarter of 2013 totaled 6.1%. Continuing improvements in P&C pricing and a slowly recovering economy drove Commercial and Personal P&C organic growth rates to 6.8% and 3.0%, respectively – the highest levels of Q1 organic growth achieved for each since we began the OGP Survey in 2008.

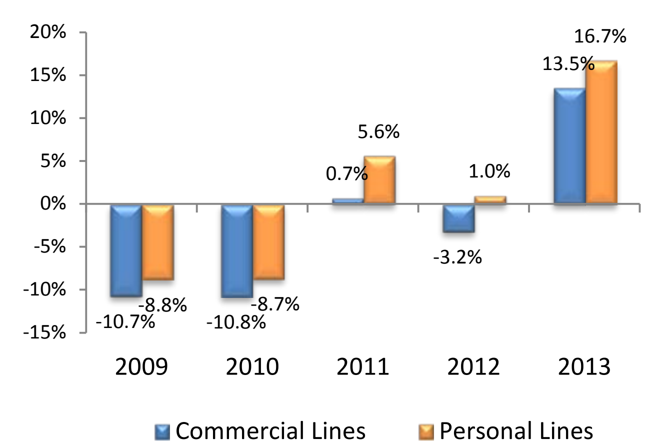
The one notable organic growth misfire was Group Benefits, which increased at a rate of only 3.7% through the first quarter, barely edging out Personal P&C growth. This quarter's declining Group Benefits growth results, which represent a five-year OGP low-point, may indicate that the chickens are coming home to roost with regard to ongoing changes in broker compensation models that seek to sever the relationship between rising group medical insurance premiums and broker compensation.

Group Benefits Growth (Q1 2009 - Q1 2013)



P&C Contingent Income Growth

Q1 P&C Contingent Income Growth



P&C contingent income growth was another bright spot for the industry. This critical source of income, which generally translates into 35-45% of a broker's EBITDA (Earnings before Interest, Profit, Depreciation and Amortization), has been under the gun since 2004, way back when our old friend Elliott Spitzer set his formidable regulatory sights on this form of broker compensation. Although later vindicated as a perfectly acceptable source of broker compensation, contingent income nonetheless continued to struggle through a brutally prolonged soft P&C marketplace and a very deep recession.

This year, it looks like we have turned the corner. The impact of rising P&C insurance pricing enjoyed by the insurance carriers is finally trickling down into broker contingent results.

Commercial P&C contingent income is up 13.5%, while Personal P&C contingents increased by 16.7%. As the table above shows, these Q1 results are a drastic improvement over recent years' results. Through Q1, median total P&C contingent income was up 13.6%. Total agency supplemental income, which includes both P&C and L&H contingent / supplemental income, was up 16.9% in Q1.

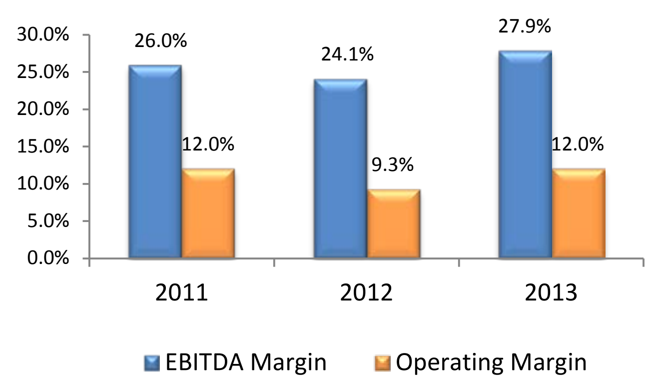
Profitability

Due in part to these better contingent income results, broker profitability showed solid improvement through the first quarter. When reviewing year-to-date profitability results this early in the year, remember that profit margins are artificially inflated due to the fact that most P&C contingent income is booked in the first quarter of the year – profit margins tend to max out in Q1 and then moderate as the year progresses. Nonetheless, year-over-year comparisons are still helpful in identifying and understanding trends in broker profitability.

Median EBITDA profitability for the industry totaled 27.9% through the first quarter, up an impressive 3.8 percentage points versus Q1 2012. In light of the industry's dramatically improved contingent results, one might assume that this jump in profitability resulted *primarily* from contingency improvements. However, the data indicates that most of the improvement came from improved operating profit (defined as EBITDA less contingent / supplemental income). Operating profit was up 2.7 percentage points in Q1, an improvement of almost 30%.

Since a sizable portion of a broker's expenses are fixed, a robust organic growth environment will generally result in improved operating profit margins and that's exactly what we're seeing so far this year.

EBITDA Margin vs. Operating Margin, Q1 2011 - Q1 2013



So, even though roughly 60% of the typical broker's profit through Q1 is contributed directly by contingents, the fact that operating profits grew materially faster than contingent income indicates that approximately two-thirds of the overall profit improvement in Q1 can be traced back to better operating profits. This is welcome news.

The other interesting profit story through the first quarter of the year is Group Benefits profitability, which totaled 26.9%, a 5.5 percentage point improvement since this same time last year. Despite a stagnant growth environment and the ongoing uncertainty surrounding the implementation of the Patient Protection and Affordable Care Act ("PPACA"), brokers continue to generate sizeable profits from this segment of the business. How long this will continue in light of PPACA is another question.

The Road Ahead

These early results for 2013 are a real shot in the arm for an industry that has suffered through a prolonged period of anemic growth and depressed profit margins. Median projections for year-end 2013 organic growth and profitability by our 140 OGP Survey participants total 6.0% and 20.0%, respectively. If these results are achieved, 2013 will be the best year, by a wide margin, the industry has experienced in the history of the OGP Survey.

Recognizing that growth and profitability are the two major drivers of broker value, these 2013 projections, if achieved and continued into 2014 and 2015, would bode very well for investors in insurance brokerages. Although uncertainty and challenges abound (as they always seem to in this industry), the near-to-mid term prospects appear to be very bright indeed.