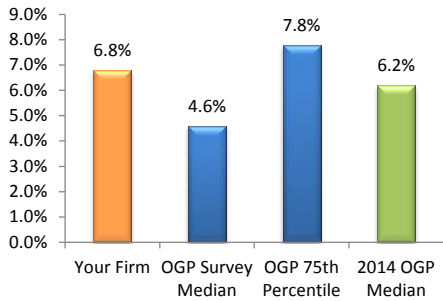
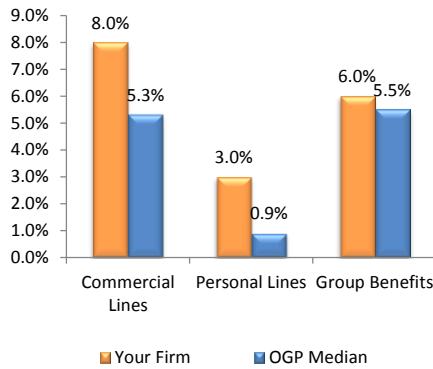


Organic Growth

Total Agency Organic Growth



Organic Growth by Product Line



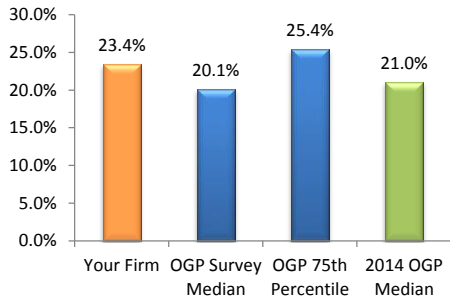
Reagan Consulting Observations

- Median organic growth finished the year at 4.6%, a decline of one-and-a-half percentage points from 2014
- Commercial and personal lines growth slowed most heavily in 2015, while benefits fell only slightly year-over-year
- Commercial lines and benefits growth were approximately equal in Q4 2015, an event that has rarely occurred in the OGP's history
- **OGP Projected 2016 Growth: 6.0%**  
Despite slackened 2015 growth, brokers project 6% growth in 2016, roughly the same level as 2012-2014

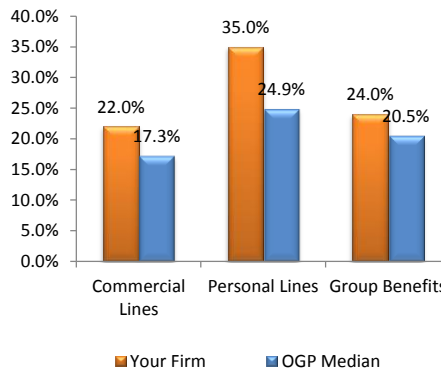
Your organic growth rank: **60th - 70th percentile**

Profitability

Total Agency EBITDA Margin



EBITDA Margin by Product Line



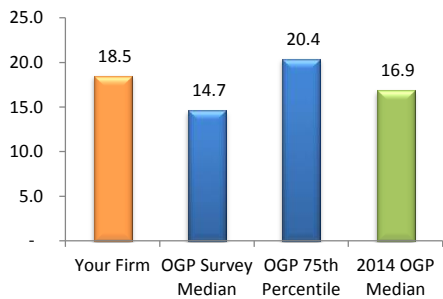
Reagan Consulting Observations

- Median EBITDA margin fell to 20.1% in 2015, the first time since 2009 that full-year EBITDA experienced a year-over-year decline
- Although declining nearly a full point, the 20.1% EBITDA margin in 2015 is the second highest level ever recorded in the OGP
- In 2015, commercial lines and benefits margins each declined roughly 2 percentage points, while personal lines fell 5 points
- **OGP Projected 2016 Margin: 20.0%**  
Overall, brokers are expecting EBITDA margin to stay constant from 2015 to 2016

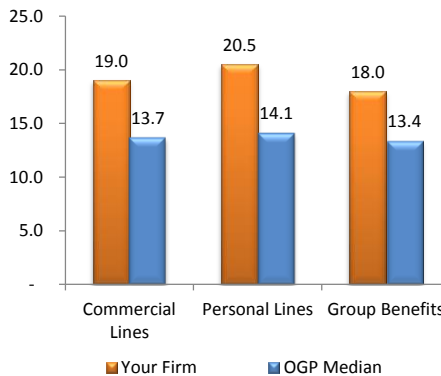
Your profitability rank: **60th - 70th percentile**

The Rule of 20 (see note below)

Total Agency Rule of 20



Rule of 20 by Product Line



Reagan Consulting Observations

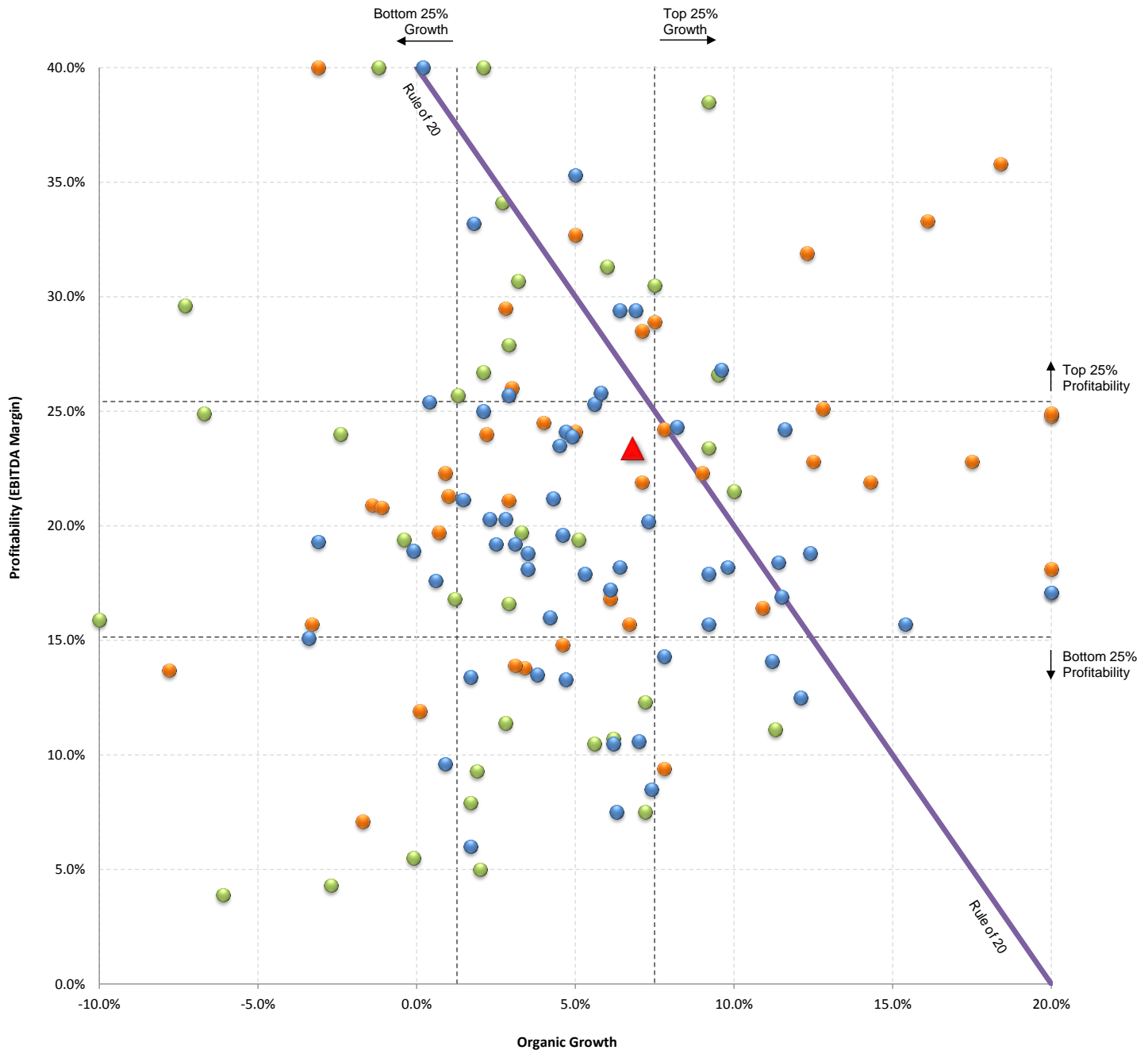
- The median Rule of 20 score in 2015 was 14.7, down over two points from 2014
- 27% of firms (approximately the top quartile) achieved a Rule of 20 score over 20 in 2015
- Similar to 2014, only 0.7 points separate Rule of 20 scores for personal, commercial, and and benefits in 2015 - suggesting the returns to shareholders continue to be remarkably similar across business lines
- **OGP Projected 2016 Score: 16.5**  
Brokers expect Rule of 20 to bounce back in 2016 to 16.5, just shy of the 2014 historical high water mark for OGP

Your Rule of 20 rank: **60th - 70th percentile**

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.

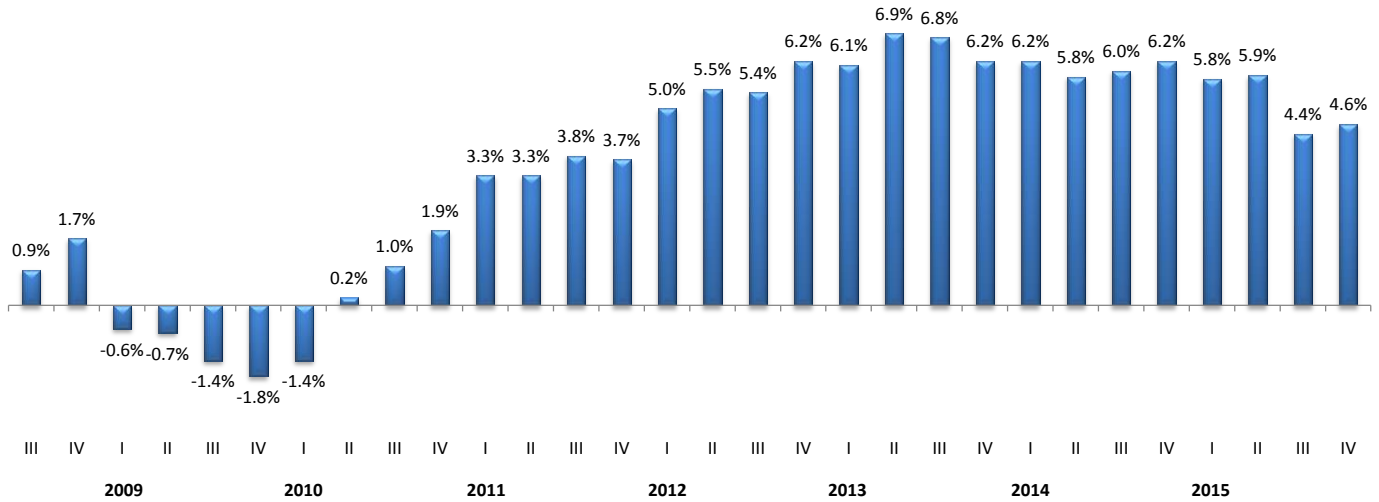


- Surveyed firms with annual revenues less than \$10 million
- Surveyed firms with annual revenues between \$10 and \$25 million
- Surveyed firms with annual revenues greater than \$25 million
- ▲ Your Firm
- Top and Bottom 25% of all firms
- Rule of 20 line (All points on this line indicate a Rule of 20 score of 20)

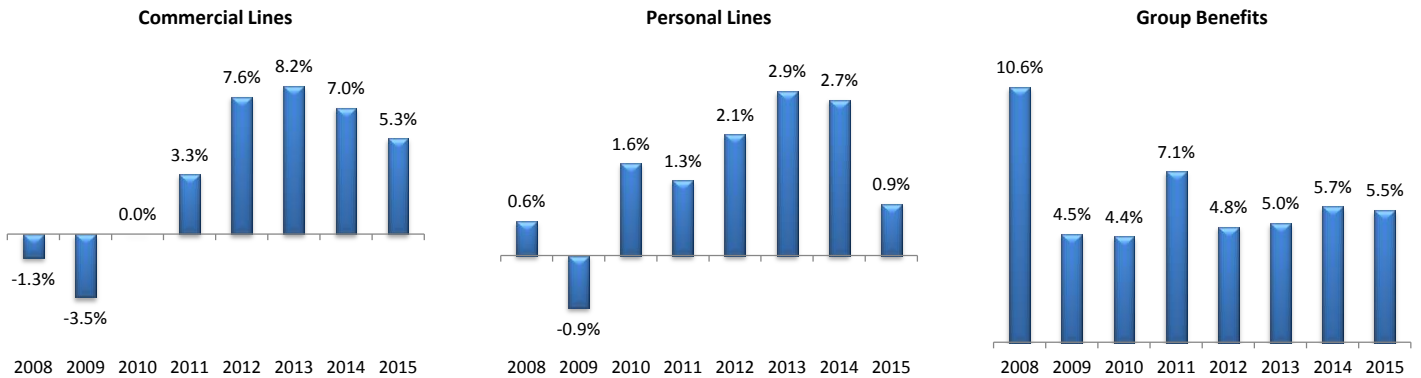
**About the Scatter Plot**

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.

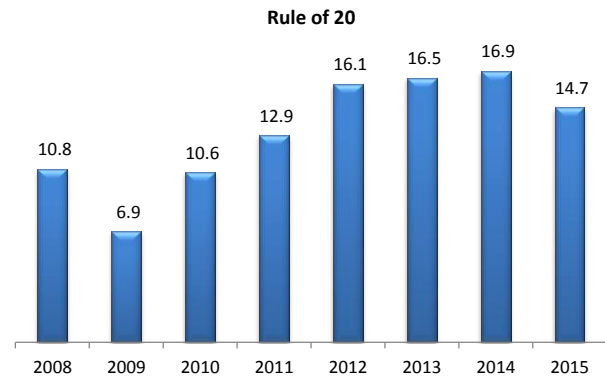
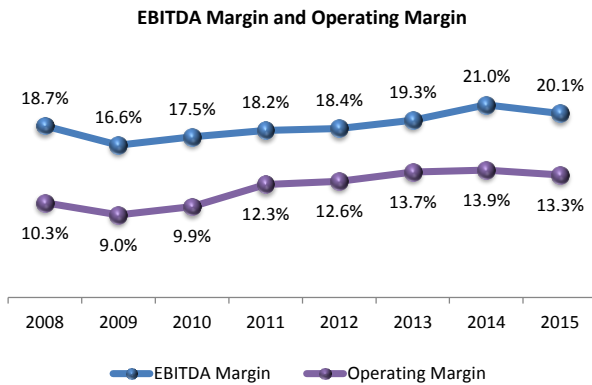
Quarterly Organic Growth - Total Agency Median (Q3 2008 - Present)



Comparative Median Organic Growth by Product Line (Annual Results 2008 - Present)



Comparative Median Profitability and Rule of 20 Analysis (Annual Results 2008 - 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.



# Organic Growth & Profitability Survey

## Market Commentary (Q4 2015)

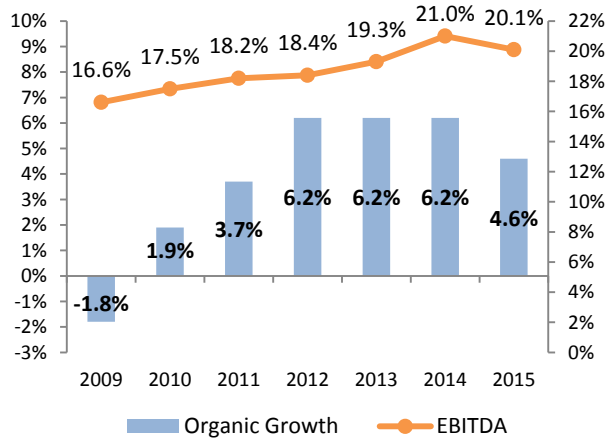
### Growth Slowing, but Still Solid

by Kevin Stipe

Organic growth slowed to 4.6% in 2015, the lowest rate since 2011. Broker profitability suffered as a result, with EBITDA margins slipping to 20.1%, after peaking in 2014 at 21.0%. Profit margins tend to expand during times of strong organic growth and contract during periods of decelerating growth.

While the results are a bit disappointing, they are still fairly solid from a historical perspective. In the eight years of the OGP survey, the organic growth of 4.6% ranks as fourth best, while the EBITDA margin of 20.1% ranks as second best.

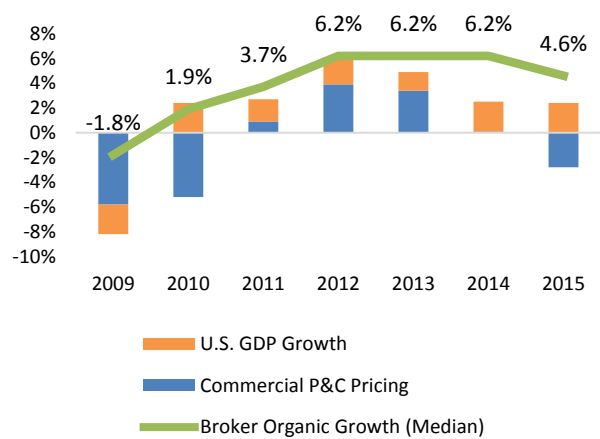
**Q4 Organic Growth & EBITDA Margins**



Growth slowed among all three major lines of business – commercial P&C, employee benefits and personal P&C. Several factors contributed to the decrease. The single greatest driver was probably commercial P&C pricing, which has now entered “soft-market” territory. The CIAB reports that fourth quarter 2015 pricing decreased by 2.8%, as compared with a 0.1% increase in 2014. The U.S. economy’s growth was also a contributor, as it grew by only 2.4% in 2015, and decelerated to a mere 0.7% during the fourth quarter. The following chart shows how broker organic growth tends to correlate with the combination of

commercial P&C pricing and U.S. Gross Domestic Product growth.

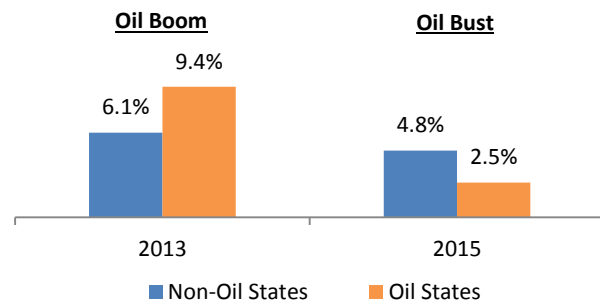
**CL Pricing and U.S. GDP vs. Organic Growth**



Sources: CIAB and Bureau of Economic Analysis

Another factor this year was the sharp decline in oil prices. After trading above \$100 dollars per barrel in 2013, oil closed out 2015 at roughly \$37 per barrel. During the “Oil Boom,” propelled by a powerful lift in their local economies, OGP firms in the major oil producing states in the central U.S. grew by 9.4% – a full 3.3 percentage points faster than the other OGP firms. Two years later, during the 2015 “Oil Bust,” the oil-state firms grew at only 2.5% – which was 2.3 percentage points slower than the other OGP firms.

**Agency Organic Growth in Oil vs. Non-Oil States**



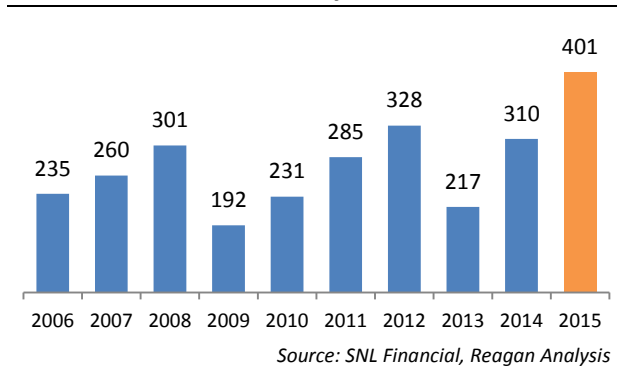
# Organic Growth & Profitability Survey

## Market Commentary (Q4 2015)

The carnage in the oil states was significant: Several OGP firms actually shrank in 2015. About 15% of the OGP firms are headquartered in major oil producing states. This group, however, represented 36.4% of the firms that had negative organic growth in 2015.

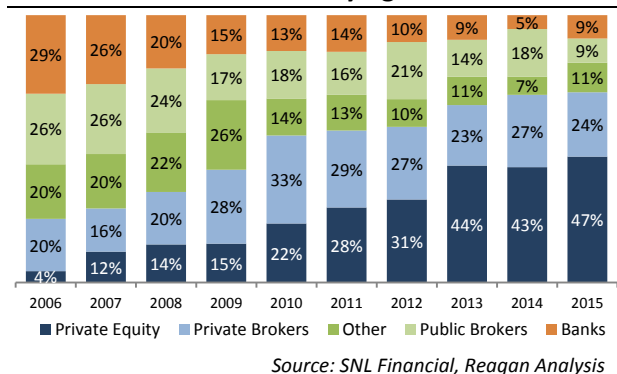
Merger and acquisition activity set a new record in 2015, as reported North American deals exceeded 400 for the first time ever.

### Deal Activity in 2015



Private equity backed firms were the top buyer for the fourth straight year in 2015. They did 187 acquisitions in 2015. Put into a historical perspective, their 2015 activity was nearly equal to 100% of all deals done in 2009.

### Who is Buying?

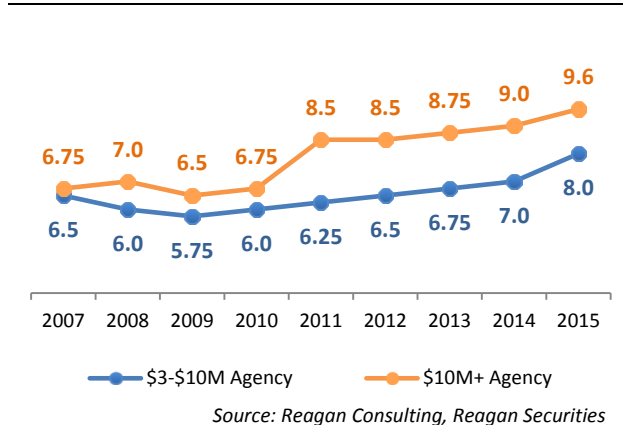


Agency valuations have been driven steadily higher by the hunger of a seemingly endless array of buyers. In 2015, valuations hit record levels for firms of all sizes. The valuation in nearly every deal

contains two components – a guaranteed portion that the seller receives regardless of post-closing performance, and an additional “earn-out” paid to the seller after a period of years if certain growth and/or profitability targets are achieved.

While earn-outs haven’t changed much, the amount guaranteed at closing has risen sharply in recent years. The highest multiples are typically delivered for the largest firms that can serve as platforms for regional expansion.

### Guaranteed Multiples by Agency Size



What will happen to agency valuations in the future? A debate rages around whether or not valuations can possibly remain at today’s record levels. In our view, it is only a matter of time before they recede somewhat – but trying to guess when that will happen is a fool’s errand. With agency growth slowing and some recent cracks appearing in the stock and bond markets, some argue it will happen sooner rather than later. On the other hand, a record number of private equity players have committed capital burning holes in their pockets. This capital may serve to buoy values even longer than expected.

### Some Good News

Despite the setback in growth and profitability, OGP participants are expecting a rebound of growth in 2016. 68% of those surveyed expect

# Organic Growth & Profitability Survey

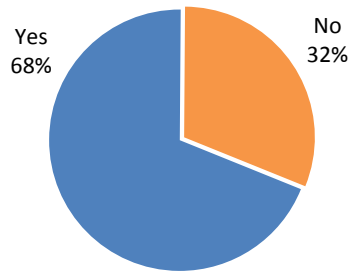
## Market Commentary (Q4 2015)

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their growth to improve in 2016, with a median projection of 6.0%. Slightly more than half also expect profit margins to improve, although the improvement is projected to be nominal.

### Grow Faster in 2016 than in 2015?

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### More Profitable in 2016 than in 2015?

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### Conclusion

For industry observers, dark clouds are not hard to find. The U.S. and world economies appear fragile, healthcare reform continues to evolve, new technology-driven competitors are raising capital and setting their sights on our industry and the 2016 presidential election cycle seems more volatile than any in our lifetimes.

Yet many brokers remain stubbornly bullish. While acknowledging the uncertainty, they point

to the positives. They are embracing technology, they are developing a real accountability-driven sales culture, they are investing in resources at higher levels than ever before, and their agencies are getting younger as they aggressively hire and develop the next generation of talent. For these folks, the capital pouring into our industry is not a threat – rather it is an affirmation of the enduring strength of the independent insurance broker's value proposition.

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