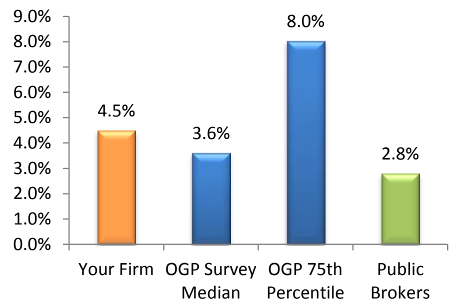
Q3 2016
OGP ID: 9999

Current Value Driver Comparison

Organic Growth & Profitability Survey

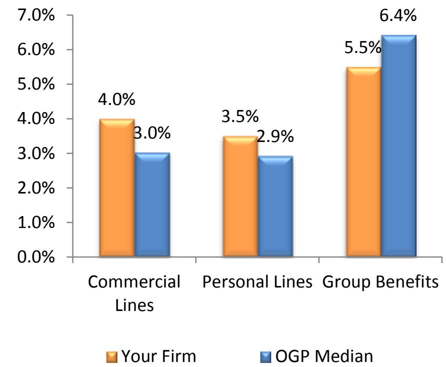
Organic Growth

Total Agency Organic Growth



Your organic growth rank:	30th - 40th percentile

Organic Growth by Product Line

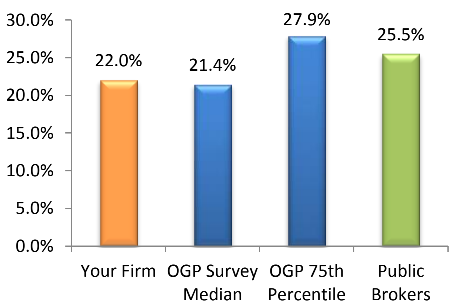


Reagan Consulting Observations

- Median organic growth fell to 3.6% in Q3 — continuing a downward trend in organic growth rates since the 6.9% peak in 2013
- Commercial lines growth in Q3 2016 dropped to 3.0%, the worst third-quarter performance since 2010 (when CL growth was negative)
- On a positive note, personal lines and group benefits growth rates both improved in Q3 over Q2 2016, with personal lines increasing from 1.7% in Q2 to 2.9% in Q3
- **OGP Projected 2016 Growth: 5.0%**
  Brokers slightly lowered their full-year growth forecast from 5.1% in Q2 to 5.0% in Q3 2016

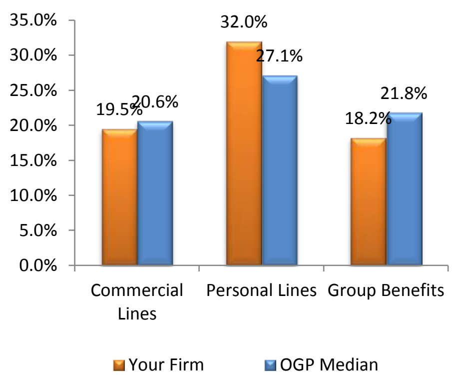
Profitability

Total Agency EBITDA Margin



Your profitability rank:	40th - 50th percentile

EBITDA Margin by Product Line

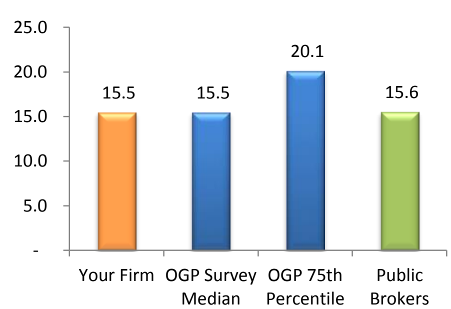


Reagan Consulting Observations

- Median EBITDA margin in Q3 2016 was 21.4%, down slightly from last year's Q3 figure
- Median EBITDA figures will continue to decline throughout the course of 2016, as front-loaded contingent income results are spread across the entire year
- After increasing from 2011-2014, third quarter median EBITDA margin decreased in 2015 and 2016 due primarily to slowing revenue growth
- **OGP Projected 2016 Margin: 20.0%**
  Brokers are projecting a 20.0% full-year margin, consistent with the 2015 full-year margin result of 20.1%

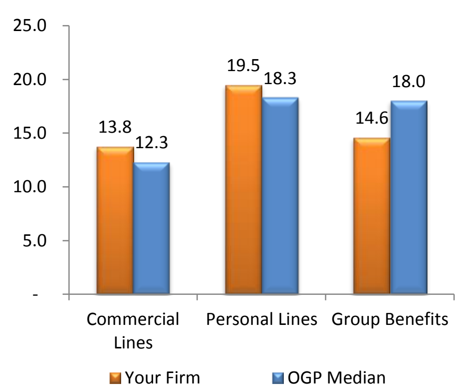
The Rule of 20 (see note below)

Total Agency Rule of 20



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

Rule of 20 by Product Line



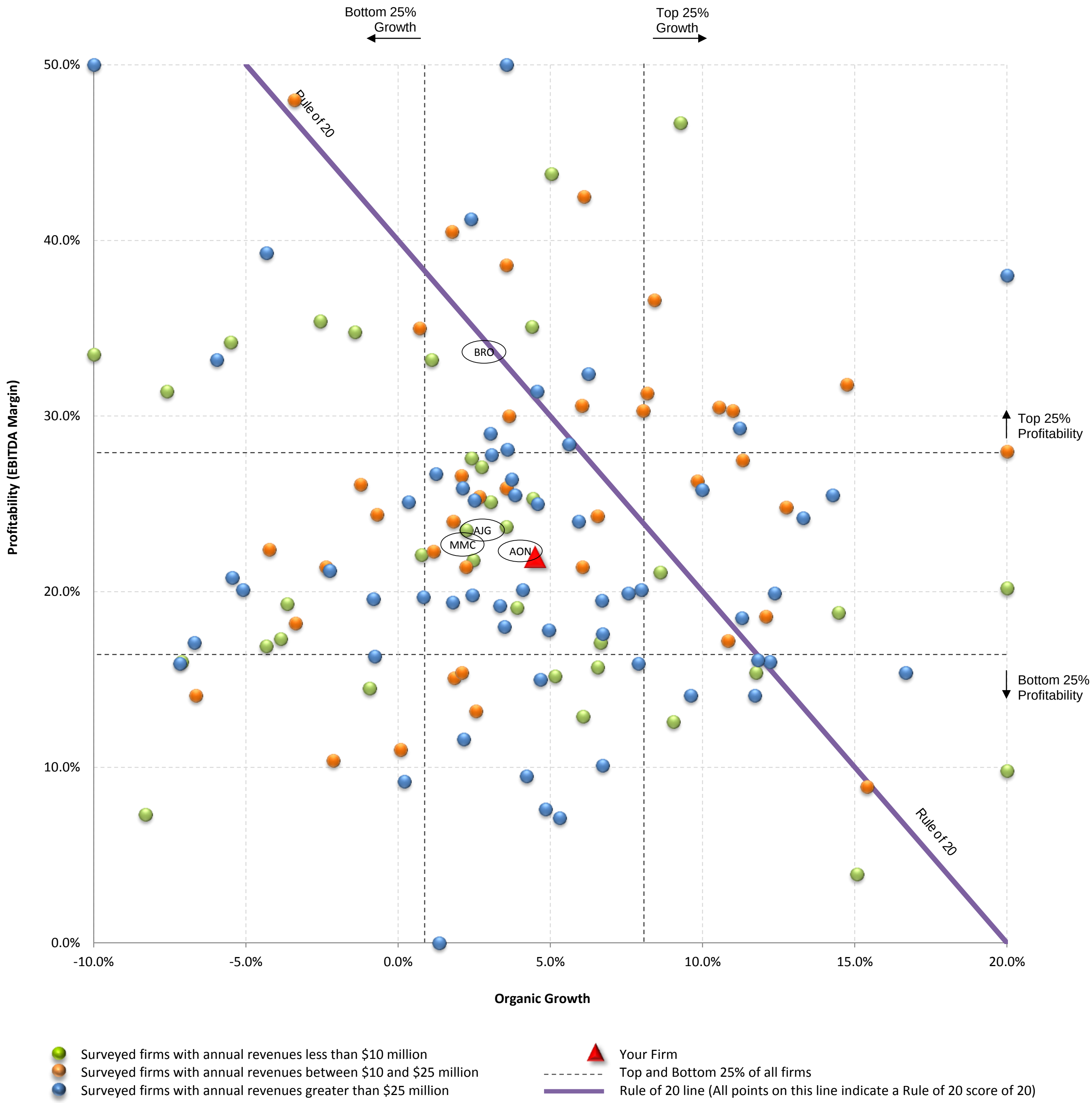
Reagan Consulting Observations

- The 15.5 median Rule of 20 score declined nearly a full point from last year's 16.4 result
- Only 25% of OGP participants had a Rule of 20 score of 20 or higher through the first three quarters of 2016 — down from 35% in 2014 and 2015
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- **OGP Projected 2016 Score: 15.4**
  Broker are projecting full-year Rule of 20 scores similar to Q3 results, reflecting mild optimism for a year end performance uptick

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.

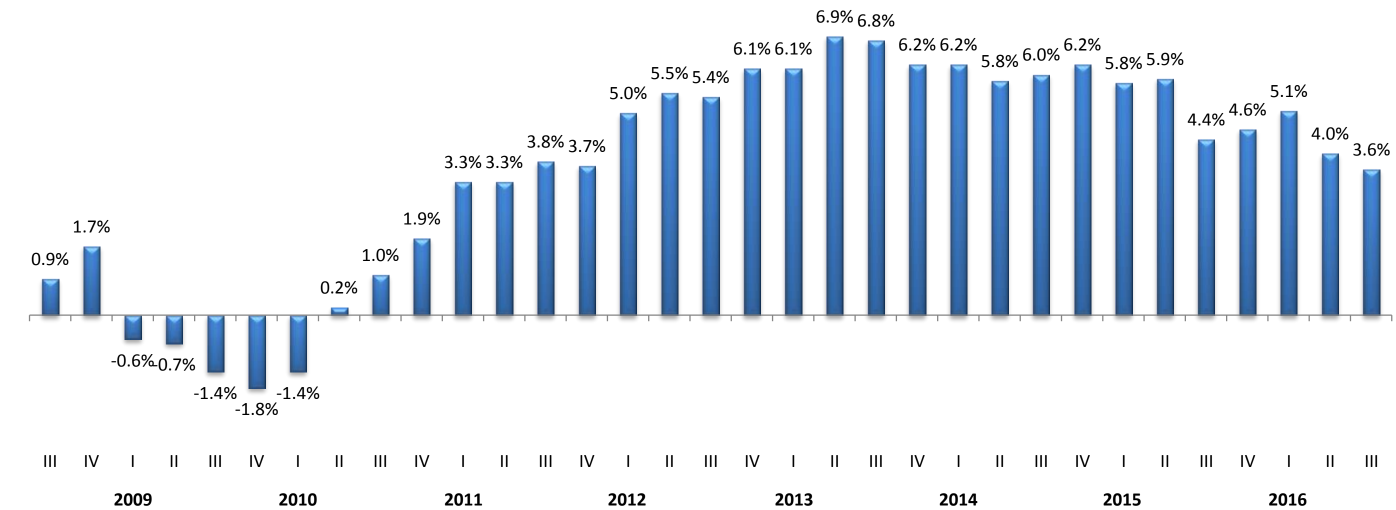
Note: If data for your firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.



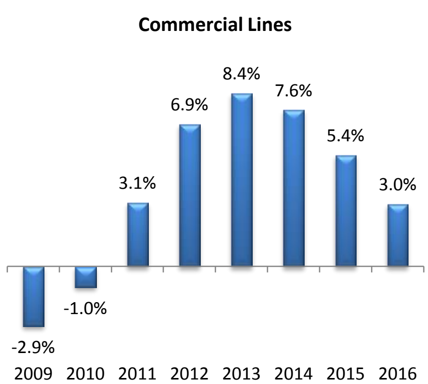
About the Scatter Plot

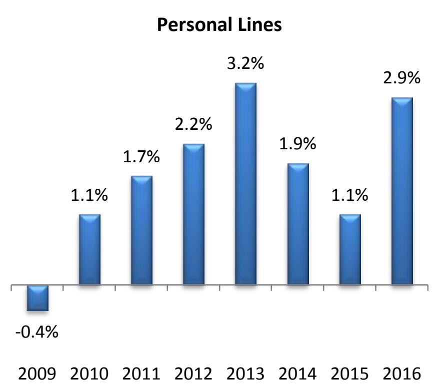
In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and th e total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple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

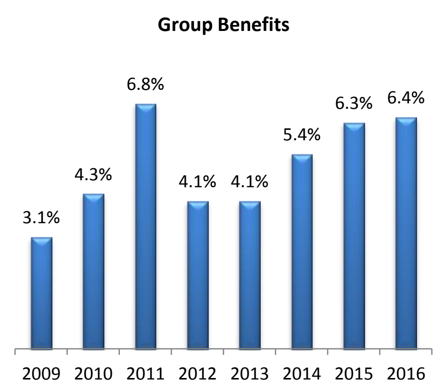
Quarterly Organic Growth - Total Agency Median (Q3 2008 - Present)



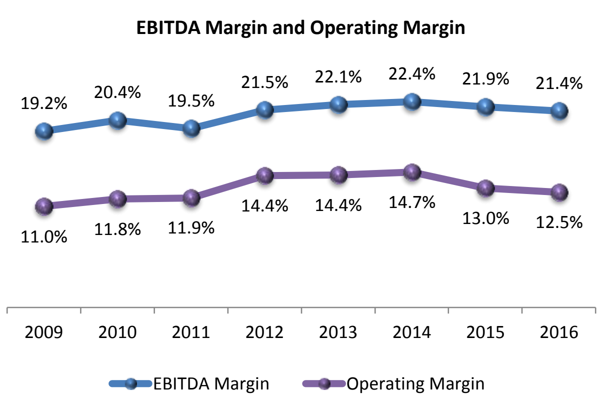
Comparative Median Organic Growth by Product Line (Third Quarter Numbers, 2009 - 2016)

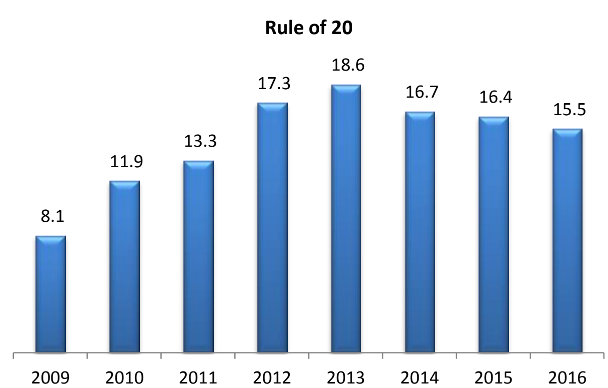






Comparative Median Profitability and Rule of 20 Analysis (Third Quarter Numbers, 2009 - 2016)





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.

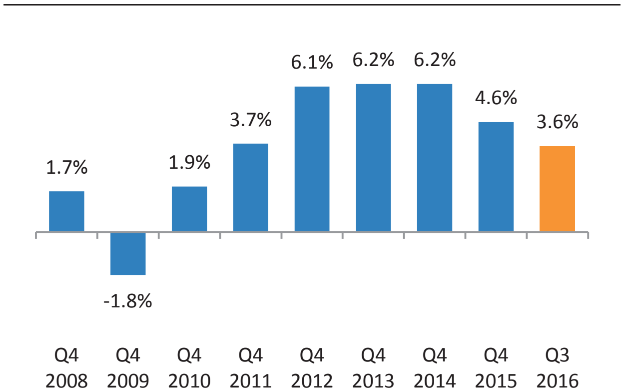
Organic Growth Continues to Slide

by Kevin Stipe and Thomas Ferguson

Agency organic growth fell to 3.6% in the third quarter – which is the lowest quarterly growth rate recorded in over five years. After beginning the year with a slight uptick, organic growth declined in both the 2nd and 3rd quarters and seems poised to drop further in the fourth quarter.

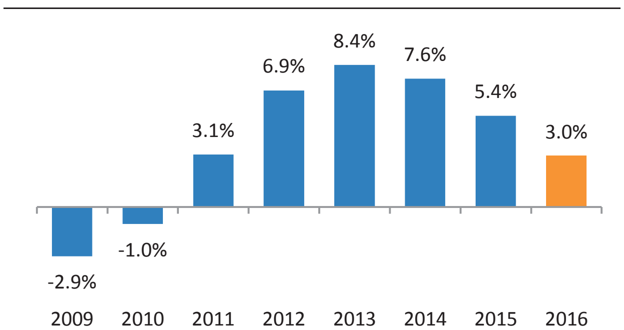
As all eyes focus on the strangest-ever U.S. Presidential election on November 8th, insurance brokers should be preparing for uncertain and potentially challenging times ahead.

Agency Organic Growth



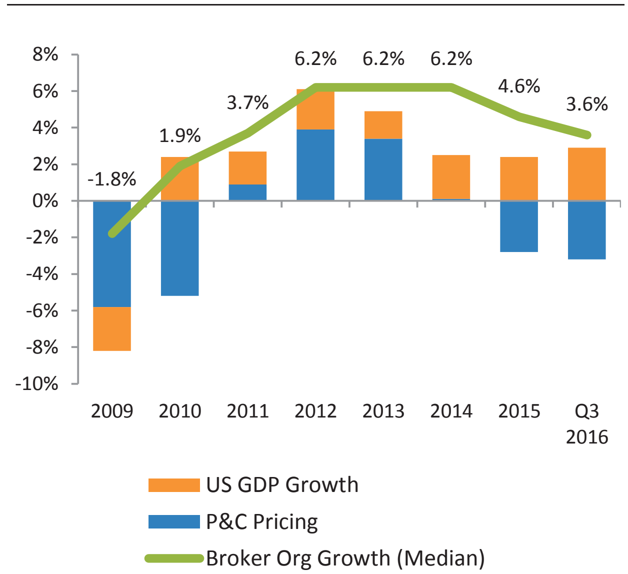
Commercial P&C, the largest line of business for most agencies in the OGP Survey, is the primary culprit in the recent trend. After peaking at 8.4% growth in 2013, it has steadily declined to 3.0% this past quarter.

Commercial Lines Growth in Q3



Economic growth and P&C pricing are the strongest drivers of commercial lines growth and both have been weak since 2014. U.S. GDP has increased only 1%-3% over the past few years, and P&C rates have been declining steadily by roughly 3% for nearly two years.

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



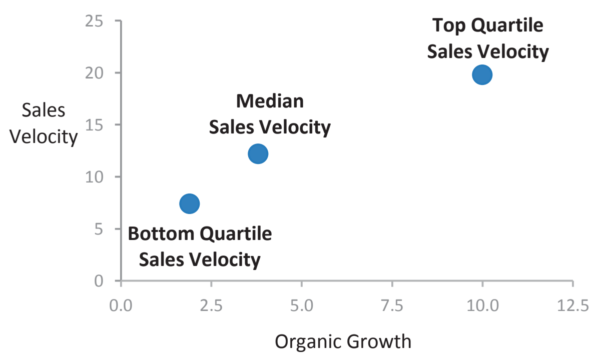
With organic growth headwinds getting stronger, proactive agency leaders are taking aggressive steps to control their own destiny and grow in spite of market conditions. For many, this means placing an even stronger emphasis on generating new business.

Sales Velocity is the best measure of new business and is now tracked in the OGP Survey. It is defined as current year written new business as a percentage of prior year total commissions and fees. A typical level of Sales Velocity is slightly above 12%, which means approximately $120K of new business per $1 million of commissions and fees.

But as the graph below indicates, many firms perform at levels well above and below this "typical" level of 12%. The top quartile is generating nearly 20% Sales Velocity, while the bottom quartile generates only 7.4% Sales Velocity.

What is the correlation between Sales Velocity and growth? It is dramatic – those with top quartile Sales Velocity generated 10% organic growth through the 3rd quarter, while the bottom quartile firms barely grew at all – a paltry 1.9% organic growth.

Sales Velocity & Organic Growth



We will go deeper into Sales Velocity in future quarters, but there are two basic ways to achieve high Sales Velocity:

1) Increase the performance of existing producers

2) Increase the number of producers

In our experience, today's Sales Velocity market-leaders are those firms that have successfully re-invested in their business by consistently growing their production force. Inadequate Sales Velocity is a warning sign that a firm is underinvesting in new producers, underperforming with current producers or most frequently a combination of both.

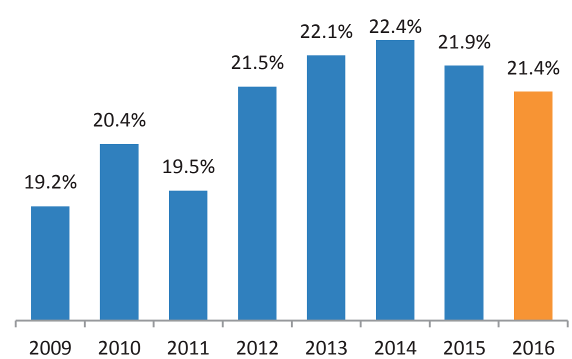
Reagan Consulting believes that the lack of producer hiring is an industry-wide problem, with at least 60% of firms falling short of the producer hiring needed to achieve their growth goals and perpetuate their operations or ownership (if they are privately held). Firms often fall short because they fail to account sufficiently for producer retirements and for the inevitable failures that come with producer hiring. A new-producer success rate of 50% to 60% needs to be factored into producer-hiring goals. If firms are too optimistic about success rates, they end up hiring fewer producers than they actually need.

Agency Profit Margins

Agency profit margin improvement has been a consistently encouraging story over the past several years. Driven by technology-enabled enhancements in employee productivity, operational best practices, and a growing economy, agents and brokers increased median year-end EBITDA margin from 16.6% in 2009 to a peak of 21.0% in 2014. Recently, however, weakened organic growth and heavy resource investments have taken their toll.

Below are 3rd quarter EBTIDA margins since 2009. Q3 results are higher than year-end margins due to contingent income (received disproportionately early in the year), but the recent trend is clear. Profitability is declining.

Third Quarter EBITDA Margin

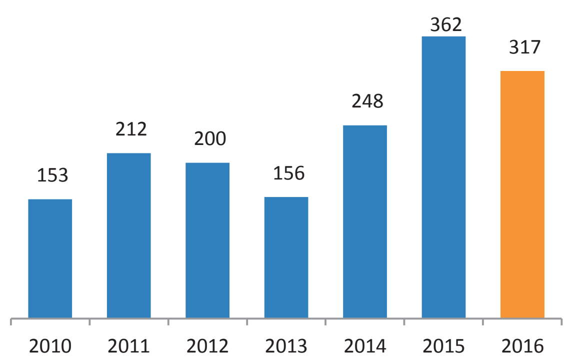


We project that year-end EBITDA margins will fall below 20% for the first time since 2013. With the slowing growth rates, 2016 is shaping up to be the second consecutive year of flat/declining profits (in dollar and percent terms) for our industry.

M&A Marketplace

While broker performance trends are somewhat disappointing, industry M&A activity remains extremely strong. It is unlikely that 2016 will top the record 471 deals closed in 2015, but 2016 should exceed the 400 deal threshold – which would be second highest deal count in history.

M&A Transaction Total Through Q3



Source: SNL Financial

Private equity remains the big story in 2016, with over 50% of all deals being done by private equity-backed buyers.

Valuations remain at historically high levels and will likely continue at or near those levels as long as the stock market remains strong, interest rates remain low and operating performance is relatively healthy. When one or more of these factors change, it is likely we will see agency valuations retreat from current levels.

During the immediate future, however, high valuations will continue to draw enough sellers to satisfy the acquisition appetite of many (but certainly not all) of the industry's most aggressive acquirers.

Agency Ownership Summit:
May 7-9, 2017 / Atlanta

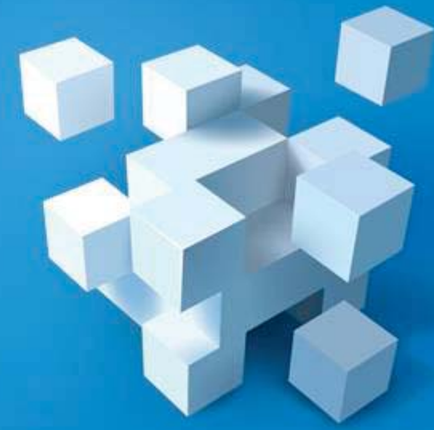
Every two years, Reagan Consulting hosts an event that gives agency owners and executives the opportunity to learn about key trends in the industry and to interact with leaders from many of the industry's premier firms. The workshop covers a wide variety of topics including value creation, mergers & acquisitions, internal perpetuation, and organic growth. All OGP participants are welcome to come. More information about the event is provided on the following page.

Reagan Consulting's

AGENCY OWNERSHIP SUMMIT

The Industry's Premier Mergers & Acquisitions, Perpetuation and Value Creation Event

May 7-9, 2017 ■ The St. Regis Atlanta



Join us for informative sessions and opportunities to interact with over 100 of the industry's top leaders

Who should attend?

Insurance Brokerage Principals seeking market intelligence about value creation, organic growth and acquisition strategies and the latest in techniques for maintaining independence. **Agency Buyers and Sellers** who need a clear understanding of the current M&A landscape, valuations and deal structures and the future of the brokerage industry.

Highlights include:

- Panel discussion of the leaders of the industry's most accomplished buyers
- Horst Schulze, founding president of Ritz-Carlton Group and current Chairman of Capella Hotel Group, will address building a culture capable of delivering the gold-standard client experience
- Defying the odds – a panel of privately-held acquirers who have competed with, and *beaten*, the industry's top buyers
- M&A trends and marketplace – when and why the current bull market for agency deals will end
- Private equity – from basement to penthouse in four short years, with no signs of slowing down – where PE is headed and its effect on the industry
- Outside capital – is raising minority equity a wise move for your firm?
- Getting younger – lessons from the industry's most successful investors in the next generation
- Is single payer going to wreck the benefits business? The latest in employee benefits strategies and deal activity
- Fighting for Independence – new steps top firms are taking to ensure they remain privately-held

Industry Leading Buyer Panel:

Pat Gallagher, Chairman	**Arthur J. Gallagher**
Greg Williams, CEO	**Acrisure**
Jim Henderson, Chairman	**AssuredPartners**
Marty Hughes, Chairman	**Hub International**
David Eslick, Chairman	**Marsh & McLennan Agency**
Mike Sicard, Chairman	**USI**

Registration fees:

1st attendee - $1,350
($1,200 for CIAB members)
2nd attendee - $1,150
($1,050 for CIAB members)

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Call Reagan @ 404-233-5545
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