Q3 2017

OGP ID: 9999

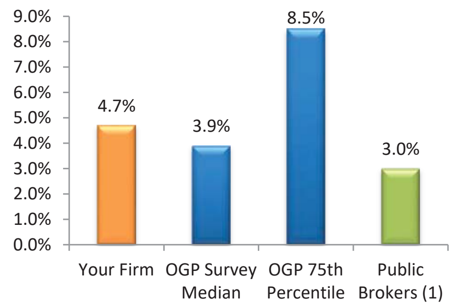
Current Value Driver Comparison

Organic Growth & Profitability Survey

Reagan Consulting

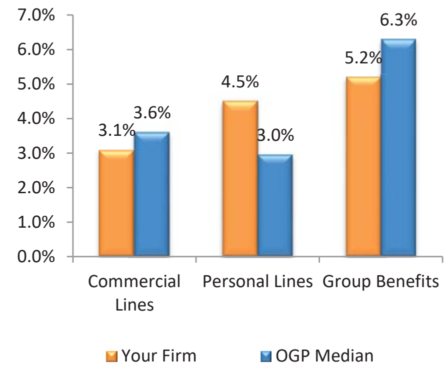
Organic Growth

Total Agency Organic Growth



Your organic growth rank:	**50th - 60th percentile**

Organic Growth by Product Line

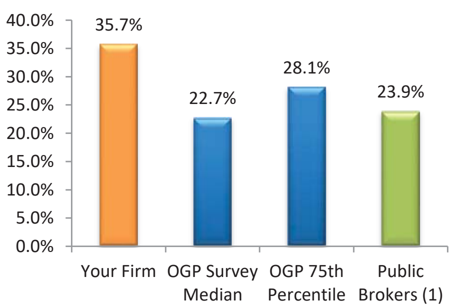


Reagan Consulting Observations

- Median organic growth retreated in Q3, falling to 3.9% - down from 4.6% in Q2, but still above last year's Q3 result of 3.6%
- Commercial lines growth in Q3 2017 stayed relatively flat at 3.6% vs. 3.7% in Q2 2017, but increased from 3.0% growth in Q3 2016
- Personal lines and group benefits growth rates both improved in Q3 over Q2 2017, with group benefits increasing from 4.9% in Q2 to 6.3% in Q3
- **OGP Projected 2017 Growth: 5.0%** Brokers maintained their full-year growth forecast at 5.0% in Q3 2017

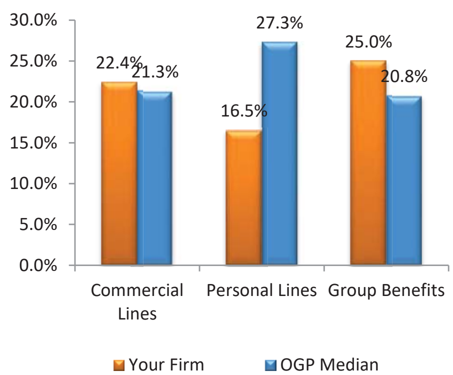
Profitability

Total Agency EBITDA Margin



Your profitability rank:	**80th - 90th percentile**

EBITDA Margin by Product Line

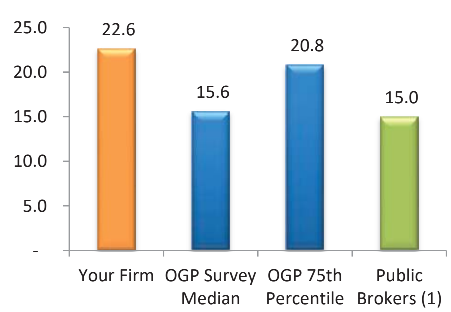


Reagan Consulting Observations

- Median EBITDA margin in Q3 2017 was 22.7%, up 1.3% from last year's Q3 figure. This jump seems driven by contingent income, since operating margins remained nearly identical to last year's level.
- At 22.7%, the Q3 EBITDA margin is the highest Q3 margin recorded since the OGP Survey was introduced in 2008
- **OGP Projected 2017 Margin: 20.0%** Brokers are projecting a 20.0% full-year margin, consistent with the 2016 full-year margin result of 20.0%

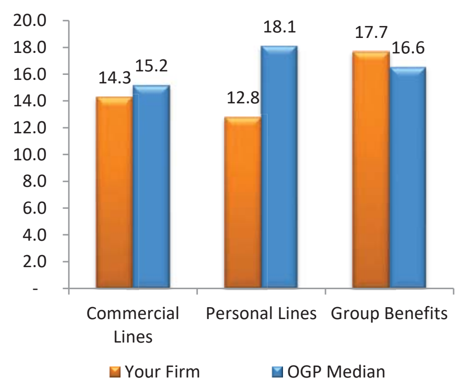
The Rule of 20 (see note below)

Total Agency Rule of 20



Your Rule of 20 rank:	**70th - 80th percentile**

Rule of 20 by Product Line



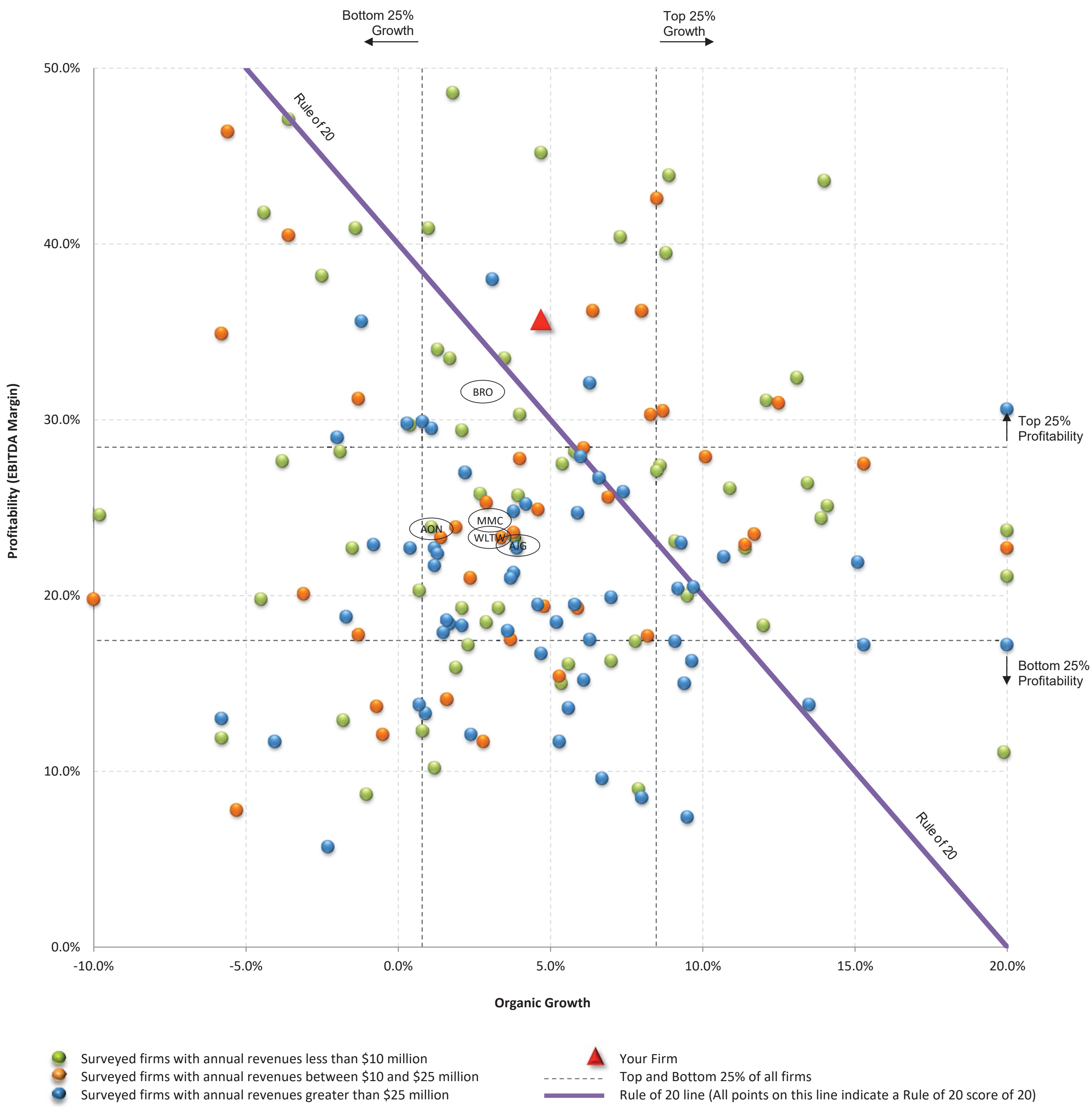
Reagan Consulting Observations

- The 15.6 median Rule of 20 score is nearly identical to last year's 15.5 result
- 30% of OGP participants had a Rule of 20 score of 20 or higher through the first three quarters of 2017 — up from 25% in 2016
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- **OGP Projected 2017 Score: 15.0** Brokers 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.
(1) Includes results for four public brokers (AJG, AON, BRO and MMC) who have released Q3 2017 results.

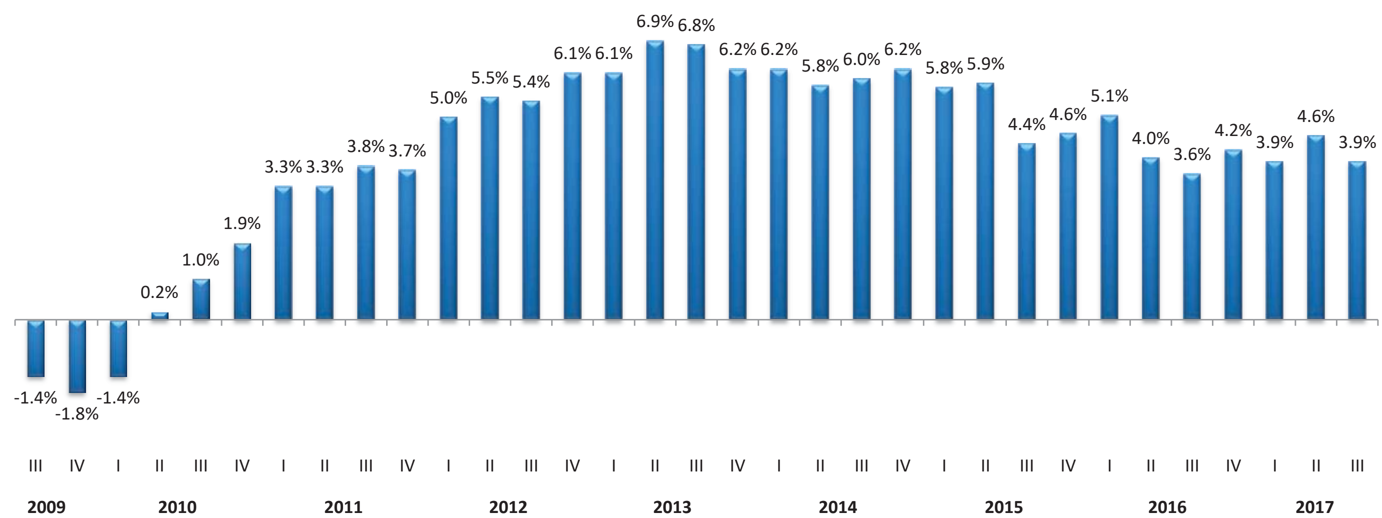


About the Scatter Plot

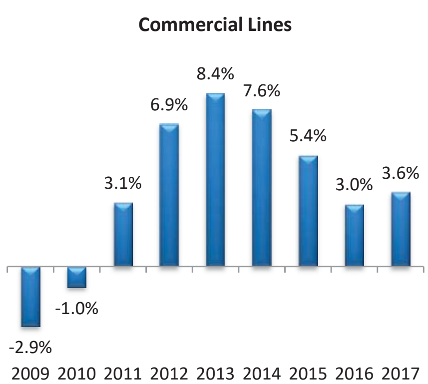
In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and th e total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple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

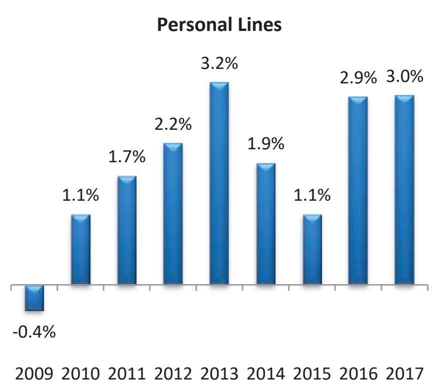
Note: Scatter Plot represents Q3 2017 results for AJG, AON, BRO and MMC and Q2 2017 results for WLTW.

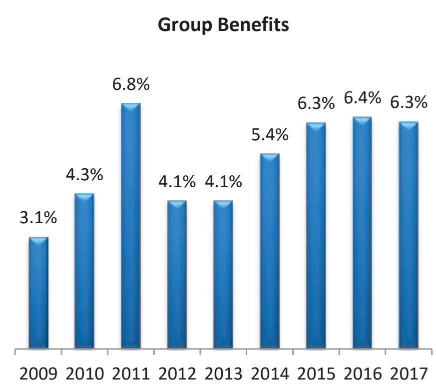
Quarterly Organic Growth - Total Agency Median (Q3 2008 - Present)



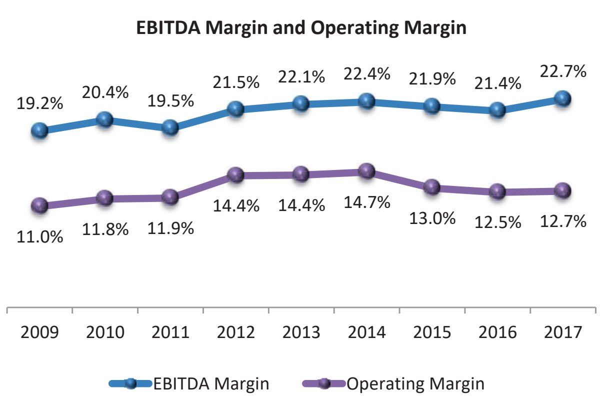
Comparative Median Organic Growth by Product Line (Third Quarter Numbers, 2009 - 2017)

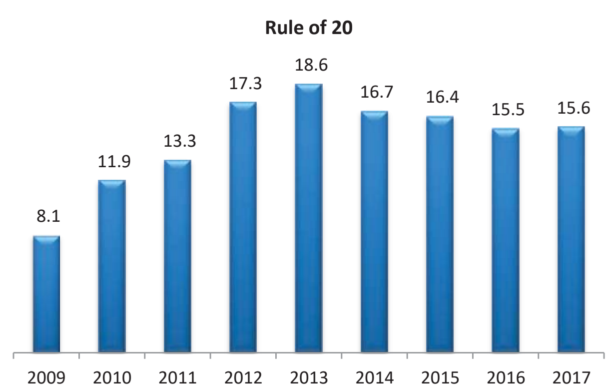






Comparative Median Profitability and Rule of 20 Analysis (Third Quarter Numbers, 2009 - 2017)





About EBITDA Margin and Operating Margin

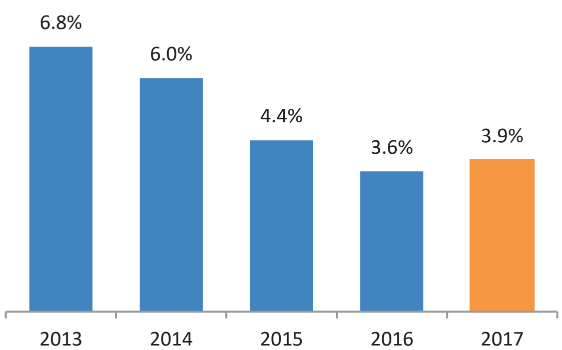
EBITDA Margin is calculated by dividing a firm's pro-forma EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by the firm's pro-forma net revenues. Operating Margin is calculated as EBITDA less contingent income, divided by pro-forma net revenues less contingent income.

Growth Stalls, but Margins Continue to Soar

by Jim Campbell

The surprisingly strong Q2 organic growth of 4.6% stalled in Q3, falling back to 3.9%. But despite this setback, 3.9% growth still represents a modest increase over the 3.6% achieved in Q3 2016 and puts an end to the three-year slide in Q3 growth which saw rates tumble from a recent high of 6.8% in 2013.

Third Quarter Organic Growth

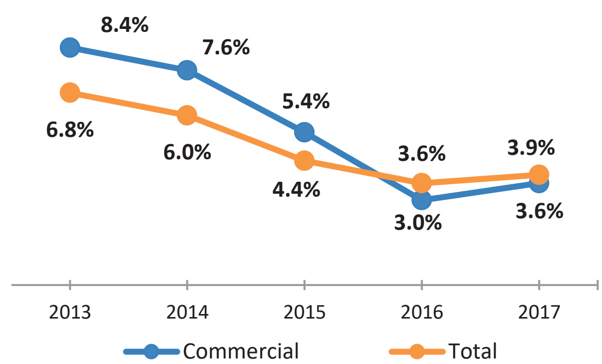


Growth by product line was mixed with group benefits continuing to lead the way at 6.3%. This is in line with Q3 results for the past two years (6.4% in 2016 and 6.3% in 2015) and represents an increase over the Q2 growth rate of 4.9%.

At 3.0%, personal lines growth continues to lag that of other lines, but is ahead of Q2 results of 2.3% and is slightly ahead of last year's Q3 pace of 2.9%. Additionally, 3.0% represents the second highest Q3 growth rate for personal lines in the nine-year history of the OGP Survey.

As commercial lines continue to struggle for growth, it remains a drag on overall growth rates for many firms. However, the three-year slide in Q3 growth ended as commercial lines rebounded to 3.6% from 3.0% last year.

Third Quarter Organic Growth – Commercial Lines vs. Total



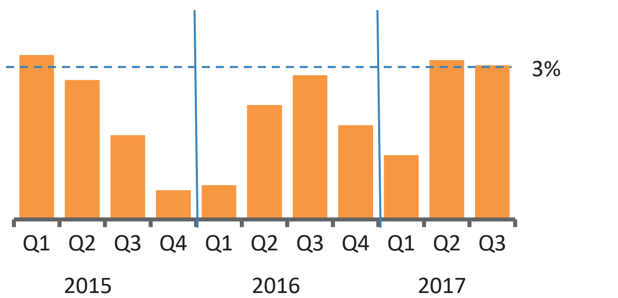
Does this suggest we've bounced off the bottom and will see continued improvement in commercial lines growth going forward? Perhaps. First, consider that unlike other product lines that are producing growth rates near their recent highs, commercial lines growth is lagging and has dropped sharply and consistently since 2013. A rebound seems inevitable at some point. But why now? Mainly because conditions for commercial lines growth appear to be improving.

Pricing remains a challenge as rates continue to decline, but appears to be trending in a more favorable direction. There have even been rumblings of a possible hardening of rates in response to the catastrophic hurricanes and recent California wildfires.

In addition, economic growth is showing signs of strength. Based on the most recent estimates provided by the US Department of Commerce, third quarter domestic GDP growth was 3.0%, marking the first time since 2014 the US economy has produced back-to-back quarters with growth of at least 3%.

If sustainable, improving economic growth coupled with increasing price stability should bode well for commercial lines growth and therefore for overall agency growth.

Real GDP: Percent Change From Preceding Quarter

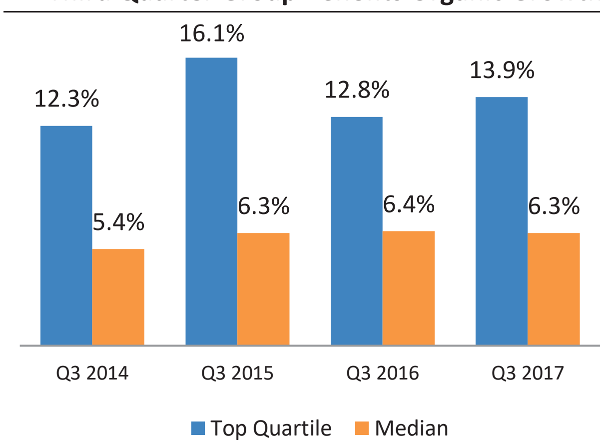


Source: U.S. Bureau of Economic Analysis

The Group Benefits Leaders

While commercial lines growth has been largely influenced by external conditions, group benefits growth leaders are taking matters into their own hands. The impressive performance of the growth leaders in group benefits is demonstrated by the wide gap between median growth and top quartile results. Firms at the top quartile for group benefits achieved a staggering 13.9% growth rate in Q3, while median performers achieved less than half that rate at 6.3%.

Third Quarter Group Benefits Organic Growth



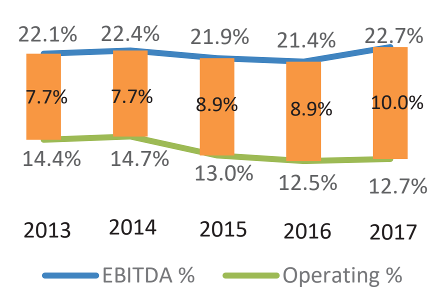
So, although group benefits has been the fastest growing line in recent years, the median results don't tell the full story. In fact, the results have been highly variable with top quartile performers growing like gangbusters while bottom quartile firms have struggled, with some even experiencing negative growth. So, what does this massive growth gap suggest? Perhaps that the group benefits market has tilted in favor of those that are "all in", making investments in producers, resources and technology that are now paying dividends.

Profitability

While growth rates stalled in Q3 and the overall growth picture remains a bit muddled, profitability continued to soar with a third quarter median EBITDA margin of 22.7%. Not only is this a significant increase over the Q3 2016 result of 21.4%, but it is the highest Q3 EBITDA margin recorded in the history of the OGP Survey, eclipsing the 22.4% achieved in the third quarter of 2014. This is also a continuation of the strong profitability reported for Q2 when the median margin of 24.6% tied an OGP record high for Q2.

The decline in margin from Q2 to Q3 is expected as contingent income is highly profitable and generally received in the first half of the year. As a result, margins typically decline in the second half. And this decline can be steeper in years with stronger contingent income. So, has contingent income been a significant contributor to the relatively high margins achieved thus far in 2017? It appears so. A good indicator of this is the spread between EBITDA margins and operating margins, with operating margins excluding contingent income from the calculation of EBITDA.

Third Quarter EBITDA Margin and Operating Margin



Reagan Consulting

The 10% gap between EBITDA margin (22.7%) and operating margin (12.7%) is a record high Q3 gap for the OGP. By comparison, when the second highest Q3 EBITDA margin of 22.4% was achieved in 2014, the operating margin was a strong 14.7%, resulting in a gap of only 7.7%. This tells us the impressive profitability achieved to date may be more attributable to a strong contingent year than to an increase in structural profitability. If so, we may see a steeper than normal drop in the full-year EBITDA margin. However, the 20.0% full year EBITDA margin forecast by OGP participants still appears to be well within reach.

Conclusion

So, as we now push deeper into the fourth quarter, what can we expect? There seems to be cautious optimism that external conditions are aligning to enable improved commercial lines growth and therefore lift overall agency organic growth rates. The stakes seem to be rising in group benefits, where investments may be increasingly necessary, but potentially rewarding. And margins seem poised to finish strong in 2017, though there is work to be done to improve structural profitability in many firms if improved profitability is to be sustained.