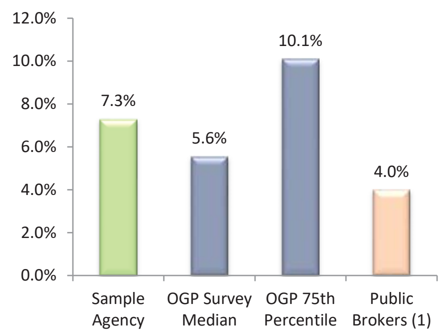
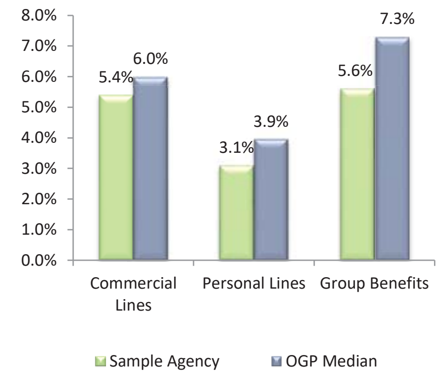
Organic Growth

Total Agency Organic Growth



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

Organic Growth by Product Line

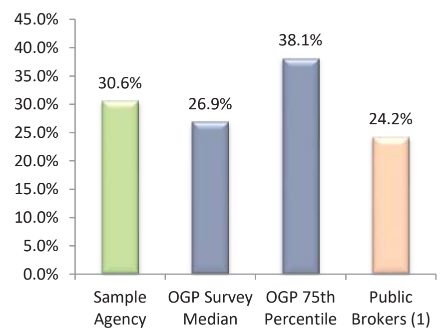


Reagan Consulting Observations

- Brokers started 2018 on a strong note with 5.6% organic growth for the quarter - up from 3.9% in Q1 2017 and 4.5% for all 2017
- Commercial lines (6.0% in Q1 2018 vs. 4.0% in Q1 2017) and personal lines (3.9% in Q1 2018 vs. 2.2% in Q1 2017) posted higher growth
- Group benefits continues to be the high performer for many firms at 7.3% growth in Q1 2018, which is over 3 points higher than its 4.0% growth in Q1 2017
- **OGP Projected 2018 Growth: 7.0%**
  Brokers expect a strong increase in 2018 at 7.0% growth (vs. 4.5% in 2017) signaling rate increases might be finally hitting the market

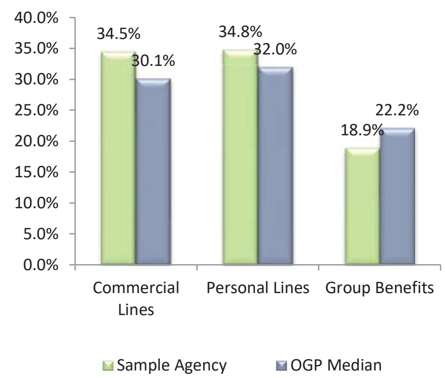
Profitability

Total Agency EBITDA Margin



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

EBITDA Margin by Product Line

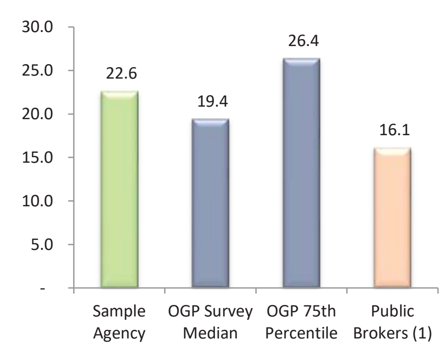


Reagan Consulting Observations

- Overall broker profitability of 26.9% decreased slightly from 27.6% in Q1 2017 which may point to carriers tightening up their contingent/bonus arrangements with brokers
- Although the overall median EBITDA margin declined slightly from last year, both CL & PL margins increased from prior year levels
- YTD profitability numbers are inflated by cash-basis contingent income recorded in Q1 and margins will come down throughout the year
- **OGP Projected 2018 Margin: 20.0%**
  Brokers are projecting a 20.0% margin for 2018, in line with the 2017 full-year margin of 20.4%

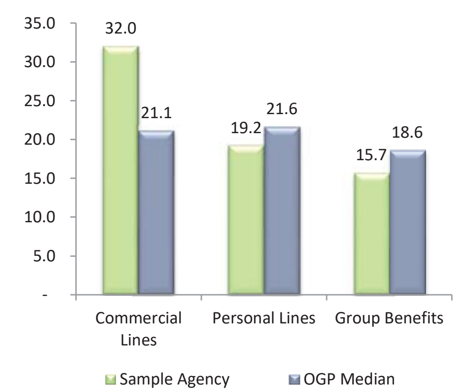
The Rule of 20 (see note below)

Total Agency Rule of 20



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

Rule of 20 by Product Line



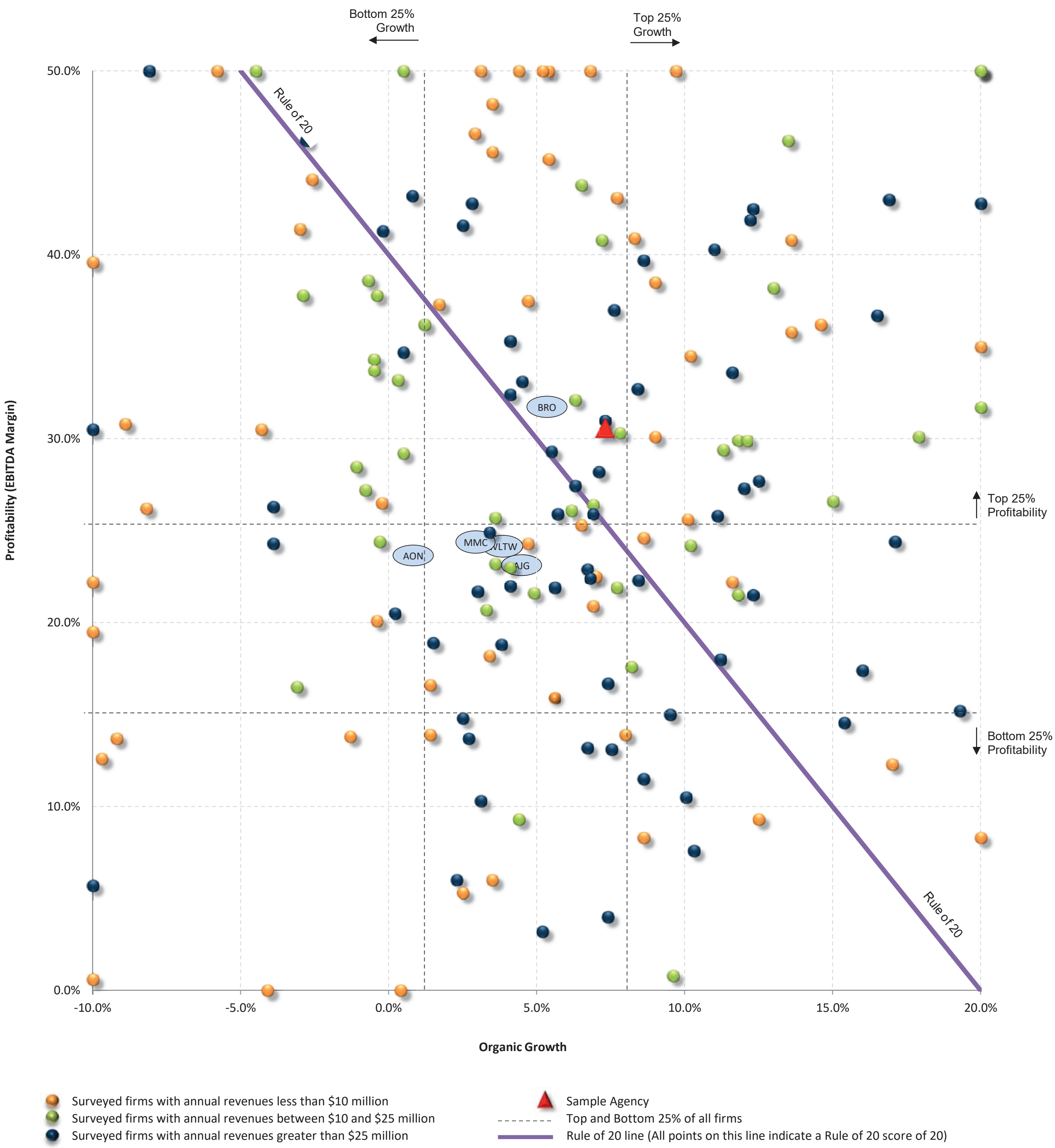
Reagan Consulting Observations

- The 19.4 median Rule of 20 score is up from last year's 18.0 score through Q1
- All lines of business saw increases in 2018 vs. Q1 2017, which reflects the year over year strong organic growth increases
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- **OGP Projected 2018 Score: 16.8**
  Brokers project a solid increase in rule of 20 scores for 2018 (vs. 14.3 in 2017) which reflects their positive outlook for organic growth

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) Represents Q1 2018 results for BRO and MMC and Q4 2017 results for AJG, AON and WLTW.

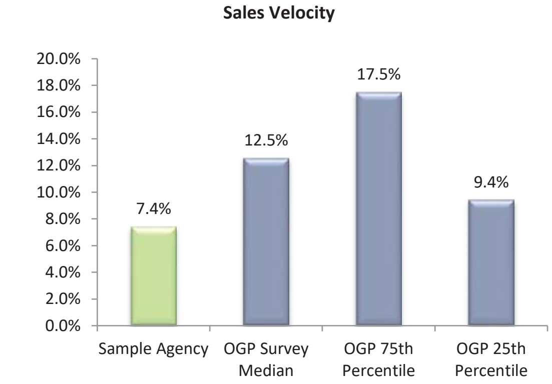


About the Scatter Plot

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 purple 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.

Note: Scatter Plot represents Q1 2018 results for BRO and MMC and Q4 2017 results for AJG, AON and WLTW.

Sales Velocity (see note below)



Sample Agency Velocity rank:	**10th - 20th percentile**

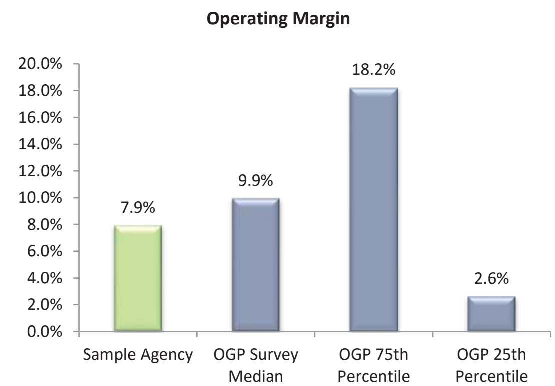
About Sales Velocity

Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results against other firms. Expressed as a percentage, Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. Sales Velocity is among the most important drivers of organic growth.

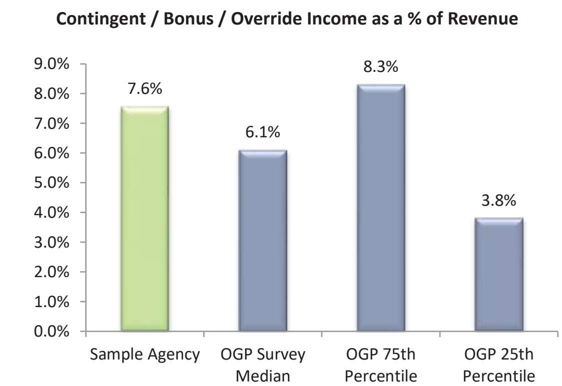
Reagan Consulting Observations

- The industry has maintained Sales Velocity numbers in the low teens over the last several years, varying between 10.0% and 13.0%
- Median Sales Velocity was 12.5% for the industry in Q1 2018, which is right in line with historical levels
- If a firm consistently posts Sales Velocity figures in the top 25% of the industry (20.2% or higher in Q1 2018), it is likely the firm will generate above average industry growth, assuming normal levels of client retention

Operating Margin & Contingent Income as % of Revenue



Sample Agency Margin rank:	**40th - 50th percentile**

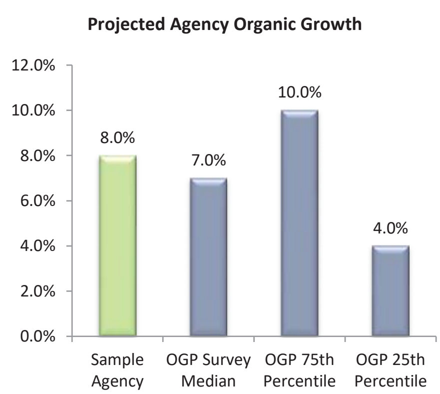


Sample Bonus Inc. as % of Revenue rank:	**60th - 70th percentile**

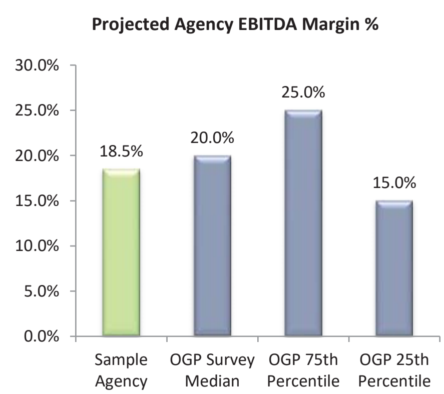
About Operating Margin

Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.

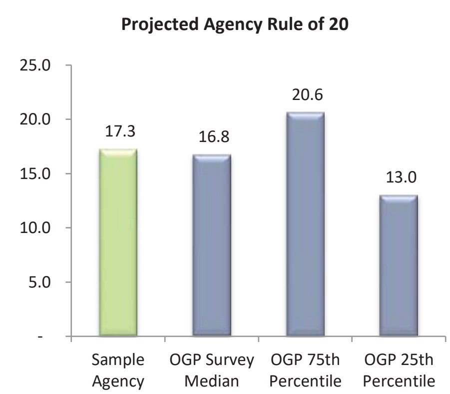
2018 Projections



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

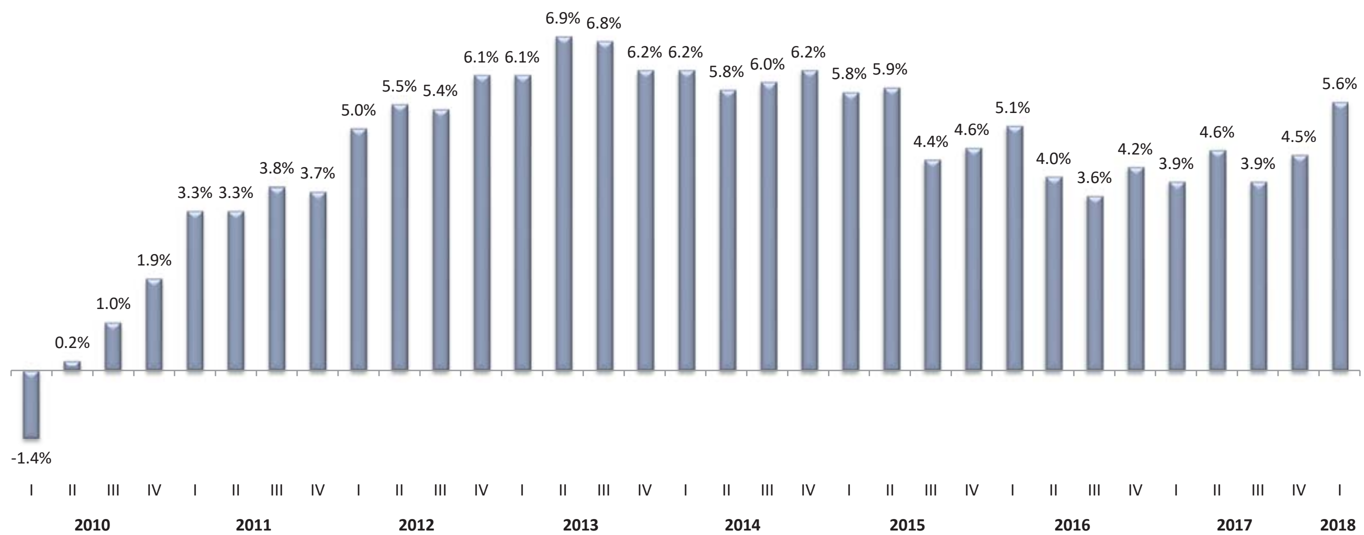


Your EBITDA margin rank:	**40th - 50th percentile**

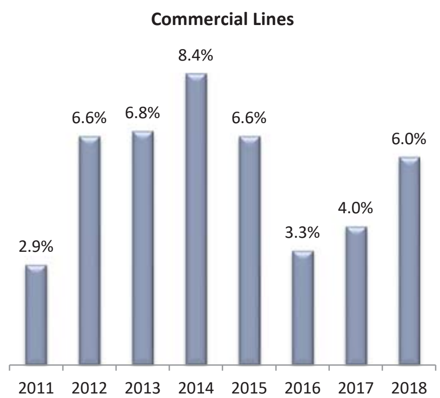


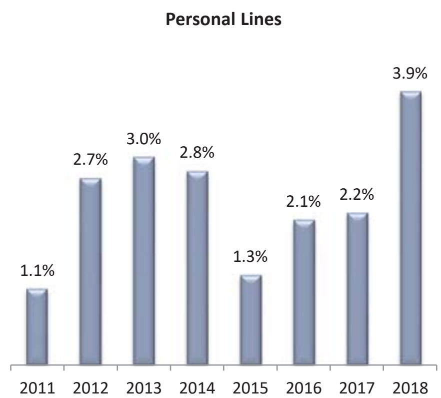
Your Rule of 20 rank:	**50th - 60th percentile**

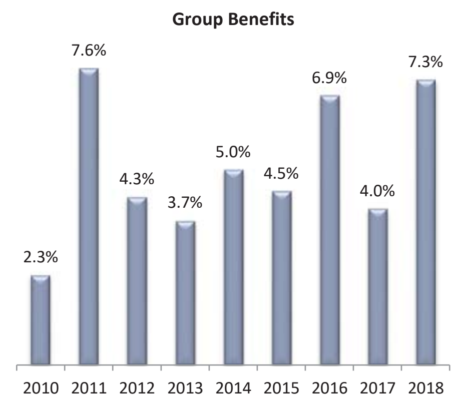
Quarterly Organic Growth - Total Agency Median (Q1 2010 - Present)



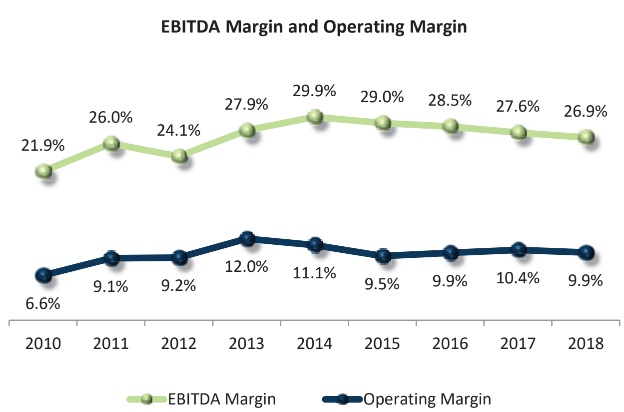
Comparative Median Organic Growth by Product Line (First Quarter Numbers, 2010 - 2018)

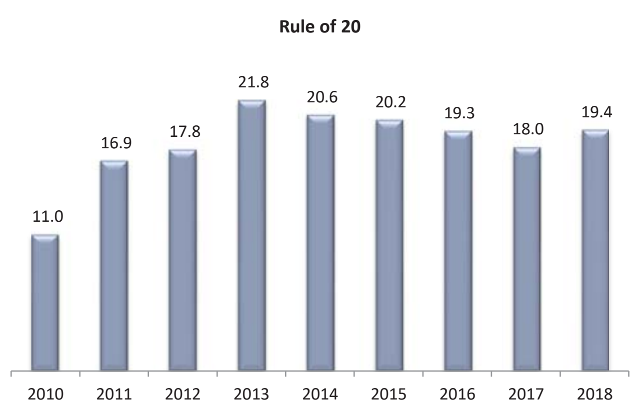






Comparative Median Profitability and Rule of 20 Analysis (First Quarter Numbers, 2010 - 2018)





About EBITDA Margin and Operating Margin

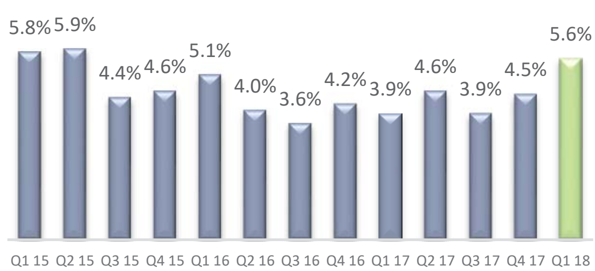
EBITDA Margin is calculated by dividing a firm's pro-forma EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by the firm's pro-forma net revenues. Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent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

Off to a Great Start

by Brian McNeely

2018 is off to a great start with organic growth for Q1 coming in at 5.6%. In fact, this represents the highest level of organic growth since Q2 of 2015. In addition, this is an increase of 44% versus Q1 of 2017 and a 24% increase versus Q4 of 2017. Finally, this marks the first time we have witnessed two consecutive quarters of accelerating organic growth since Q4 of 2015 and Q1 of 2016.

Agency Organic Growth by Quarter, 2015-2018



Source: Reagan Consulting Q1 2018 OGP Survey

All lines of business experienced an increase in organic growth in Q1 2018. Group Benefits was the strongest, coming in at 7.3%. This is a 40% increase versus the 5.2% organic growth reported in Q4 2017. More noteworthy is that this is the highest organic growth reported for Group Benefits since Q2 2011. This growth appears to be driven by a combination of factors, including the continued escalation of healthcare costs and brokers' continued investment in additional producers and client-facing resources.

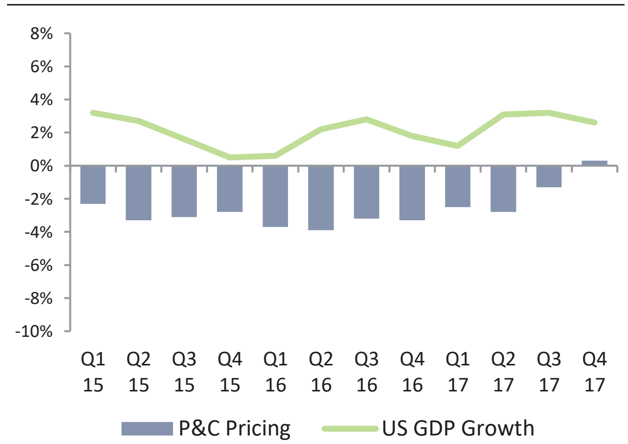
Perhaps the biggest surprise for Q1 was personal lines. At 3.9%, this is the highest Q1 performance we have witnessed since the OGP Survey was launched in 2008. In fact, it is 30% higher than the previous highwater mark in Q1. We believe this is driven, at least in part, by hardening in the personal auto market in certain states as well as agents and brokers continuing to focus on high-end personal lines, which tends to grow faster than main street personal lines.

Lastly, but perhaps most importantly since it represents the largest proportion of overall revenue for most OGP participants, Commercial P&C organic growth was up 6.0% in Q1 2018. This is the highest Q1 result since Q1 2015 and a 46% increase over Q4 2017.

This growth is likely being driven by a helpful combination of firming pricing and a growing U.S. economy. According to the CIAB in its quarterly Commercial Property/Casualty Market Index, pricing improved each quarter in 2017, finishing in positive territory for the first time in 13 quarters. It appears this momentum carried into Q1 of 2018.

U.S. GDP also extended its recent run of accelerated growth. Past OGP analysis has indicated that changes in U.S. GDP typically show up in broker organic growth numbers after approximately 6-9 months. With 2017 showing the best overall GDP growth since 2014, it makes sense that brokers are benefiting in early 2018.

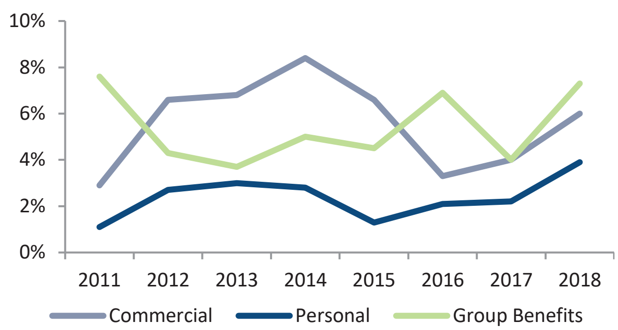
CL Pricing vs. U.S. GDP



Sources: CIAB and Bureau of Economic Analysis

The table below compares broker growth rates by line for the past several years.

Organic Growth by Line, Q1 2011-2018



Source: Reagan Consulting Q1 2018 OGP Survey

The question of the minds of many brokers is simple: will the faster growth rates continue? We believe there are several reasons for continued optimism.

1) From a macro perspective, the U.S. economy continues to perform well. Q1 GDP growth was recently announced at 2.3%, which was the highest Q1 number since 2015. In addition, we are statistically at full employment in the U.S., with the unemployment rate at 4.1%. These metrics may continue to improve as results of The Tax Cuts and Jobs Act materialize.

2) P&C pricing may also continue to improve. MarketScout announced in April that commercial lines premiums increased by 2.0%, the highest level in years. If this trend continues throughout 2018, brokers will benefit greatly.

3) Employers continue to struggle with employee benefits resulting from ACA and increasing compliance issues. As a result, they continue to lean on broker partners for guidance and strategic direction.

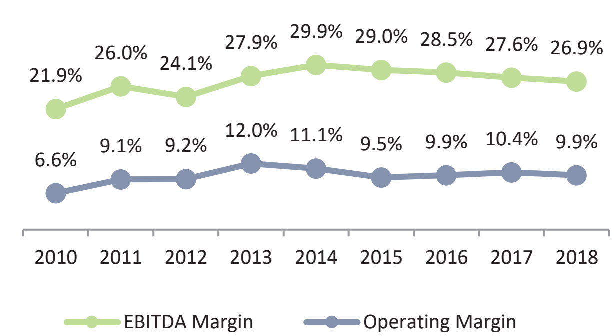
4) Over the last few years, many OGP brokers have elevated their efforts to recruit and develop producers. Many of those producers are beginning to hit their stride, with firms currently reporting a Sales Velocity of 12.5% for Q1 2018.

OGP Survey participants seem to share our optimism. In the Q4 2017 survey they projected 5.0% growth for 2018. They have since revised their projections to 7.0% for 2018.

From a profitability perspective, the median EBITDA margin declined slightly in Q1 2018 to 26.9% - the fourth year in a row that margins declined in Q1. (It is important to remember that EBITDA margins are inflated early in the year due to most contingent income being received in Q1.) Contingent income remained relatively flat (6.1% of annualized revenue in Q1 of 2018 vs. 6.2% of annualized revenue in Q1 of 2017). Given the lack of change in contingent income combined with the organic growth increase, we would have expected the EBITDA margins to increase in Q1 of 2018.

Operating profit, which excludes the impact of contingent income, was 9.9% in Q1 2018 versus 10.4% in Q1 2017 and 12.2% in Q4 2017. Given these data points, it seems to confirm a concern that many of our clients have voiced in this year's valuation conversations – brokers are feeling margin pressure. It looks like these issues are expected to continue for the rest of the year with EBITDA margins predicted at 20.0% for 2018 versus 20.4% experienced in 2017.

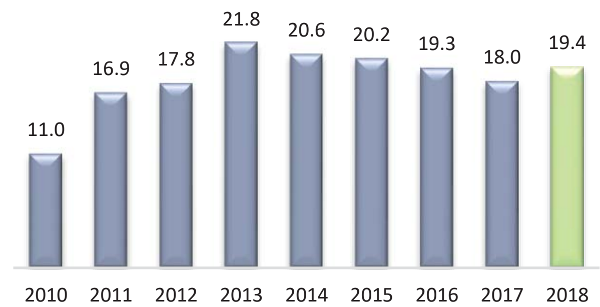
EBITDA and Operating Profit, Q1 2010-2018



Source: Reagan Consulting Q1 2018 OGP Survey

To address this concern, we encourage agents and brokers to take a granular look at their business, assessing profitability at any level that it can be measured. This includes divisional profitability, client profitability and producer profitability. Doing so allows a firm to understand issues at an actionable level – providing the basis for changes in compensation, staff usage, resource usage, etc. This more detailed profitability analysis has resulted in some of the most dramatic profitability improvements we've witnessed.

Rule of 20, Q1 2010-2018



Source: Reagan Consulting Q1 2018 OGP Survey

Finally, when looking at the Rule of 20 for Q1 2018, the median score was 19.4. This is an increase from 18.0 in Q1 2017. As a reminder, the Rule of 20 helps balance the impact of the two primary value drivers for insurance agents and brokers – organic growth and profitability. As such, even though there are profitability challenges, the current organic growth levels are creating higher shareholder returns for owners of agents and brokers.

So where does this leave us? 2018 is shaping up to be a very good year for brokers. If their projections are accurate, organic growth will meet or exceed levels not seen since 2013, and investment returns will be strong. For many, this will provide a unique opportunity to reinvest in talent and resources, to focus on operational excellence and to prepare for the inevitable challenges our industry faces.

Reagan Consulting