Reagan Consulting

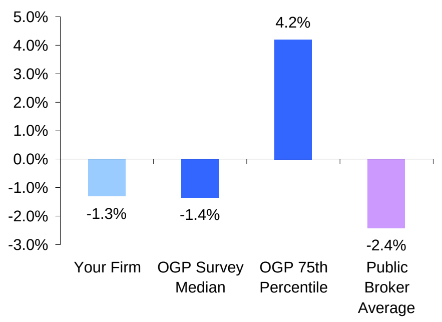
Q1 2010
OGP ID: 9999

Organic Growth & Profitability Survey (OGP) - Q1 2010

- Median annualized revenue for surveyed firms is approximately $15 million, average is over $33 million. All U.S. geographies represented.
- Public Broker results are from press releases and Reagan Consulting estimates, and include Aon, Gallagher, Marsh, Brown & Brown and Willis.

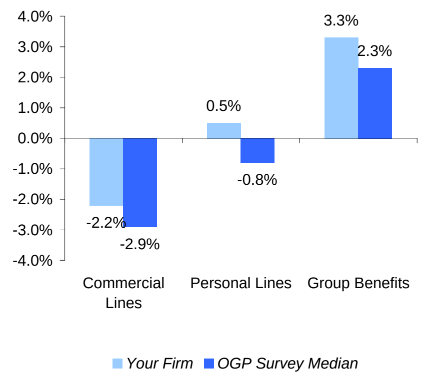
Organic Growth

Total Agency Organic Growth



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

Organic Growth by Product Line



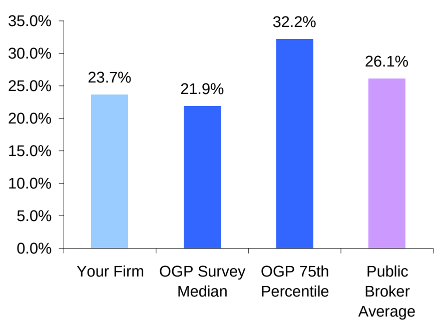
Reagan Consulting Observations

- Median organic growth was negative 1.4% for the first quarter of 2010, down from the negative 0.6% recorded in Q1 2009
- Public broker organic growth was negative 2.4% in the first quarter, influenced by Brown & Brown's negative 8.6%
- Insurance broker results are lagging the economy overall. Despite three straight quarters of GDP growth, broker organic growth continues to decline - in all lines:

Growth	*Q1 2009*	*Q1 2010*	*Decline*
Comm	-1.5%	-2.9%	-1.4%
Pers	-0.2%	-0.8%	-0.6%
Group	7.3%	2.3%	-5.0%

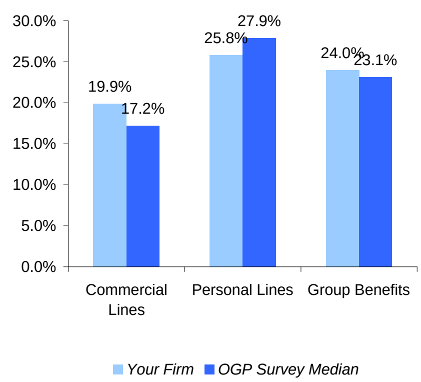
Profitability

Total Agency EBITDA Margin



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

EBITDA Margin by Product Line

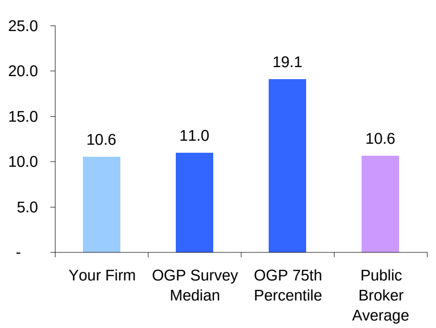


Reagan Consulting Observations

- Median EBITDA margin, boosted by first quarter contingent income receipts, was 21.9% in Q1 2010
- In the 2009 OGP survey, industry EBITDA margins fell from 24.9% in Q1 to 16.8% for the year - an 8.1% decline over the year as contingent income was spread out. A similar decline this year would mean full-year 2010 industry profit margins of 13.8%.
- The decline in margin is partially driven by falling contingent income, which is down almost 8% for the median firm
- To be a top 25% performer nationwide required EBITDA of 32.2% or higher

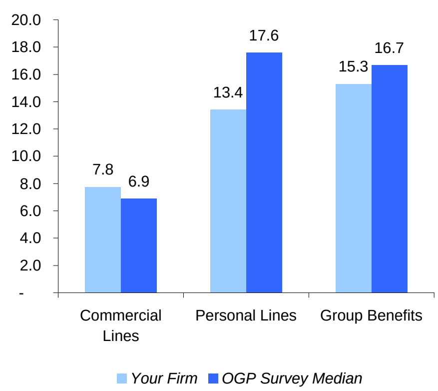
The Rule of 20 [(1)]

Total Agency Rule of 20



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

Rule of 20 by Product Line



Reagan Consulting Observations

- The median first quarter Rule of 20 score was 11.0, down from 12.8 in the first quarter of 2009
- Personal lines, with a Rule of 20 score of 17.6, provided the greatest return to shareholders in the first quarter of 2010
- Commercial Lines trails Personal Lines by 10.7 points and trails Group Benefits by 9.8 points in Rule of 20 scoring
- To be a top 25% performer required an overall Rule of 20 score of 19.1 or higher

(1) 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 distributions and / or share appreciation, a shareholder return of approximately 15% - 17%, which is a typical agency / brokerage return under normal market conditions. Given current market conditions, however, few firms are achieving a score of 20 or better.

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

Organic Growth & Profitability Survey

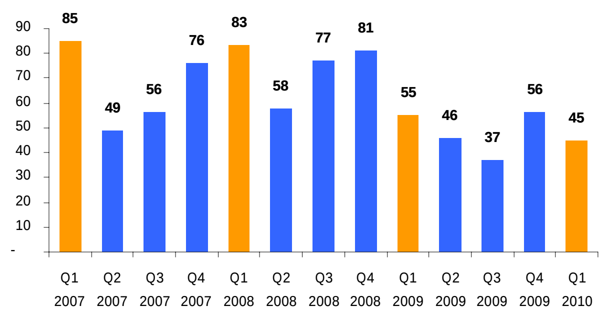
M&A Market Commentary (Q1 2010)

Hungry Buyers are Scavenging For Mergers & Acquisitions

Kevin Stipe & Brian Deitz

It was widely predicted that M&A activity among insurance brokers would rebound in 2010, after the worst year in a decade. But the data indicates it's not happening yet. In fact, deal activity during the first quarter of 2010 was nearly 20% *below* that of 2009. Are we heading lower still?

Announced Deals by Quarter (2007 - Q1 2010)



Source: SNL Financial

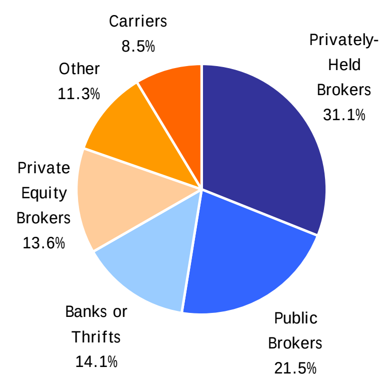
Don't blame the industry's buyers – they are back with fresh capital to spend and a renewed confidence that the world isn't going to end anytime soon. And their investors, frustrated with negative organic growth, are pushing as hard as ever for acquisitions as a means of expanding their top and bottom lines.

Today's strong buyer appetite is a reversal from a year ago. In early 2009 buyers were anxious about the state of the economy and pulled back on acquisition activity until they could get a better read on things. There was serious confusion about agency valuations – with some suggesting that agency values had "plummeted" from their levels just months earlier. (This was not accurate, as we pointed out in our M&A whitepaper "Down but not Out"). Nevertheless, buyers responded to the uncertainty by racing under the caution flag until the economic wreckage could be cleaned up.

By the second half of 2009, with the economy growing again and credit markets easing, several industry buyers seized the opportunity to enter or get back in the race. Marsh & McLennan Agency made a strong entry into the middle-market insurance brokerage space, acquiring five agencies in the last six months. Those five deals represent approximately $185 million in annual revenue, making Marsh & McLennan Agency a top 15 US broker and a significant buyer in the marketplace.

At the same time, the traditional buyers are raising capital and getting re-energized around acquisitions. In the fourth quarter of 2009 alone, Arthur J. Gallagher, USI and Hub each issued new debt of $100 million or more for various purposes, most notably acquisitions.

Acquirers of Insurance Brokers During the Last Year (May 1, 2009 to Present)



Source: SNL Financial

The Most Active Buyers During the Last Year (May 1, 2009 to present)

Buyer	*Number of Deals*
Brown & Brown	12
Arthur J. Gallagher	11
Hub International	7
Ascension	6
Wells Fargo	5
Marsh & McLennan Agency	5

Source: SNL Financial

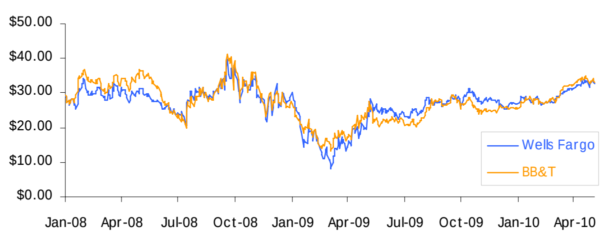
The industry's leading banks have recovered nicely, too. It might be hard to believe given the continued uncertainty around the banking industry, but Wells Fargo's share price has quadrupled since it hit its low point in March, 2009. And BB&T's share price has more than doubled. Both banks are now back in a position where their acquisition pricing models can provide green lights on deals.

Finally, public broker multiples have rebounded, up over 10% from the lows experienced during the first quarter of 2009. The recovery in public broker stock prices is enabling them to be more aggressive in acquisition pricing.

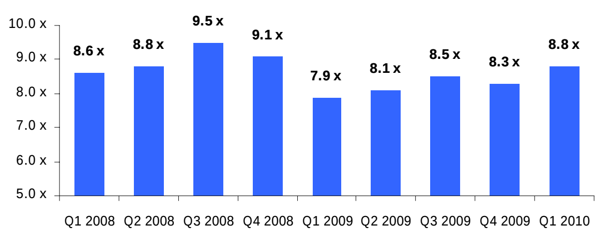
Private Equity Brokers Are Raising Debt Capital . . .

Broker	*Capital Raise*	*Date*
Hub International	$200 million	Nov. 2009
USI Holdings	$100 million	Oct. 2009

. . . Bank-Insurance Stocks Are Bouncing Back . . .



. . . And Public Broker Multiples Are Recovering



Source: Public filings, press releases, Yahoo! Finance

Even healthcare reform has largely been a yawner from the perspective of the buyers. Yes, several are being cautious about buying anything with a heavy concentration of small employee groups, but for the most part, buyers are happy to acquire agencies that have built substantial blocks of mid-size and large group benefits accounts. This view was confirmed in early May with Marsh & McLennan Agency's purchase of Bostonian Group, a $14 million agency located in Boston specializing in employee benefits.

So the problem this year is not the buyers – they are ready to deal, with some even stating publicly that they are willing to pay EBITDA multiples comparable to those paid at the height of the market in 2007 and 2008. So why aren't sellers lining up outside the buyers' doors?

The answer is quite simple: Poor performance is causing many would-be sellers to wait until conditions improve. By the end of 2009, the median OGP firm lost 9% of its profits compared with 2008. Thus, even if a buyer offered that firm a similar EBITDA multiple in both years, the decline in profits would translate into a 9% decline in value. Making matters worse, for 2010 Reagan Consulting is projecting that profits for brokers will fall an additional 10%, driving value down even further. This means that even at constant EBITDA multiples, the typical agency is worth nearly 20% less than it was at the peak two years ago.

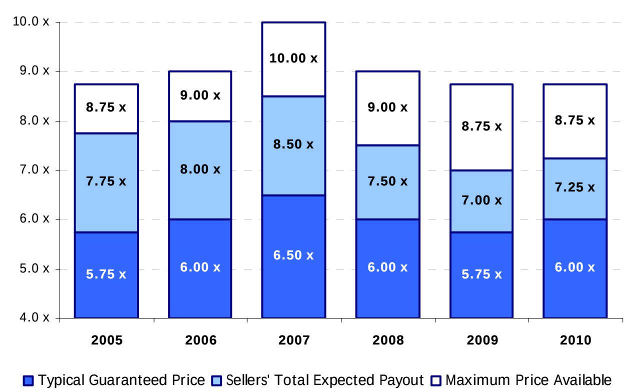
On top of this, it is no secret that nearly every M&A deal in the insurance brokerage business involves some type of earn-out. Earn-outs are typically structured to reward sellers for achieving revenue and/or profit targets for a period of years following the closing of the deal. Today, with the combination of economic weakness and continued soft insurance pricing, many would-be sellers are reluctant to enter into an earn-out arrangement where they feel the odds are stacked against them – at least in the short-term. Wouldn't it be better to wait a year or two in order to get that much closer to the next hard market?

Many agencies are deciding that it would be better to wait, but others are entering the market, primarily for one of two reasons. First, some agencies may lose more than they gain by waiting. If agency performance continues to decline, coupled with increasing tax rates, transferring ownership in 2010 may be a great option. There is, after all, no guarantee that things will get better anytime soon. Second, the hesitancy of the selling community in general is creating a unique opportunity for some agencies whose performance has remained solid in recent years. For those agencies, the aggressiveness of today's buyer community – who must sharpen their pencils to compete for a smaller pool of potential candidates – may come as a pleasant surprise.

The chart below provides a five-year look at deal valuations for mid-sized or large quality insurance brokers. A few things grab our attention:

- Guaranteed EBITDA multiples have actually rebounded slightly in 2010.
- Sellers' "total expected payouts" (the closing price plus the portion of the earn-out that they expect to receive) have rebounded slightly as well, but are still dampened primarily by concern over short-term economic and industry factors.
- The maximum price available in deals has remained at reduced levels as buyers grapple with reduced growth expectations, lowered earn-out requirements and new accounting rules relating to how earn-outs are booked (FAS 141R.)

Deal Valuations (2005 - 2010)



What does the future hold?

Valuation multiples will hold, and may even improve slightly over time with economic growth or an improvement in P&C pricing. The truth is that valuation multiples never got quite as high during the peak, or as low during the valley, as was rumored in the marketplace. Valuation multiples have moved, but they aren't as volatile as many believe.

The real volatility today resides in agency performance. For many firms, whose profit margins have been decimated by soft P&C pricing, the weak economy, lost business, falling contingent income, etc., the M&A market may not seem attractive. Many of these would-be sellers are riding out the storm, hoping that an economic or pricing recovery will create a rebound in their profitability. For most agencies, this is a viable option, since they remain profitable (albeit at lower levels than before) and aren't facing any type of near-term capital crisis.

Other agencies, however, have weathered the recent storms well and are still growing and highly profitable. For these firms, premium valuations are available from a hungry buying community.

About Reagan Consulting

Reagan Consulting has a singular focus on the insurance distribution system. We've advised many firms – including over half of the top 100 brokers – on strategy, valuation and mergers & acquisitions. With our M&A practice, we are active participants in the deal marketplace for agents and brokers, working on sell-side, buy-side and merger transactions. Since 2007, we have advised on over 40 transactions with a total deal value approaching $1 billion. Selected transactions during that time period are presented below.

Rutherfoord *Has been acquired by* Marsh & McLennan Agency Reagan Consulting advised Rutherfoord **2010**	Haake Companies *Has been acquired by* Marsh & McLennan Agency Reagan Consulting advised Haake Companies **2010**	Insurance Alliance *Has been acquired by* Marsh & McLennan Agency Reagan Consulting advised Insurance Alliance **2009**	The Treiber Group *Has been acquired by* Arthur J. Gallagher & Co. Reagan Consulting advised The Treiber Group **2008**
Puckett, Scheetz & Hogan *Has been acquired by* BB&T Insurance Services Reagan Consulting advised Puckett, Scheetz & Hogan **2008**	Saylor & Hill Co. *Has merged with* Barney & Barney, LLC Reagan Consulting advised both sides on the merger **2008**	ALCOS, Inc. *Has been acquired by* Brown & Brown, Inc. Reagan Consulting advised ALCOS **2007**	Universal Insurance Services, Inc. *Has been acquired by* Wells Fargo & Coompany Reagan Consulting advised Universal **2007**

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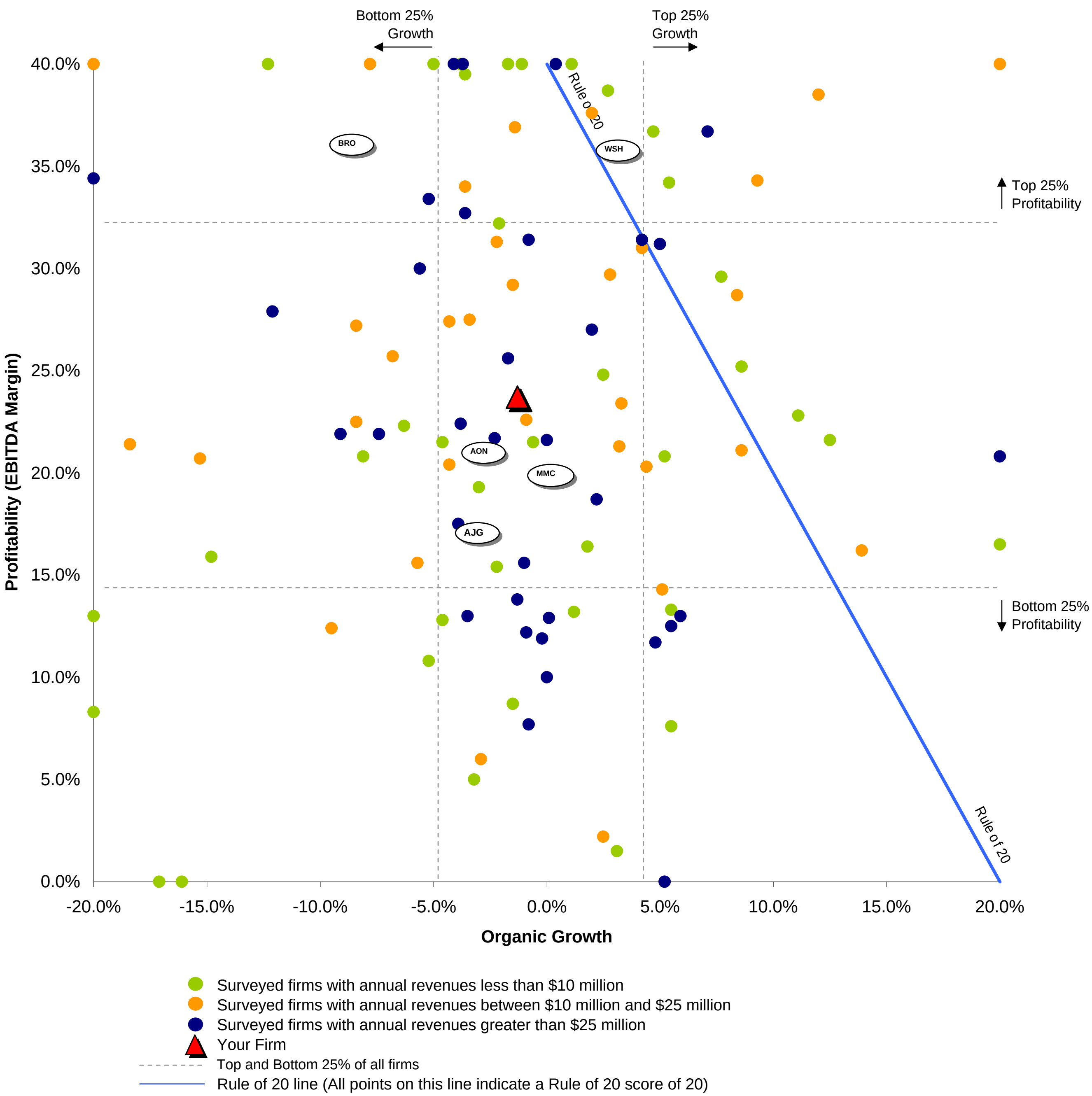
Agency Organic Growth & Profitability Scatter Plot



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.