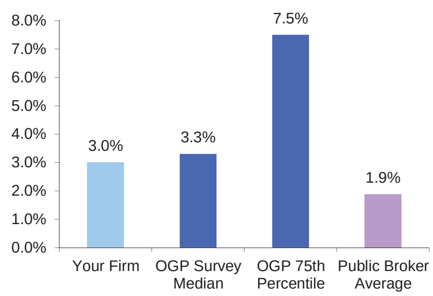
Organic Growth & Profitability Survey (OGP) - Q2 2011

- Median annualized revenue for surveyed firms is approximately $15 million. All U.S. geographies represented.
- Public broker averages include AJG, AON, BRO, MMC and WSH and are taken from public filings and press releases.

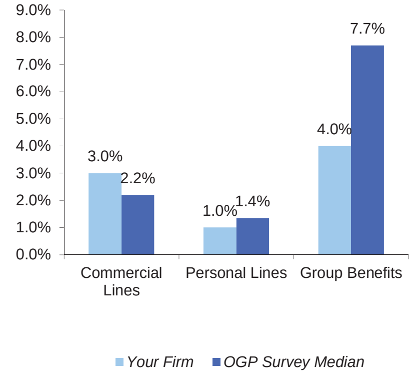
Organic Growth

Total Agency Organic Growth



Your organic growth rank:	**40th - 50th percentile**

Organic Growth by Product Line

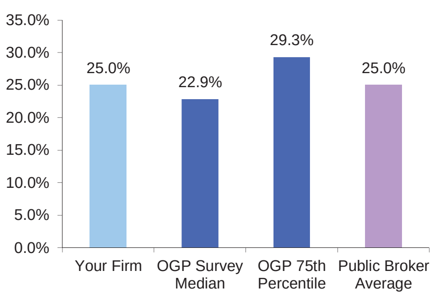


Reagan Consulting Observations

- Median organic growth held constant at 3.3% for the first half of the year (the same level as the first quarter).
- All lines of business are growing, with group benefits leading the way at 7.7% through the first half of the year.
- Even with improving growth figures, about 20% of all firms reported negative organic growth while 12% of all firms reported double-digit growth in the first half of 2011
- **OGP Projected 2011 Growth: 4.5%** OGP firms have maintained their growth estimates at 4.5% for the year (the same figure projected at the end of Q1 2011).

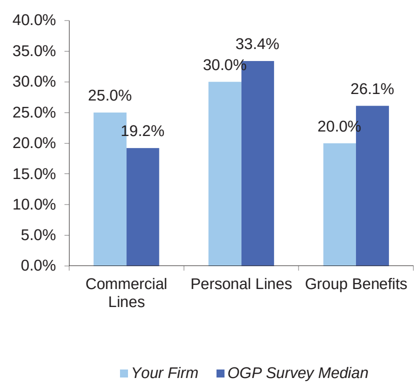
Profitability

Total Agency EBITDA Margin



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

EBITDA Margin by Product Line

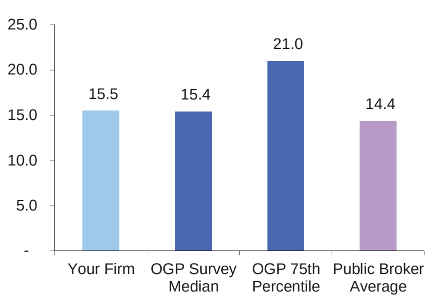


Reagan Consulting Observations

- EBITDA margins for the first half of 2011 are 22.9%, up 1.1% from last year's first half margin of 21.8%.
- Please note that these EBITDA margins are temporarily inflated by contingent income, which is recorded on a cash basis for many OGP firms.
- All lines of business have higher profit margins in 2011 than in 2010, with personal lines jumping almost 10%.
- **OGP Projected 2011 Margin: 20.0%** OGP firms have raised profit estimates from 18% to 20% - projecting strong gains in margin in 2011.

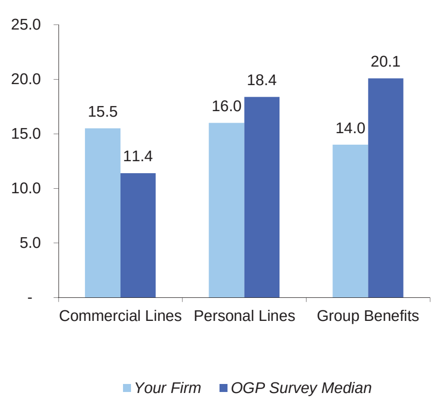
The Rule of 20 [(1)]

Total Agency Rule of 20



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

Rule of 20 by Product Line



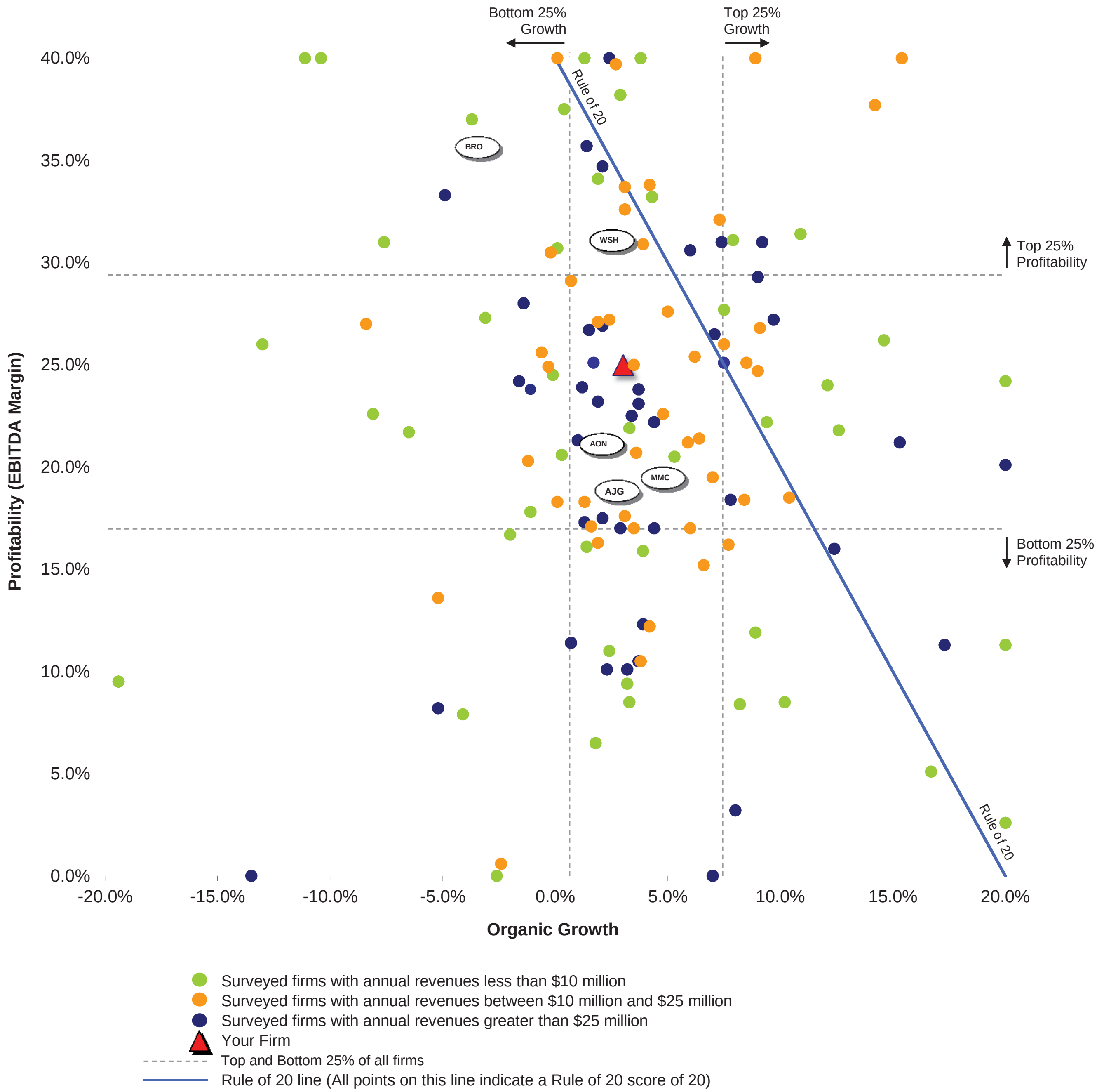
Reagan Consulting Observations

- Cash-basis contingent income also drives Rule of 20 scores temporarily higher, with the median score in the first half of 2011 coming in at 15.4. 30% of firms scored above 20 in the first half of the year.
- **OGP Projected 2011 Score: 14.5** The median full-year Rule of 20 score is now projected to be 14.5, an increase over the initial 2011 projection of 12.8. This would be a substantial increase from 2010, when the rule of 20 score was 10.6.

(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.

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.

Organic Growth & Profitability Survey

Market Commentary (Q2 2011)

Rebounding Results and Increasing Valuations for Brokers

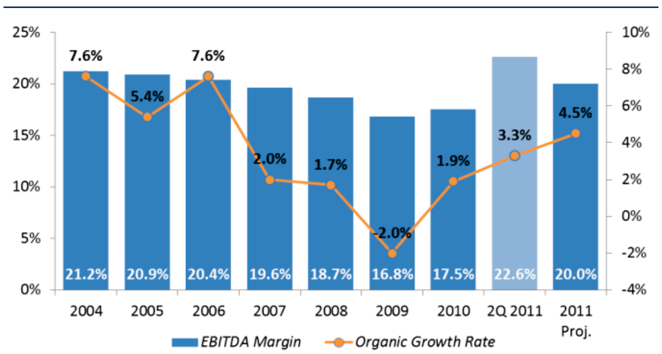
Kevin Stipe & Brian Deitz

At first glance, the 2nd Quarter (Q2) broker performance numbers look good. Upon a deeper analysis … they look even better.

The table below provides organic growth and profitability data for large insurance brokers going all the way back to 2004, when the soft market began. (Since the OGP survey wasn't launched until 2008, we've used Best Practices Study data for years 2004-2007.) As the data indicates, the broker recovery which began in 2010 is accelerating in 2011. After achieving 1.9% organic growth and 17.5% EBITDA margins in 2010, OGP firms are up 3.3% through Q2 2011, with EBITDA margins jumping to 22.6%.

For calendar 2011, brokers are projecting they will grow by 4.5%, and EBITDA margins will finish the year at 20.0%, up 250 basis points over the 17.5% reported in 2010 (the decrease in margins during the second half is typical, since most receive their contingent income during the first half and report it on a cash basis.) These results would represent a stunning turn-around from brutal 2009, when organic growth was negative and EBITDA margins tanked to the lowest level we've ever seen.

Growth and Profitability Results Have Turned Around



Source: Reagan Consulting Organic Growth & Profitability Survey, Best Practices Study

While 4.5% organic growth might not seem all that impressive by historical standards, when combined with a 2.5 percentage point increase in profit margins the result is stunning: Broker profitability will jump by nearly 20% in 2011.

It might seem a bit counterintuitive that broker profits will increase so dramatically in 2011, but the math in the chart below bears it out. Using the data from the first table, we applied it to a hypothetical $10 million revenue broker in 2004 and ran the industry numbers forward in order to calculate the annual profits that a typical OGP participant firm would have generated each year. The bad news is that in 2010, the typical firm's EBITDA, at $2.06 million, was actually below the level that would have been generated 6 years prior. However, with 2011's projected 19.4% increase in EBITDA, our hypothetical firm's profits will jump to $2.46 million. Suddenly the long-term picture looks better – between 2004 and 2011, EBITDA will have increased at a compound annual rate of 2.5%.

Significant Profit Growth Projected in 2011

$ in Millions	2004	2005	2006	2007	2008	2009	2010	Proj. 2011	Annual Avg.
Revenue	10.00	10.54	11.34	11.57	11.76	11.53	11.75	12.28	
Revenue Growth		*5.4%*	*7.6%*	*2.0%*	*1.7%*	*-2.0%*	*1.9%*	*4.5%*	*3.0%*
EBITDA Margin	21.2%	20.9%	20.4%	19.6%	18.7%	16.8%	17.5%	20.0%	19.1%
EBITDA	2.12	2.20	2.31	2.27	2.20	1.94	2.06	2.46	
EBITDA Growth		3.9%	5.0%	-2.0%	-3.0%	-12.0%	6.1%	19.4%	2.5%

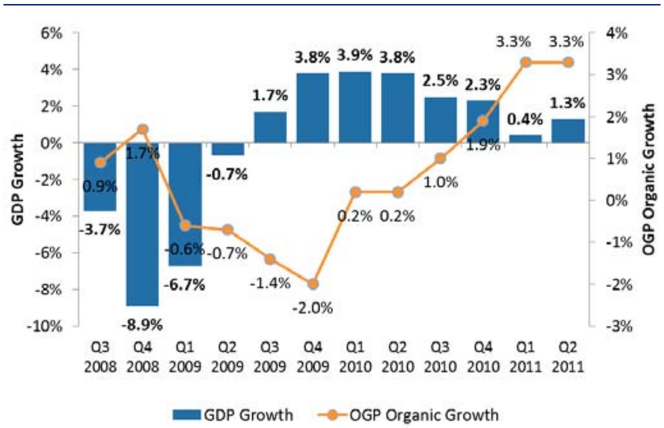
Source: Reagan Consulting Organic Growth & Profitability Survey, Best Practices Study

Why this sudden reversal of fortune for insurance brokers? The restoration of organic growth is clearly the cause, since EBITDA margins are so heavily impacted by organic growth. We've recently seen how difficult it is to increase profit margins in a negative growth environment. Many agencies aggressively reduced their expense loads to stop the bleeding. But now, with growth returning and a renewed commitment by agency leaders to exercise careful expense management, brokers are enjoying a sharp lift in margins. So the real story behind 2011's jump in profitability is organic growth. And there are two factors fueling it.

U.S. Economy Performance

Shortly after the economy hit the skids in late 2008, a new generation of agency leaders learned how important GDP growth is for the health of insurance brokers. Years of economic growth had led many to simply assume P&C exposures and employee payrolls would rise indefinitely. And for several months after the Great Recession began, brokers continued to show positive growth – it seemed they were defying gravity. Then, about 6-9 months after the recession began, a sharp reduction in exposures coupled with widespread return premiums jolted the industry. The chart below shows the quarterly GDP data juxtaposed against the OGP data since late 2008. In that chart, the 6-9 month lag is visible. Today, brokers are enjoying the rewards of the 2010 economic rebound. But with the economy recently showing signs of another slowdown, agency principals are keenly aware that the recent progress could stall.

US Economic Performance Has Rebounded - For Now

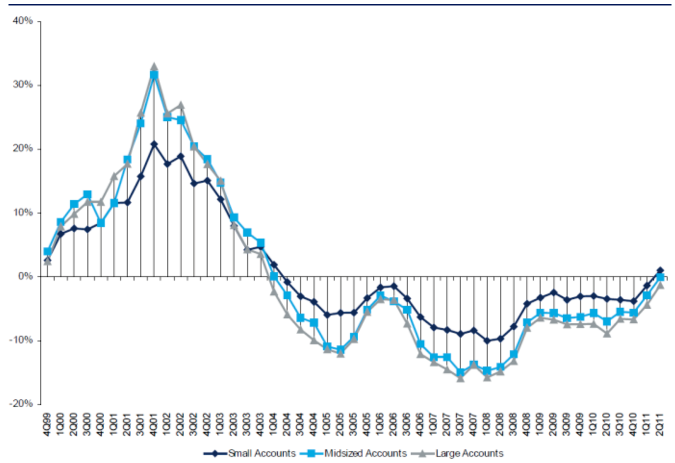


Source: Reagan Consulting Organic Growth & Profitability Survey, Bureau of Economic Analysis

P&C Pricing

The other major factor driving commercial insurance broker growth is P&C pricing. Today's soft market began during the 1st quarter of 2004 – or a long 7.5 years ago! A couple of weeks ago, the CIAB issued a stunning report – their quarterly data showed that for the first time in 7.5 years, commercial insurance pricing is basically flat. This is incredibly good news for many OGP participants, who derive the majority of their revenue from commercial P&C commissions and fees.

Commercial P&C Pricing Almost Flat in Q2 2011



Source: Council of Insurance Agents & Brokers. Chart Prepared by Barclays Capital Equity Research.

If organic growth continues as expected through 2011, agents and brokers will be poised to end the year with a significant increase in profitability. Along with that, brokers should experience a significant increase in value. In fact, much of the agent and broker community will finally recoup the value lost in 2008 and 2009 – and in fact come out nicely ahead.