Q2 2013

OGP ID: 9999

Current Value Driver Comparison

Organic Growth & Profitability Survey

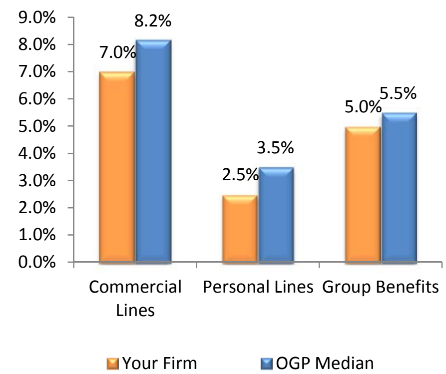
Reagan Consulting

Organic Growth

Total Agency Organic Growth

Your organic growth rank:	40th - 50th percentile

Organic Growth by Product Line

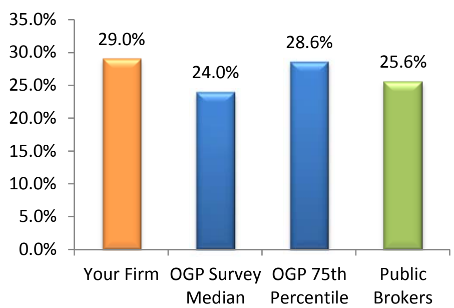


Reagan Consulting Observations

- Median organic growth was 6.9%, a new record in the OGP survey
- Privately-held firms held a growth advantage over the public brokers, growing 1.6% faster than the public brokers' 5.3% average rate *(Public broker data includes most recent data for AJG, AON, BRO, MMC and WSH)*
- Commercial lines grew at 8.2% through the first half of the year, up 1.4% from 6.8% in Q1
- **OGP Projected 2013 Growth: 7.0%** Agents and brokers have increased their full-year organic growth projection to 7.0% after a strong first-half performance

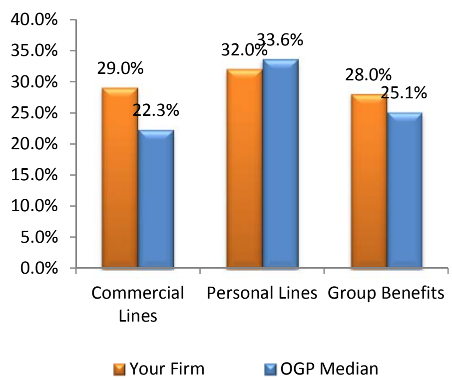
Profitability

Total Agency EBITDA Margin



Your profitability rank:	70th - 80th percentile

EBITDA Margin by Product Line

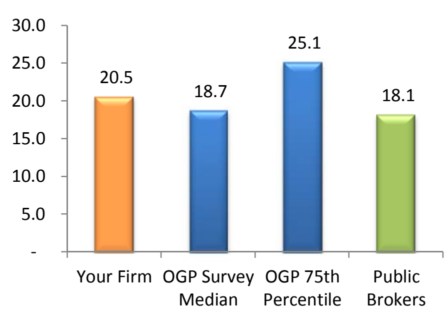


Reagan Consulting Observations

- Q2 2013 also set a record for median margin in the OGP survey - the 24.0% margin was the highest second quarter margin recorded
- Median EBITDA figures are inflated by the cash-basis recognition of contingent income, which is largely received in the first half. As in past years, these margins will decline throughout the course of 2013.
- Median contingent income was up 17%
- **OGP Projected 2013 Margin: 20.0%** This forecast would be a record for the OGP survey, besting 2008's 18.7% median margin

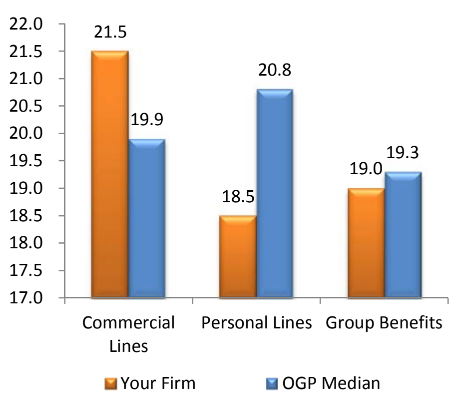
The Rule of 20 (see note below)

Total Agency Rule of 20



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

Rule of 20 by Product Line



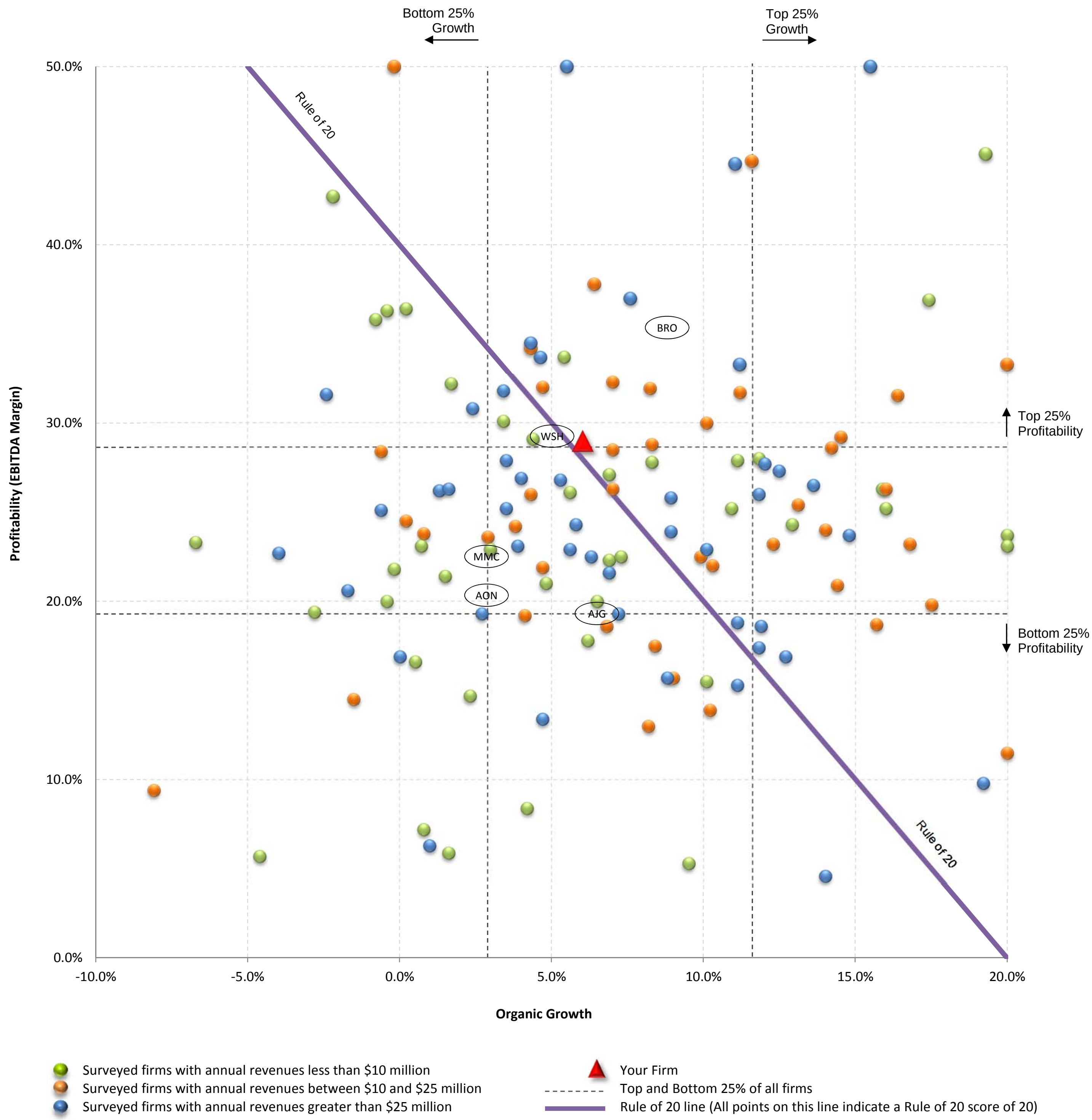
Reagan Consulting Observations

- The 18.7 median Rule of 20 score is the highest Q2 figure in OGP history, beating last year's Q2 number by almost 2 points
- Rule of 20 scores, like EBITDA margins, are inflated by cash-basis contingent income and will decline throughout the year
- Shareholder returns in the first half of 2013 were almost identical among product lines - 1.5 points separates CL, EB and PL
- **OGP Projected 2013 Score: 17.9** Agents and brokers have adjusted their Rule of 20 projection almost one point higher after Q2 results

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.

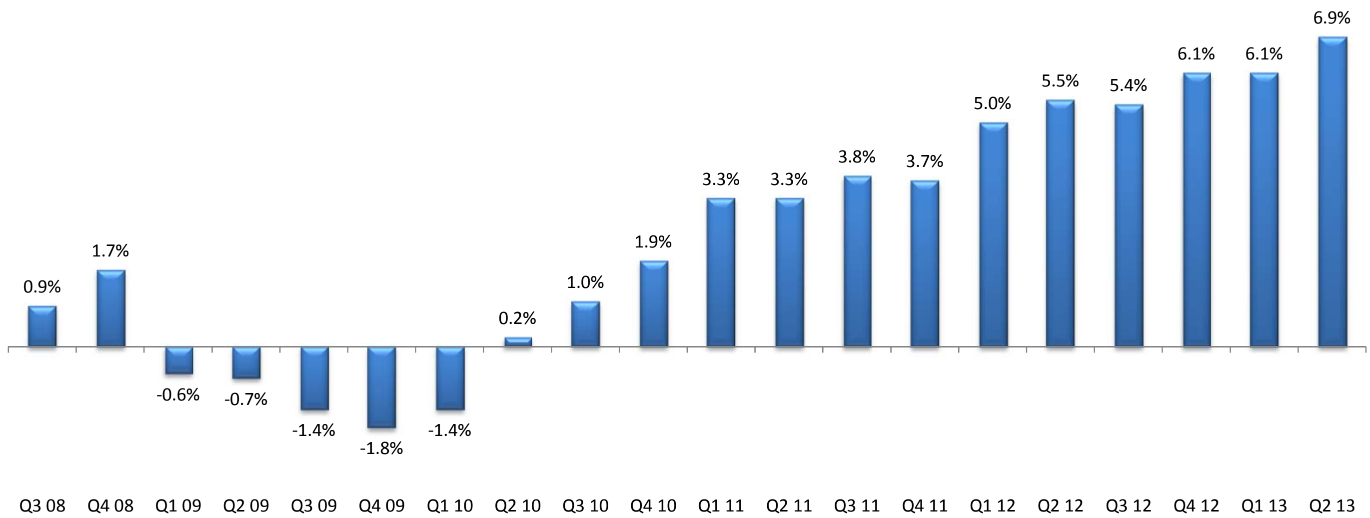
Note: If data for your firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.



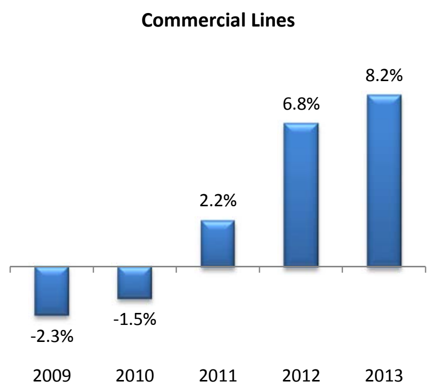
About the Scatter Plot

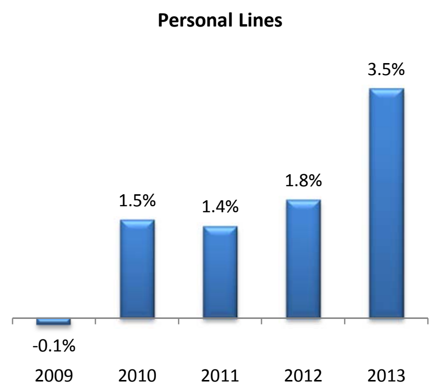
In the chart above, we've plotted every firm in the survey that completed both the total agency organic growth section and the total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. We've included a couple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

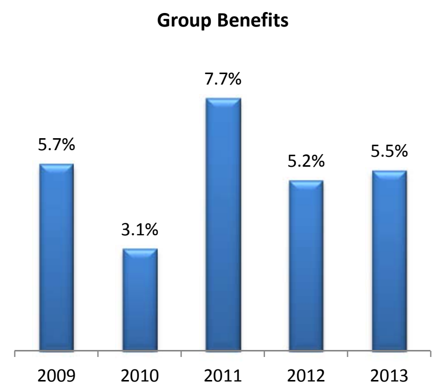
Quarterly Organic Growth - Total Agency Median (Q4 2008 - Present)



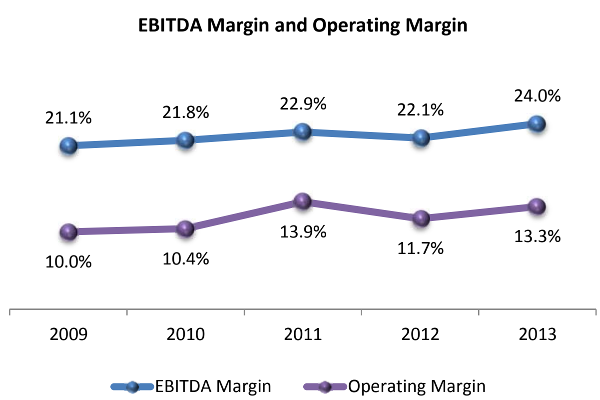
Comparative Median Organic Growth by Product Line (Second Quarter Numbers, 2009 - 2013)

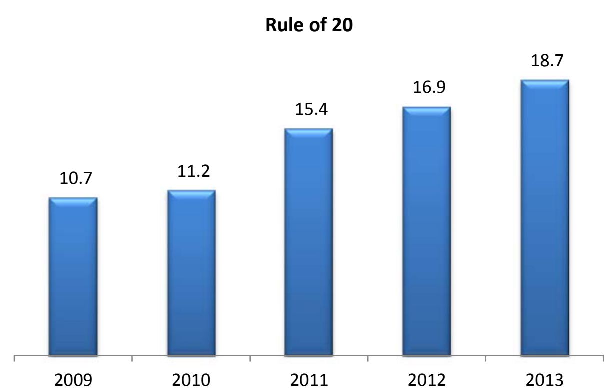






Comparative Median Profitability and Rule of 20 Analysis (Second Quarter Numbers, 2009 - 2013)





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.

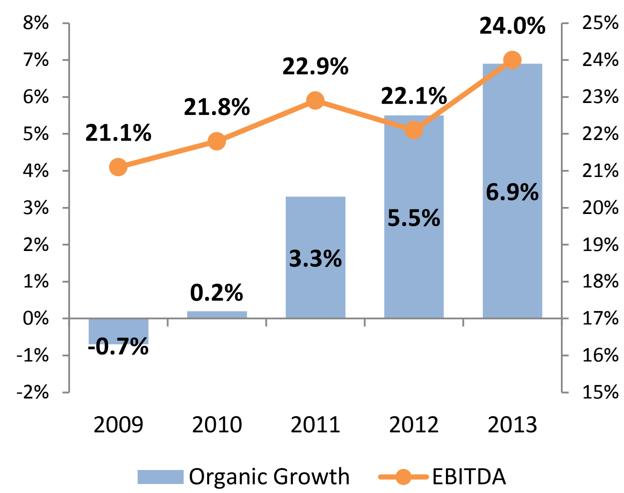
Broker Performance Remains Strong

And the Gap Between Top Performers and Others Widens yet Again

by Kevin Stipe and Brian Deitz

2013 is shaping up to be a very good year for insurance brokers. Organic growth and profitability, the twin drivers of value creation, are both at the highest 2nd quarter level recorded since the OGP survey was launched in 2008.

Q2 Organic Growth & EBITDA: 2009-2013



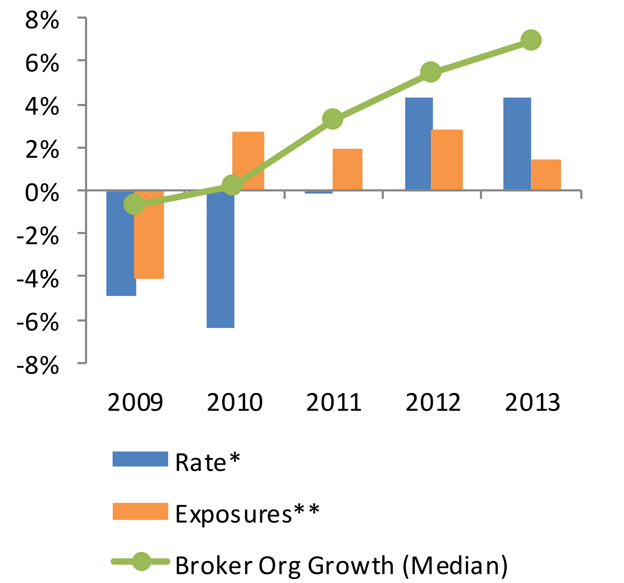
Organic growth for insurance brokers is typically fueled by three key variables:

1. **Insurance pricing or "rate".** The fortunes of insurance brokers can rise and fall with changes in the premium pricing of the products/services they sell, since brokers frequently get paid a percentage of that premium. When rates rise, brokers tend to prosper, and when they fall, brokers can suffer.

2. **Exposures.** Trends in the economy impact brokers significantly, since those trends directly impact client "exposures" (e.g., client sales, employee counts, payrolls, property values, etc.) When the economy grows, client exposures increase and broker revenue tends to increase as a result. On the other hand, in recessionary times, brokers suffer along with their clients.

The chart below shows trends in rate, exposures and broker organic growth over the past five years.

GDP, P&C Pricing, and Broker Organic Growth



**commercial insurance pricing, per the quarterly report issued by CIAB; **U.S. Gross Domestic Product, per the Bureau of Economic Analysis*

3. **Sales Culture**. Has a broker created a sales culture capable of consistently growing its client list and taking market share from its competitors? There is no more important issue than this. Since rate and exposures are external factors outside of an agency's control, developing a strong sales culture is priority number one for many of the industry's best brokers.

The good news for 2013 is that we are enjoying the rare harmonic convergence of increases in both rate and exposures. How rare is it? During the 20 year period between 1990 and 2010, the industry experienced growth in both rate and exposures only 21% of the time (17 out of 80 quarters). So although neither P&C pricing nor the U.S. economy are growing at historically impressive levels, at least they are both growing.

Sales Culture: the Real Differentiator

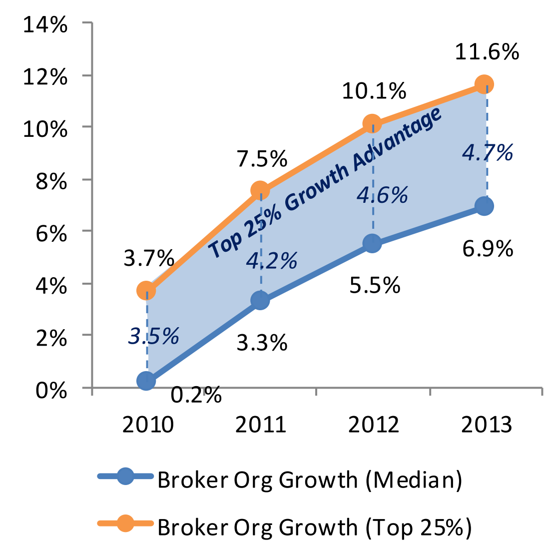
While rate and exposures help determine what the median level of growth is for the industry over the long run (ranging from negative 0.7% in 2009 to today's 6.9%), the strength of sales culture is what determines how a particular firm performs compared to that median. The firms consistently appearing among the Top 25% in the OGP Survey are often those that have built the best sales cultures.

In late 2012, Reagan Consulting conducted a study of the industry's Leading Sales Organizations. The study attempted to "crack the code" on what drives a successful sales culture. We found the top performers have three things in common:

1. **An accountability culture**. High performers have leaders that set a high bar for themselves and are effective in getting others to follow along. These firms expect a great deal from their producers, and their producers live up to those expectations, particularly as respects new client production.
2. **Heavy and regular investments in producer recruiting & development**. It is not uncommon for the fastest growing firms to outspend their peers by 2-3 times on new producers. And with experience comes success – those with the strongest commitment do it best, achieving new-hire success rates of 60% or higher. The combination of more aggressive hiring, coupled with higher success rates, results in quantum leaps in growth as well as perpetuation viability.
3. **Superior producer equipping**. By investing in value added resources, best-in-class technical talent and the development of industry verticals, leading brokers are focusing on making sure their producers have an "unfair" advantage in the marketplace.

Interestingly, the difference between the "haves and have-nots" within the OGP seems to be growing. There is a widening gap between those with the strongest sales cultures and everybody else. In the chart below, we've showed the median performers as compared with the Top 25% performers over the past four years. The Top 25% firms have typically grown about 4 percentage points faster than everybody else, but during the past 12 months the difference has grown to nearly 5 percentage points.

Top 25% Growth Advantage



This differential may seem rather modest for a single year, but if compounded over 10 years will result in a dramatic difference. A 5 percent growth rate differential results in a 59% difference in agency size over 10 years.

Merger & Acquisition Trends

On May 5-7, Reagan Consulting hosted its bi-annual Mergers & Acquisitions and Perpetuation Workshop in Atlanta. Approximately 180 leaders from many of the industry's largest, most successful agencies attended to gain insights into the state of today's marketplace and how to respond to it.

Among the highlights of the workshop was a panel consisting of the leaders of several of the industry's most active buyers, including:

Pat Gallagher Chairman & CEO *Arthur J. Gallagher*	**Dave Eslick** Chairman *Marsh & McLennan Agency*	**Wade Reece** Chairman & CEO *BB&T Insurance Services*
Powell Brown CEO *Brown & Brown*	**Mike Sicard** Chairman & CEO *USI*	**Jim Henderson** Chairman & CEO *AssuredPartners*

This group was polled for their opinions on a variety of topics. Some take-aways from their session included:

- Buyer hunger for deals continues in 2013. Although the number of deals plunged by 45% during the first half of 2013 (86 vs. 157, as reported by SNL), it wasn't due to a lack of buyer interest. Rather, it was due to the absence of sellers – nearly all of whom rushed to get their deals done before tax rates increased on January 1st. The most active buyers generally indicated they would like to maintain the amount of revenue acquired in 2012 into 2013.

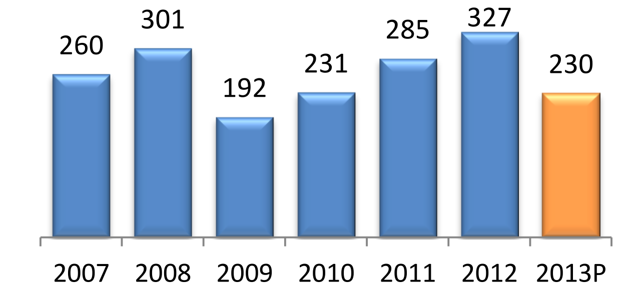
- Although the larger deals grab the headlines, the vast majority of the deals done by the major buyers tend to average between $3 and $5 million in revenue, and will likely continue in that range.

- Although deal pricing in 2012 was at historically high levels, pricing for the typical $3-$10 million deal may actually drift slightly higher in 2013 as a shortage of sellers, coupled with continued strong buyer appetite, creates competitive pressure on valuations.

- Buyer appetite for employee benefits business remains highly bifurcated. Large group business (over 100 lives) is more attractive to buyers than ever and is thus commanding premium valuations. On the other hand, small group business (under 50 lives) is relatively unattractive and will therefore be acquired only when a part of something larger and more strategic, and even then, only at a substantial valuation discount.

In light of current deal trends, we expect the number of deals transacted in 2013 will drop by about 30%, from the all-time high level of 327 announced deals in 2012.

Projected Deal Activity



As noted, pricing will likely increase slightly for the typical $3-$10 million agency, as competitive pressures drive prices slightly higher.

As the chart below indicates, guaranteed multiples of EBITDA paid by buyers in 2013 are topping the pricing delivered during the previous market peak of 2007.

Projected Acquisition EBITDA Multiples for Midsize Agencies ($3-$10M Revenue)