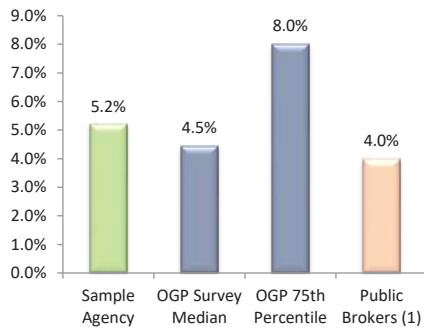


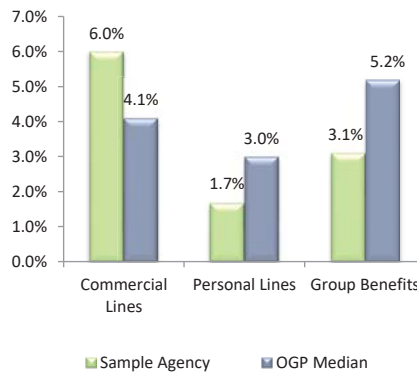
**Organic Growth**

**Total Agency Organic Growth**



Sample Organic Growth rank: **50th - 60th percentile**

**Organic Growth by Product Line**

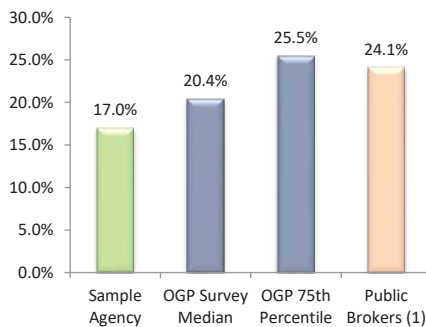


**Reagan Consulting Observations**

- Brokers finished 2017 on a strong note with 4.5% organic growth for the year - up from 4.2% in 2016 and 3.9% in Q3
- Commercial lines (4.1% in 2017 vs. 3.3% in 2016) and personal lines (3.0% in 2017 vs. 2.1% in 2016) posted higher growth
- Group benefits continues to be the high performer for many firms at 5.2% growth in 2017, however, benefits slowed from the 6.8% rate in 2016
- **OGP Projected 2018 Growth: 5.0%**  
Brokers expect a slight bump in 2018 at 5.0% growth vs. 4.5% in 2017

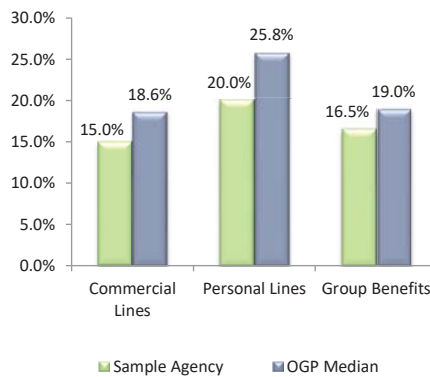
**Profitability**

**Total Agency EBITDA Margin**



Sample Profitability rank: **60th - 70th percentile**

**EBITDA Margin by Product Line**

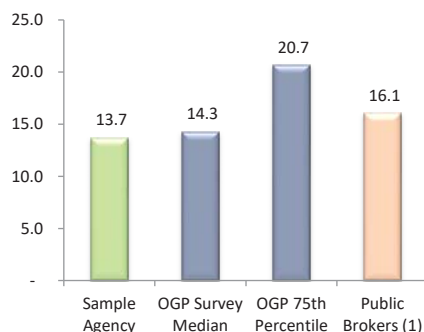


**Reagan Consulting Observations**

- Overall broker profitability (20.4%) remained steady, with nominal growth in 2017 versus 2016 at 20.0%
- Firms continue to focus on controlling expenses in the face of soft P&C pricing and demand for EB resources
- The small increase in profitability was primarily due to the P&C business - both CL and PL beat 2016 margin levels
- **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%

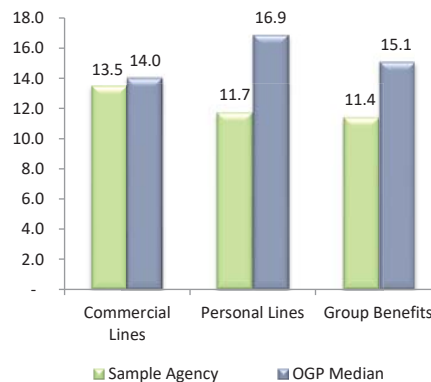
**The Rule of 20 (see note below)**

**Total Agency Rule of 20**



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

**Rule of 20 by Product Line**



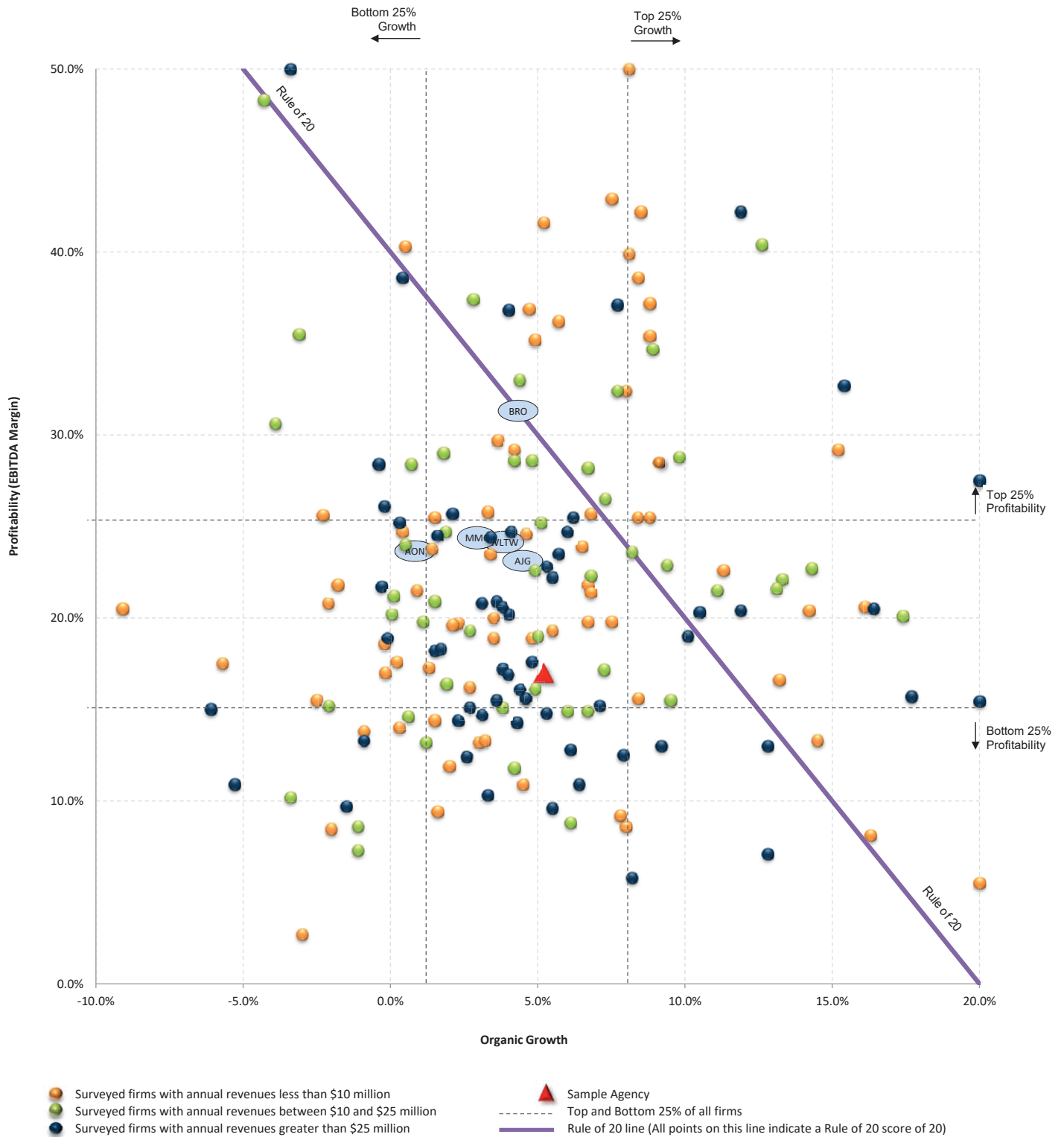
**Reagan Consulting Observations**

- The 14.3 median Rule of 20 score is slightly below last year's 14.7 score
- Over 27% of OGP participants had a Rule of 20 score of 20 or higher in 2017 - up from 21% in 2016
- Strong EBITDA margin performance drove the the personal lines rule of 20 score (16.9) higher than the other lines of business
- **OGP Projected 2018 Score: 16.0**  
Brokers project a solid increase in rule of 20 scores for 2018 - 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 Q4 2017 results for AJG, BRO and MMC and Q3 2017 results for AON and WLTW.

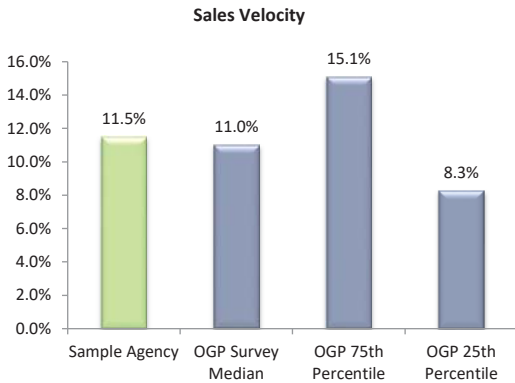


**About the Scatter Plot**

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 Q4 2017 results for AJG, BRO and MMC and Q3 2017 results for AON and WLTW.

**Sales Velocity** (see note below)



**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.

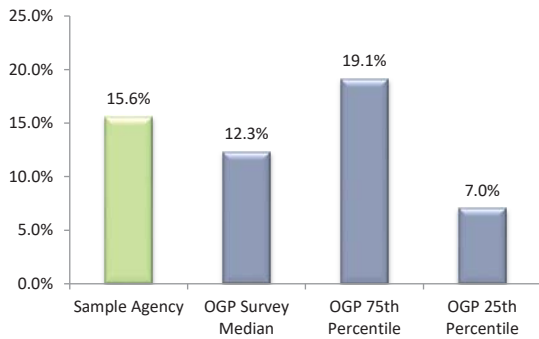
**Reagan Consulting Observations**

- 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 11.0% for the industry in 2017
- If a firm consistently posts Sales Velocity figures in the top 25% of the industry (15.1% or higher in 2017), it is likely the firm will generate above average industry growth, assuming normal levels of client retention

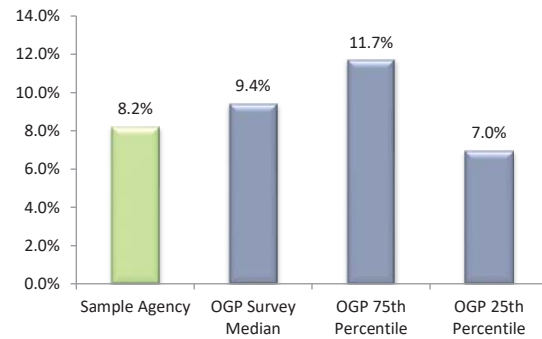
Sample Sales Velocity rank: **40th - 50th percentile**

**Operating Margin & Contingent Income as % of Revenue**

**Operating Margin**



**Contingent / Bonus / Override Income as a % of Revenue**



Sample Operating Margin rank: **60th - 70th percentile**

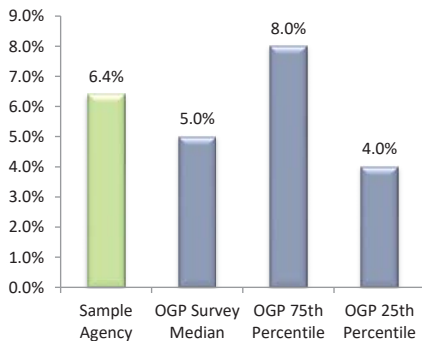
Sample Operating Margin rank: **40th - 50th percentile**

**About Operating Margin**

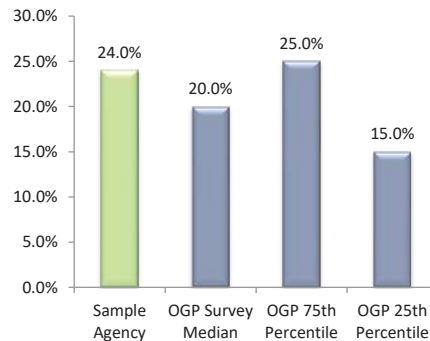
Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.

**2018 Projections**

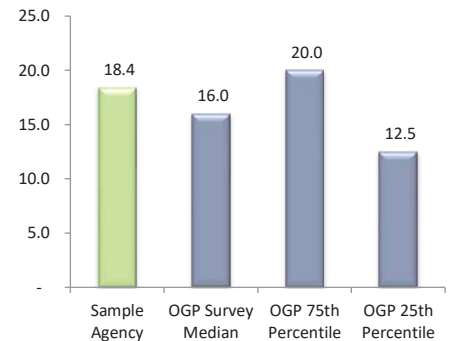
**Projected Agency Organic Growth**



**Projected Agency EBITDA Margin %**



**Projected Agency Rule of 20**

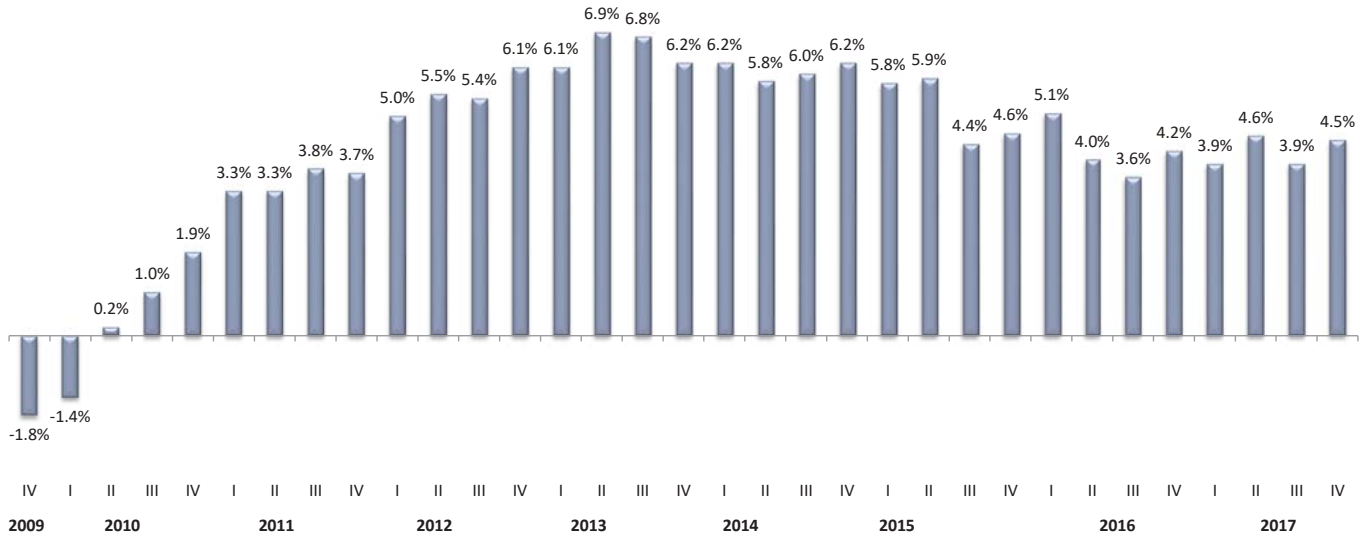


Sample Organic Growth Rank: **50th - 60th percentile**

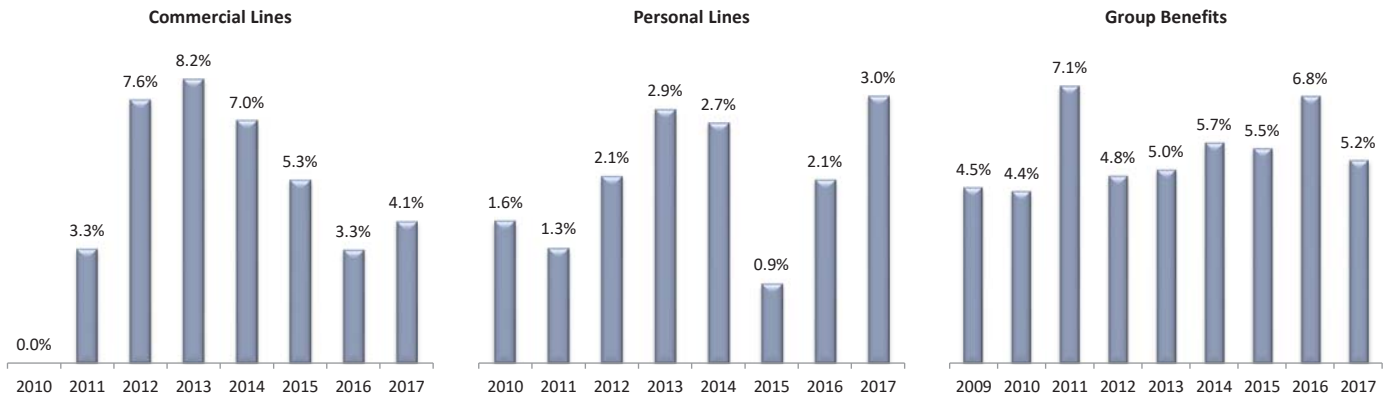
Sample EBITDA Margin Rank: **60th - 70th percentile**

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

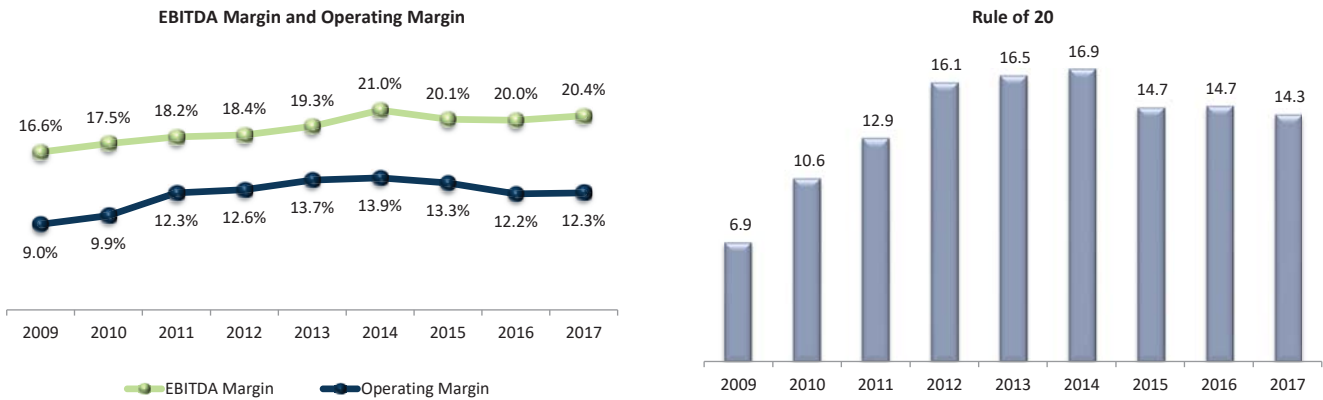
Quarterly Organic Growth - Total Agency Median (Q4 2009 - Present)



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



Comparative Median Profitability and Rule of 20 Analysis (Fourth 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 / bonus / override income, divided by pro-forma net revenues less contingent income.



# Improving Organic Growth & Profitability, the Tax Act, a Strengthening Economy and Other Reasons to be Optimistic About the Future

by Bobby Reagan

The Tax Cuts and Jobs Act (“Tax Act”) was signed into law in December and, as Reagan Consulting detailed in its analysis released to the industry earlier this week, it will have an uneven but largely positive impact on our industry. The big winners were C corporations, since corporate tax rates were slashed. Pass-through entities will receive a smaller lift, while highly levered acquirers will take biggest hit. The impact on internal and third-party valuations of agents and brokers will vary based on corporate structure, size and state of domicile, but most will see some lift in their valuation due to the Tax Act. Please go to [www.reaganconsulting.com](http://www.reaganconsulting.com) for more details and analysis.

As we look at the Q4 2017 organic growth results, we anticipate the Tax Act will positively influence the economy overall and the spending of insureds. This will likely lead to higher broker organic growth and improved profit margins. We also anticipate that the materially enhanced after tax cash flow of C corporation brokers (usually the larger firms) will motivate them to reinvest some of those tax savings in additional organic growth and acquisition initiatives which should also push growth rates higher.

**Agency Organic Growth, 2009-2017**

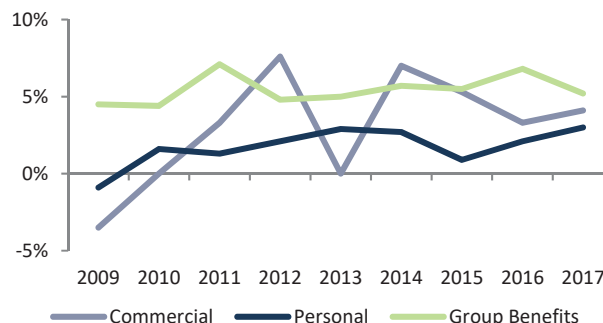


Source: Reagan Consulting Q4 2017 OGP Survey

Organic growth for 2017 came in at 4.5% vs. 4.2% in 2016. This was not a huge increase but certainly a positive one. As for the outlook for 2018, the median broker is expecting organic growth to continue to rise to 5.0%.

If we look at organic growth by line of insurance, we see that commercial and personal P&C growth rates accelerated over 2016 levels, while group benefits decelerated modestly. Nevertheless, at 5.2% group benefits is still the fastest growing line of business for OGP participants.

**Organic Growth by Line, 2009-2017**



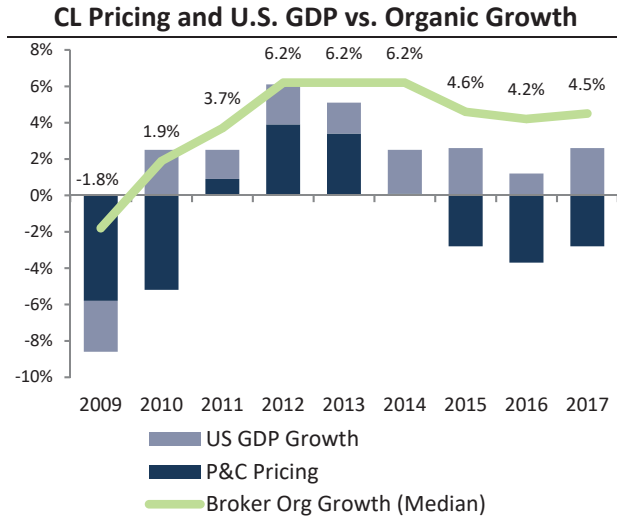
Source: Reagan Consulting Q4 2017 OGP Survey

Commercial P&C pricing and the improving economy did help drive the increase in commercial lines and overall broker organic growth numbers. U.S. GDP was up by 2.6% in Q4 2017, as compared to 1.8% in Q4 2016. Average commercial P&C pricing dropped by 1.3% in Q3 2017 (the most current numbers available) which was an improvement over the decrease of 3.3% in Q4 2016. The feedback we are getting from the street suggests Q4 pricing will be relatively flat overall.

# Organic Growth & Profitability (OGP) Survey

## Market Commentary (Q4 2017)

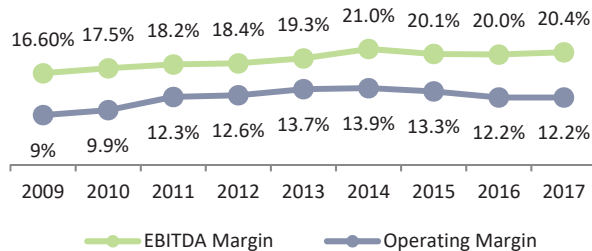
The historical trending of these results is provided in the graph below.



Sources: CIAB and Bureau of Economic Analysis

Broker profitability had a meaningful lift in 2017. EBITDA margins for 2017 rose by four-tenths a percent with operating profits remaining consistent with 2016. The increasing gap between EBITDA and operating profit appears to have been driven by an increase in contingent income, which rose as a percentage of revenue once again in 2017.

### EBITDA and Operating Profit, 2009-2017

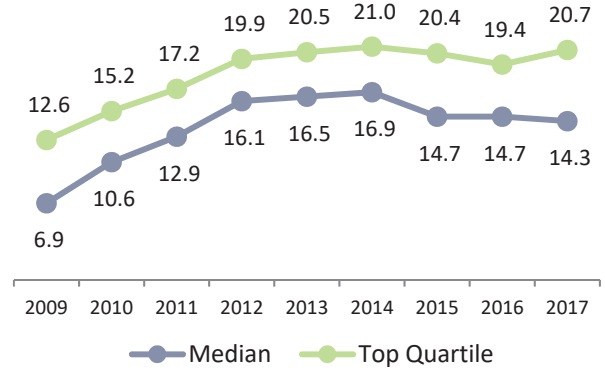


Sources: Reagan Consulting Q2 2017 OGP Survey

As a means to measure how brokers are balancing the two primary value drivers (organic growth and EBITDA margin), the OGP Survey calculates a combined measurement called the Rule of 20. The Rule of 20, calculated by adding organic growth to

one-half of an agency's EBITDA margin, declined slightly in 2017 to 14.3. Interestingly, the score achieved by the top quartile of performers rose to 20.7%, the 2<sup>nd</sup> highest top quartile performance in the history of the survey.

### Rule of 20 (Median & Top Quartile), 2009-2017



Source: Reagan Consulting Q4 2017 OGP Survey

### M&A Marketplace

2017 began with the announcement of several large transactions including the formation of Alera Group and the sale of J. Smith Lanier & Co. to Marsh & McLennan Agency. These large transactions paved the way for an astounding 558 reported transactions in 2017, which is 13% higher than the previous high of 492 in 2015.

### M&A Transactions, 2009-2017



Source: SNL Financial

This record number of transactions has been driven by several factors, most notably the large number

# Organic Growth & Profitability (OGP) Survey Market Commentary (Q4 2017)

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of motivated buyers competing for deals and their willingness to deliver valuations that have never been higher. As we look into 2018, the improving economy, the relatively flat P&C pricing and the impact of the Tax Act will likely lead us to improved organic growth and EBITDA results. All of this suggests that M&A pricing will not likely decline, but rather might even increase for premium and strategically valuable opportunities.

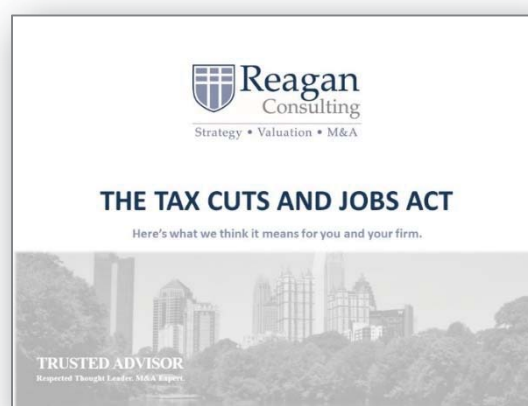
## Additional benchmarks in this quarter's report

We are excited to add a new page (see page three of your customized analysis) to this quarter's report. This new page provides OGP survey participants some new custom benchmark comparisons. Included for the first time are:

- Sales Velocity
- Operating Profit
- Contingent Income
- Forecasted rates of Organic Growth, EBITDA and Rule of 20 score

Explanations of the methodology for computing these benchmarks are provided on page 3. We hope you find them helpful!

Go to [www.reaganconsulting.com](http://www.reaganconsulting.com) to download Reagan Consulting's analysis of what the Tax Cuts and Jobs Act means for insurance agents and brokers



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