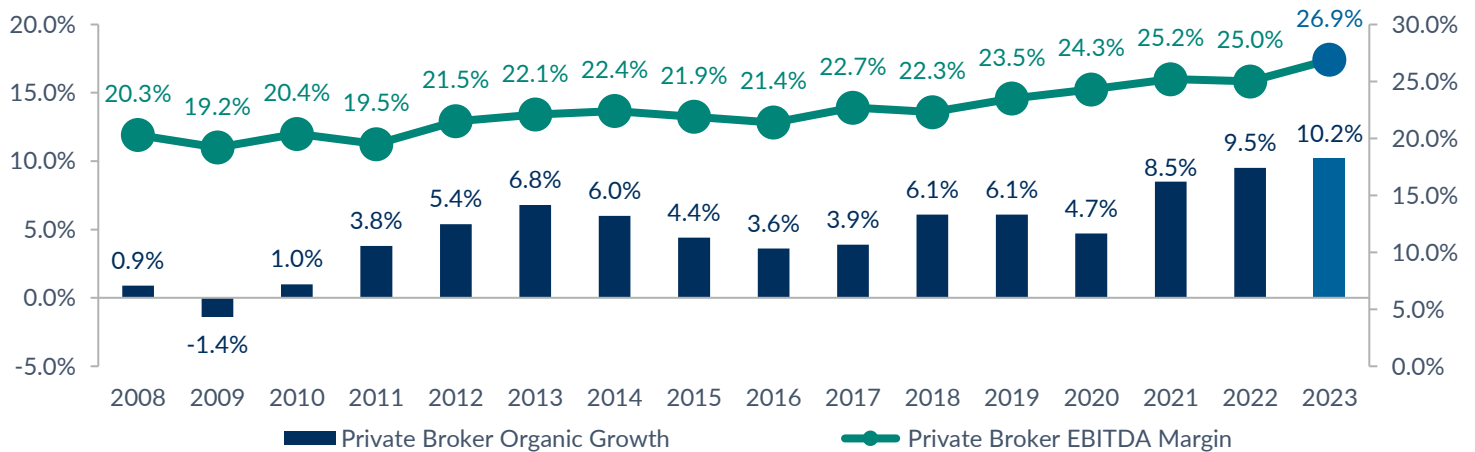




## Q3 BROKER RESULTS SHOWCASE STRONG PERFORMANCE, FUNDAMENTALS

- Brokers continue to grow at a dizzying pace. At 10.2%, broker organic growth in Q3 2023 was in double digits for the fourth quarter in a row and for the fifth quarter in the last six. Brokers project another double-digit year of 10.0% organic growth for full-year 2023.
- The story behind the growth has not changed, with P-C rate increases acting as the dominant force propelling broker revenue forward. According to the CIAB's Q3 2023 P/C Market Survey, average commercial premiums increased 8.1% in Q3 2023, marking 24 consecutive quarters of pricing increases.
- The hard market isn't limited to commercial lines, however. Median personal lines organic growth in Q3 2023 was 10.0%, up from 5.9% a year ago in Q3 2022. Cat losses, social inflation and corresponding rate hikes are driving premium growth, primarily in property and auto.
- The rate environment may not change in the near term. In Arthur J. Gallagher's Q3 2023 earnings call, Pat Gallagher commented that "we believe carriers are likely to seek out further renewal premium increases and to maintain their cautious underwriting posture."
- Brokers are enjoying the results but are having to work hard for them. The rate-fueled growth environment is stressing broker workloads, with premium-hikes and carrier withdrawals requiring frequent re-marketing of policies, especially in personal lines.
- The workloads, though, are not yet showing up in increased expense ratios, as broker profitability continues to outpace historical averages. Median broker EBITDA margin in Q3 2023 was 26.9% and median operating margin was 19.2%, both all-time GPS records.
- With growth and profitability setting records, broker returns are surging. Reagan's Rule of 20 score for Q3 2023 came in at a median of 23.8, 2.3 points higher than the previous third quarter high, set in 2022. The Rule of 20 is Reagan's quick measure of shareholder return momentum and is calculated as organic growth + ½ EBITDA margin.

### Q3 BROKER ORGANIC GROWTH & EBITDA MARGIN



Source: Reagan's Growth & Profitability Survey, Q3 2023 Results.

- It isn't clear whether these growth trends will change materially in 2024. Macro-economic factors continue to bolster broker performance:
  - The P-C rate market is projected to stay hard by brokers and carriers alike.
  - Economic growth, as measured by GDP, has shown surprising strength. The US economy grew at 4.9% in Q3 2023.
  - Inflation has come down materially and has been under 4% the last three quarters.
- It is arguable that the tailwinds that brokers experience in 2024 could be stronger than 2023 if the economy grows at a faster pace.
- Broker profit margins, though, may be difficult to maintain. Current margins are propped up by potentially unsustainable revenue per employee figures. The difficult labor market, with unemployment at 3.9% according to the Bureau of Labor Statistics, may be making it challenging for brokers to find the employees necessary to handle the increased activity resulting from the hard market and changing carrier appetites.
- In addition, 2024 contingent income may be under pressure based on increasing carrier loss ratios. According to Fitch Ratings, first half 2023 loss ratios for US P-C carriers were 5 points higher than first half 2022, driven primarily by personal lines.

## PUBLIC BROKER EQUITIES RISING, MULTIPLES STEADY ...

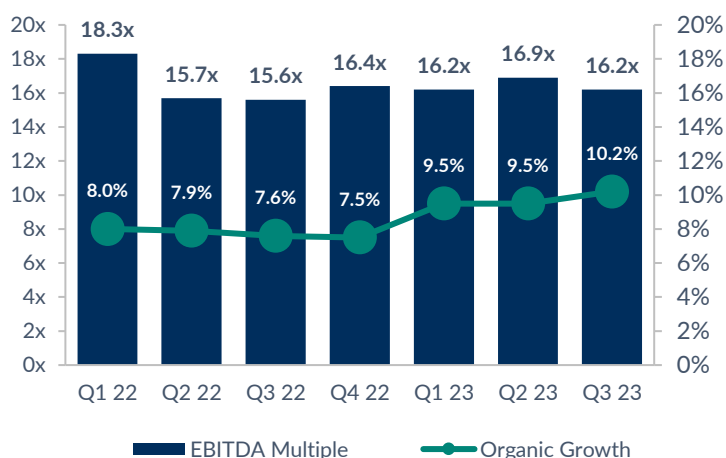
- Public brokers are also benefitting from strong organic growth conditions, with the five traditional publicly-traded brokers (AJG, AON, BRO, MMC, WTW) posting 10.2% organic growth in Q3 2023 – identical to the privately-held brokers in GPS.
- Riding this organic growth performance, publicly-traded broker equities have an average five-year stock price growth rate of 16.5%. Four of these stocks (AJG, BRO, GSHD, MMC) have annual growth rates above 20%.
- AJG has also been taking advantage of a wave of deal momentum in 2023, closing acquisitions of two top 100 brokers in the second half of 2023. The target firms – Cadence and Eastern – were both bank-owned and together represent over \$250 million of acquired revenue. AJG’s purchase price for the two deals exceeded \$1.4 billion.
- Despite the organic growth and stock price movement, valuation multiples have not changed significantly for public brokers. Public brokers are trading at around 16.0 x trailing EBITDA and have been since early 2022.

Public Broker Stock Performance

Public Broker	Adj Close 1/2/19	Adj Close 11/28/23	Price Change, 1/2/19 to 11/28/23	Annual CAGR
AON	\$144.04	\$323.15	124.3%	17.9%
AJG	\$71.89	\$246.74	243.2%	28.6%
BRO	\$27.07	\$73.42	171.2%	22.6%
BRP*	\$16.37	\$17.73	8.3%	2.0%
GSHD	\$25.04	\$71.81	186.8%	24.0%
MMC	\$79.04	\$197.26	149.6%	20.5%
WTW	\$246.16	\$242.79	-1.4%	-0.3%

\*BRP entered market as of 10/24/19  
RYAN entered market as of 7/22/21 and is not included.

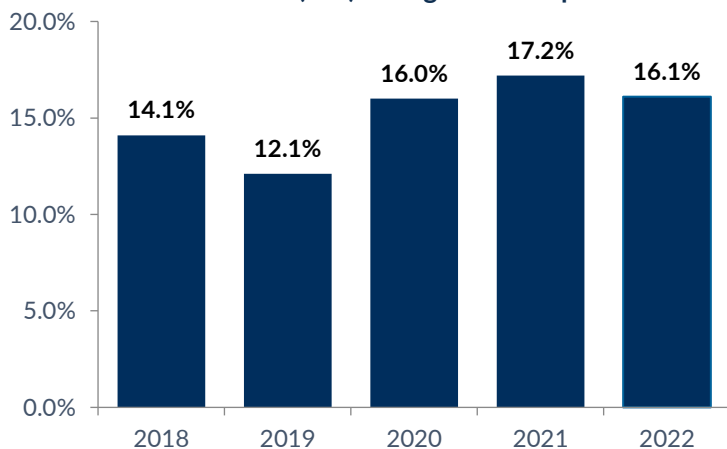
Public Broker Valuations & Growth <sup>(1)</sup>



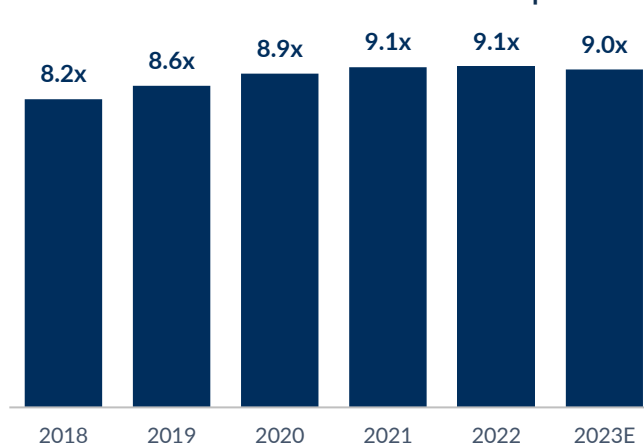
## ... AND THE SAME IS TRUE FOR PRIVATELY HELD BROKERS

- Reagan recently finished its 2023 valuation season, performing valuations for approximately 100 privately held brokers, who are also enjoying a strong valuation run. Equity returns for privately-held brokers have been 16% - 17% annually over the last three years.
- When the distribution yields of these firms are included, shareholder returns are in excess of 20%. These returns are measured using the Reagan Value Index (RVI), a group of ~35 firms that Reagan values annually on an internal basis.
- RVI *internal* valuations have remained steady on a multiple basis over the last several of years in the 9.0 x range after rising rapidly from 2012-2018. Recent growth in internal equity value has come from growth in the business rather than multiple expansion.
- We project similar EBITDA multiples for 12/31/23 internal broker valuations, especially with inflation normalizing and economic growth rebounding. These factors are also helping to keep M&A valuations steady.

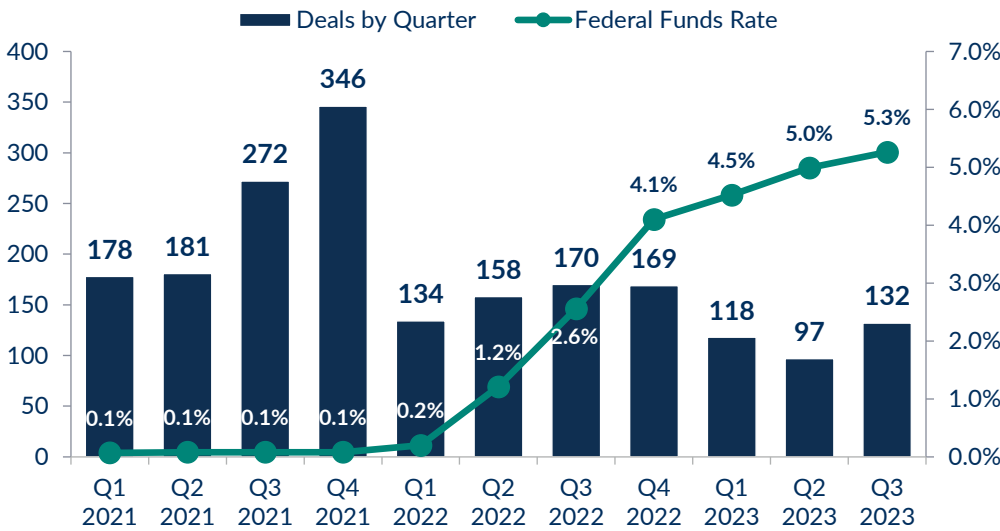
Private Broker (RVI) Change in Value per Share



Private Broker Internal EBITDA Multiples



M&A ACTIVITY & INTEREST RATES



Source: S&P Global, the Federal Reserve and Reagan Consulting analysis.

- There were 347 deals announced in the first three quarters of 2023 vs. 462 deals in the same period of 2022, representing a ~25% decrease in activity.
- There is no question that interest rates are having an effect on deal activity, but we may see stabilization of the rate environment in 2024. According to the CME Fed Watch Tool, the Fed Funds Rate is likely to decline in 2024.
- With rates flattening or declining, the industry may be poised to test the supply of readily available sellers. If buyer demand *increases* in 2024, will the supply of agencies available for sale keep pace?
- Valuations are holding at high levels – especially for larger, faster-growing firms. For high-quality \$3 - \$10 million revenue brokers, we continue to see guaranteed multiples of ~12.5 x EBITDA.

DEAL SPOTLIGHT



- On October 23, 2023, Lawley, a top 100 broker based in Buffalo, NY, announced that it had received a minority equity investment from Pritzker Private Capital (PPC), a family office based in Chicago, IL.
  - The Lawley-PPC transaction represents the latest minority equity investment in the brokerage industry, a trend that appears to be gaining momentum
  - The transaction closed simultaneously with Lawley's acquisition of Shoff Darby, a Connecticut-based broker with four offices and 75 employees
  - Lawley's current ownership group will continue to own the majority of the Company and will continue to lead and manage the business
  - PPC's investment will allow Lawley to continue to expand its geographic presence and capital-intensive growth initiatives while retaining its family-oriented culture

RECENT REAGAN TRANSACTIONS

REAGAN SECURITIES served as financial advisor to **Lawley** (Buffalo, NY) in its capital raise with **PRITZKER PRIVATE CAPITAL**. 2023

REAGAN SECURITIES served as financial advisor to "Project Motown" (Insurance Group, IBEX, BBR, JA&A, Custom Results, HC) in its sale to **HUB**. Detroit, MI. 2023

REAGAN SECURITIES served as financial advisor to **consolidated** (Insurance + Risk Management) (Owings Mills, MD) in its sale to **UNISON RISK ADVISORS**. 2023

REAGAN SECURITIES served as financial advisor to **clements WORLDWIDE** (Washington, DC) in its sale to **Gallagher**. 2023

REAGAN SECURITIES served as financial advisor to **thx** (Atlanta, GA) in its sale to **IMA**. 2023

REAGAN SECURITIES served as financial advisor to **AMERUS INSURANCE** (Lafayette, LA) in its sale to **HUB**. 2023

REAGAN SECURITIES served as financial advisor to **ace** (Benefit Partners) (Eagle, ID) in its sale to **RYAN SPECIALTY**. 2023

REAGAN SECURITIES served as financial advisor to **WRM** (The WRM Group) (Jasper, AL; Tuscaloosa, AL; Dothan, AL) in its sale to **HIGGINBOTHAM**. 2023

Securities transactions offered through Reagan Securities, Inc., member of FINRA and SIPC.