

# SUMMER REAGAN QUARTERLY

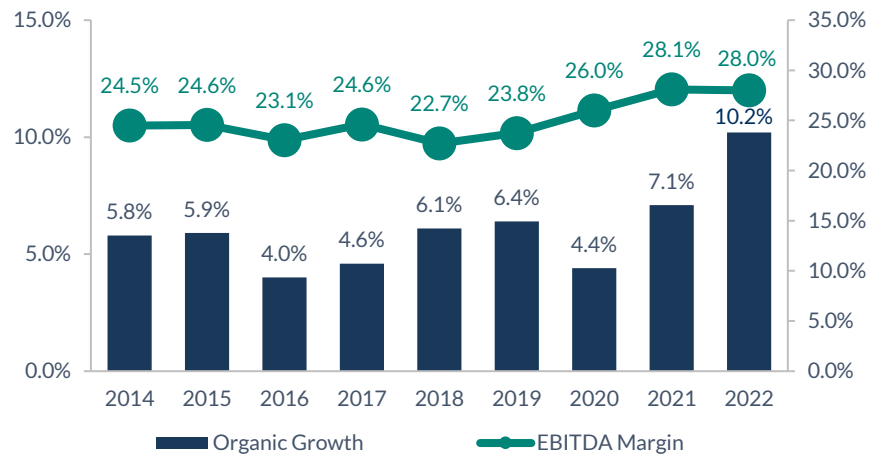
## 2022 REAGAN'S MARKET UPDATE



### Q2 BROKER RESULTS

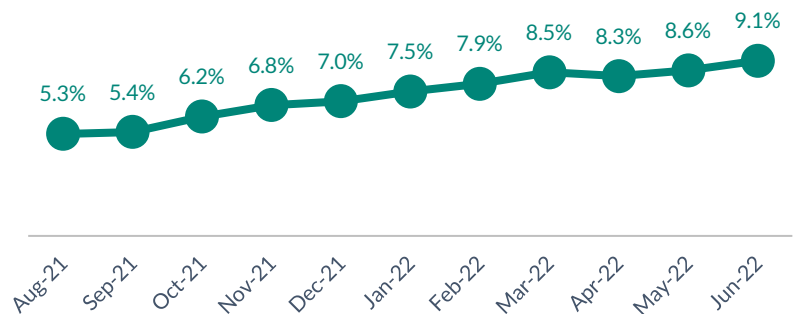
- For the first time in the history of Reagan's *Growth & Profitability Survey*, brokers posted double digit organic growth in Q2 2022. This was the fifth consecutive quarter that agents and brokers posted record organic growth.
- While inflation (9.1% in June 2022) may be partially responsible for continued record organic growth, it has not yet had a material impact on profitability. For the second consecutive year, brokers posted an EBITDA margin of 28% through Q2. Prior to 2020, when COVID-driven reductions in selling expenses were first observed, Q2 EBITDA margins had never exceeded 25.0%. It is worth noting that EBITDA margins decline over the course of the year as the vast majority of contingent / bonus income is received in the first half of the year.
- Commercial P&C continued to lead the way in Q2 2022 posting 12.2% organic growth, the first ever double-digit growth rate recorded in Q2 and ~300 basis points higher than the previous Q2 high. The primary driver of this blockbuster growth rate? Rate. P&C premiums increased for the 19<sup>th</sup> consecutive quarter in Q2 2022, with the CIAB reporting that the average pricing increase was 7.1% vs. 6.6% in Q1.
- Personal Lines was perhaps the biggest surprise of the quarter posting 5.5% organic growth, a GPS record. Personal Lines also benefited from pricing increases like Commercial P&C. In addition, consumer spending has remained strong throughout 2022, providing additional opportunities for agents and brokers.
- Group Benefits made a comeback in Q2 2022 posting 5.6% organic growth vs. 4.2% during Q1 2022. This was the highest Q2 growth rate since 2018 and the highest quarterly growth rate since Q1 2020. COVID-19 presented several challenges for Group Benefits including layoffs and employers choosing not to make many changes during a time of uncertainty. This growth acceleration signals positive momentum for a line of business that has recently lagged materially behind Commercial P&C growth.
- Agents and brokers continue to expect significantly above-average results once again in 2022. GPS participants are projecting full-year organic growth of 8.5%, which would be the second highest full-year result ever recorded. They are also projecting a full-year EBITDA margin of 21.6%, which would be the third highest full-year result ever recorded. Profitability expectations have declined over the course of the year as brokers expect to encounter increased inflationary impacts to expenses in the second half of 2022.

### Q2 PRIVATE BROKER ORGANIC GROWTH RATE & EBITDA MARGIN



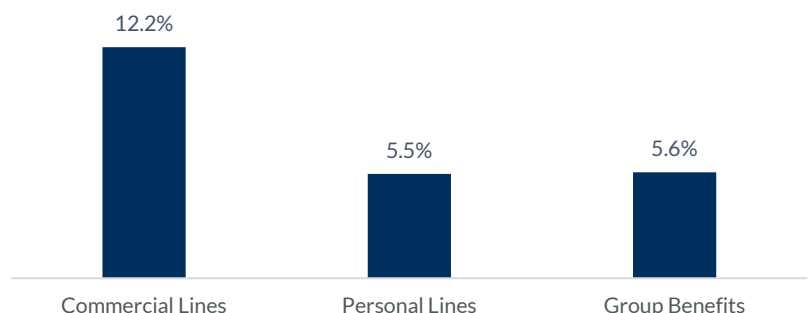
Source: Reagan's Growth & Profitability Survey ("GPS").

### INFLATION BY MONTH (AUG-21 - JUN-22)



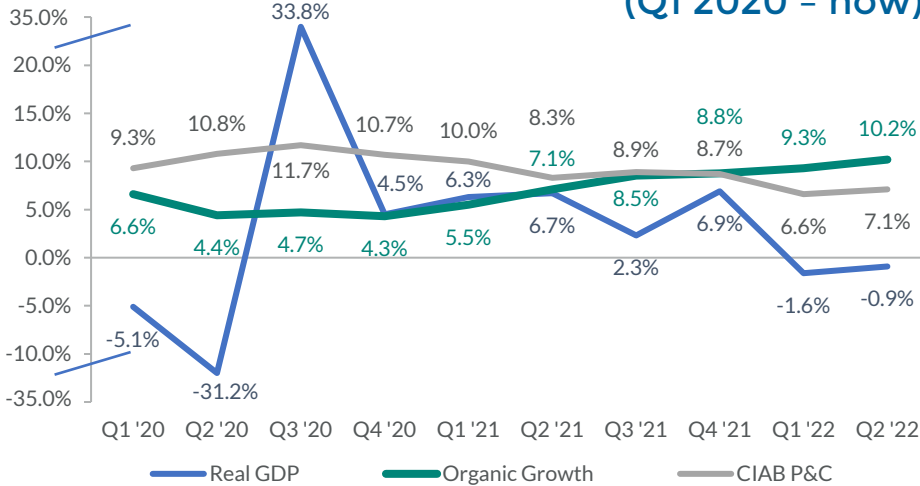
Source: U.S. Bureau of Labor Statistics

### Q2 ORGANIC GROWTH BY PRODUCT LINE



Source: Reagan's Growth & Profitability Survey ("GPS").

## REAL GDP GROWTH, COMMERCIAL P&C PRICING, GPS ORGANIC GROWTH (Q1 2020 - now)

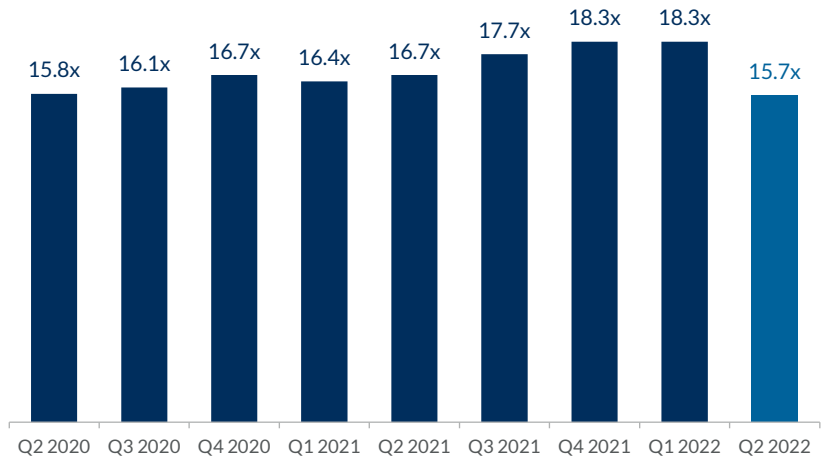


- Gross domestic product (GDP) declined by an annual rate of 0.9% in Q2 2022 after declining by an annual rate of 1.6% in Q1 2022. Two consecutive quarters of GDP decline means the U.S. is officially in a recession.
- Tempering this, however, are the continued rate increases (7.1% in Q2) and strong job growth announced in July.
- The negative effects of an economic downturn have historically impacted agents and brokers 6-9 months later.
- While we anticipate healthy organic growth throughout 2022, agents and brokers are bracing for a slowdown in 2023.

- Public brokers were not immune to the recent stock market volatility. However, when comparing public brokers to the rest of the market, they fared much better. While the S&P 500 was down 20.6% during the first six months of 2022, public broker stock prices were only down 11.7%.
- While equity markets dipped, performance remained strong. Public brokers generated 9.0% organic growth during the first six months of 2022, the second highest quarterly growth ever recorded by public brokers.
- With strong performance increasing underlying profits and equity prices pulling back, public broker multiples contracted materially for the first time since the Great Recession and below 16.0x for the first time in two years.
- GSHD, BRP and RYAN are excluded from this analysis given their relatively-new public broker status.

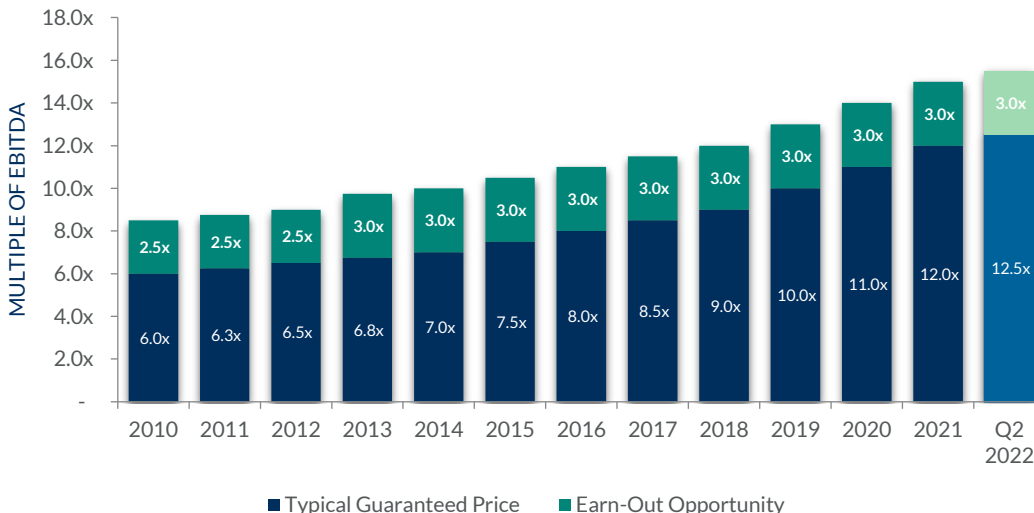
## PUBLIC BROKER VALUATIONS

Enterprise Value / LTM Pro Forma EBITDA



Source: Public Broker SEC Filings, market data. Includes AON, AJG, BRO, MMC, WLTW.

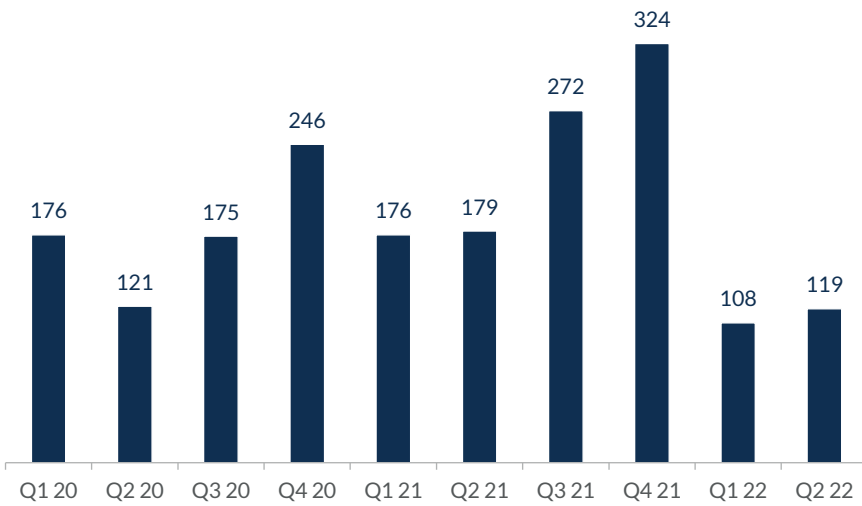
## M&A VALUATIONS



- While public broker multiples contracted in Q2, private broker valuations remain at all-time highs.
- Due to strong demand from over 50 well-capitalized buyers and still relatively low cost-of-capital available, multiples have expanded slightly in 2022.
- The chart to the left details the typical guarantee and earn-out multiples being paid by strategic acquirers for a well-run agency with \$3M - \$10M in revenue.
- The typical guaranteed valuation multiple increased to 12.5x, representing over a 100% increase vs. 2010.

Source: Reagan Consulting analysis.

## RECENT DEAL ACTIVITY BY THE NUMBERS



Source: SNL Financial as of June 30, 2022 (based on Announcement Date). Includes whole company, franchise, and asset sales.

- Deal activity increased slightly in Q2 2022 (119) vs. Q1 2022 (108) but fell significantly below 2021 levels for the second straight quarter.
- This decline is not a signal of reduced demand – rather, it is a hangover from a huge second half of 2021. Consistent with Q1, we see nothing that indicates M&A interest is diminished from either buyers or sellers.
- Based on continued strong performance for the agent and broker community and recent conversations with buyers, we anticipate another active second half of the year.
- Unlike 2020 and 2021, there are no imminent tax changes on the horizon. However, sellers may still come to the M&A table in 2022 to avoid potentially negative impacts of a recession and higher interest rates that may impact valuations.

## DEAL SPOTLIGHT



- **Date:** On August 2, 2022, IMA Financial Group (“IMA”) acquired York International Agency, LLC (“York”).
- York, based in Harrison, NY, was the 96<sup>th</sup> largest broker in the U.S per *Business Insurance’s* Top 100 List. There was a long-standing relationship between the two organizations through Assurex Global.
- The York partnership represented a strategic geographic expansion for IMA to enter the New York marketplace and expanded IMA’s real estate specialty expertise.
- The deal marked the continued momentum of IMA with Top 100 ranked brokers, such as Parker, Smith & Feek, Inc. and Bolton & Co. – each of which partnered with IMA in 2021.
- Including York, IMA’s 2022 revenues are projected to exceed \$500M.

## RECENT REAGAN TRANSACTIONS

REAGAN SECURITIES served as financial advisor to

**YORK International**

Harrison, NY

in its sale to

**IMA**

2022

REAGAN SECURITIES served as financial advisor to both firms

**BYARS | WRIGHT**

Jasper, AL

merged with

**PM**

Tuscaloosa, AL

2022

REAGAN SECURITIES served as financial advisor to

**@ the assurance center**

Knoxville, TN

in its sale to

**Oakbridge**

2022

REAGAN SECURITIES served as financial advisor to

**Sandy Spring Insurance**

Annapolis, MD

in its sale to

**HUB**

2022

REAGAN SECURITIES served as financial advisor to

**WILLFORD INSURANCE GROUP**

Greensboro, NC

in its sale to

**HUB**

2022

REAGAN SECURITIES served as financial advisor to

**JACOBS Insurance Group**

New Bloomfield, PA

in its sale to

**AssuredPartners**

2022

REAGAN SECURITIES served as financial advisor to

**HRUSKA INSURANCE CENTER, INC.**  
*Protecting the Lifestyle You've Earned!*

Mokena, IL

in its sale to

**Gallagher**

2022

REAGAN SECURITIES served as financial advisor to

**LYON FRY CADDEN INSURANCE**

Mobile, AL

in its sale to

**HIGGINBOTHAM**

2022

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