



The GPS Industry Snapshot | Q3 2021

| | |
|--------------|--|
| 8.5% | Median industry organic growth |
| 7.4% | Projected year-end 2021 organic growth |
| 25.2% | Median industry EBITDA margin |
| 23.0% | Projected year-end 2021 EBITDA margin |
| 9.5% | Median commercial lines organic growth |
| 4.2% | Median personal lines organic growth |
| 4.1% | Median group benefits organic growth |

Stat of the Quarter

8.5%

Median organic growth

Brokers posted the highest organic growth rate in survey history for the second consecutive quarter. Meanwhile, public brokers posted median organic growth of 10.8% through Q3 2021.

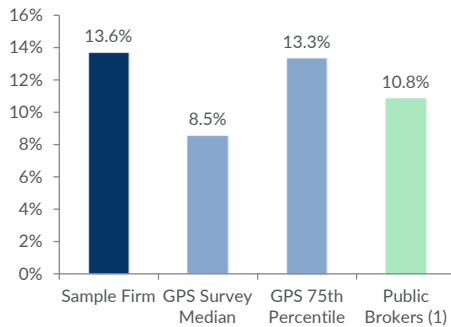
Reagan's Growth & Profitability Survey is a real-time, quarterly look at the key drivers of value creation in the brokerage industry: organic growth and EBITDA margin. In Q3 2021, over 170 agencies participated in the GPS, with median annual revenues of approximately \$14.8 million.



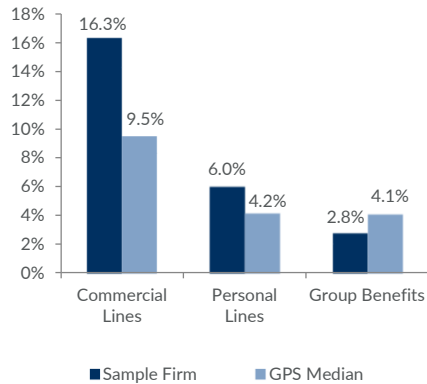
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ORGANIC GROWTH

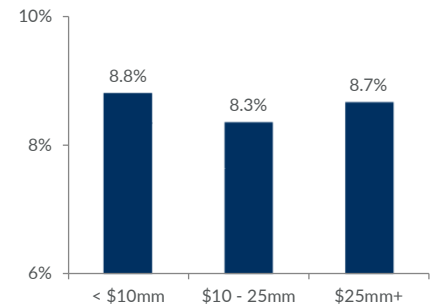
TOTAL AGENCY ORGANIC GROWTH



ORGANIC GROWTH BY PRODUCT LINE



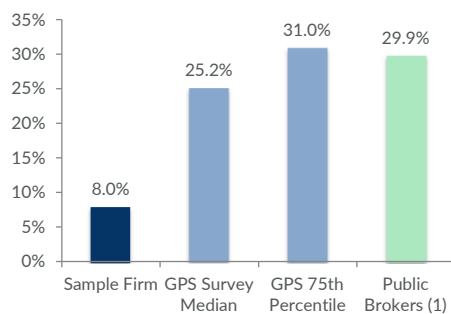
ORGANIC GROWTH BY SIZE CATEGORY



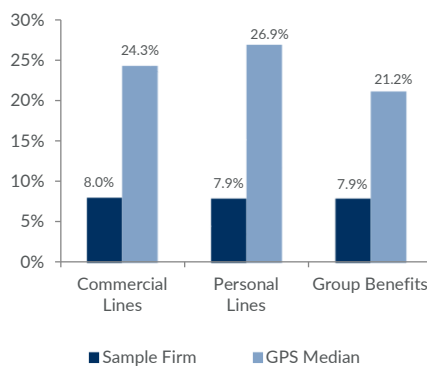
Your organic growth rank: **70th - 80th percentile**

PROFITABILITY

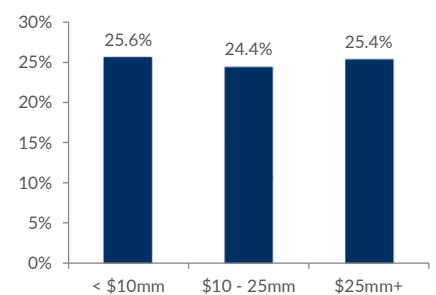
TOTAL AGENCY EBITDA MARGIN



EBITDA MARGIN BY PRODUCT LINE



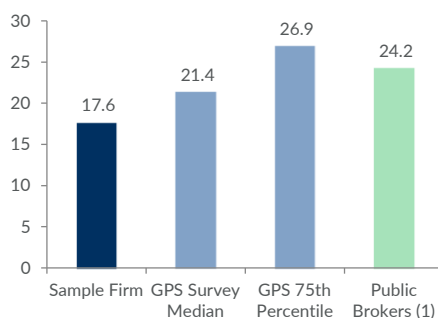
EBITDA MARGIN BY SIZE CATEGORY



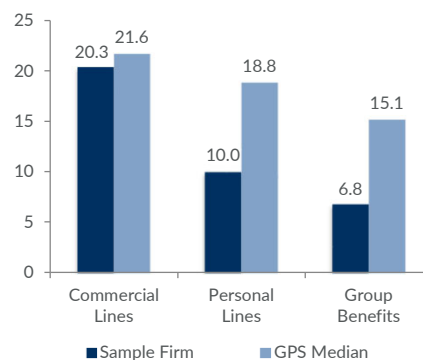
Your profitability rank: **Bottom 10 percent**

THE RULE OF 20

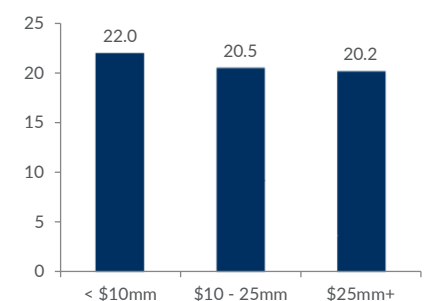
TOTAL AGENCY RULE OF 20



RULE OF 20 BY PRODUCT LINE



RULE OF 20 BY SIZE CATEGORY



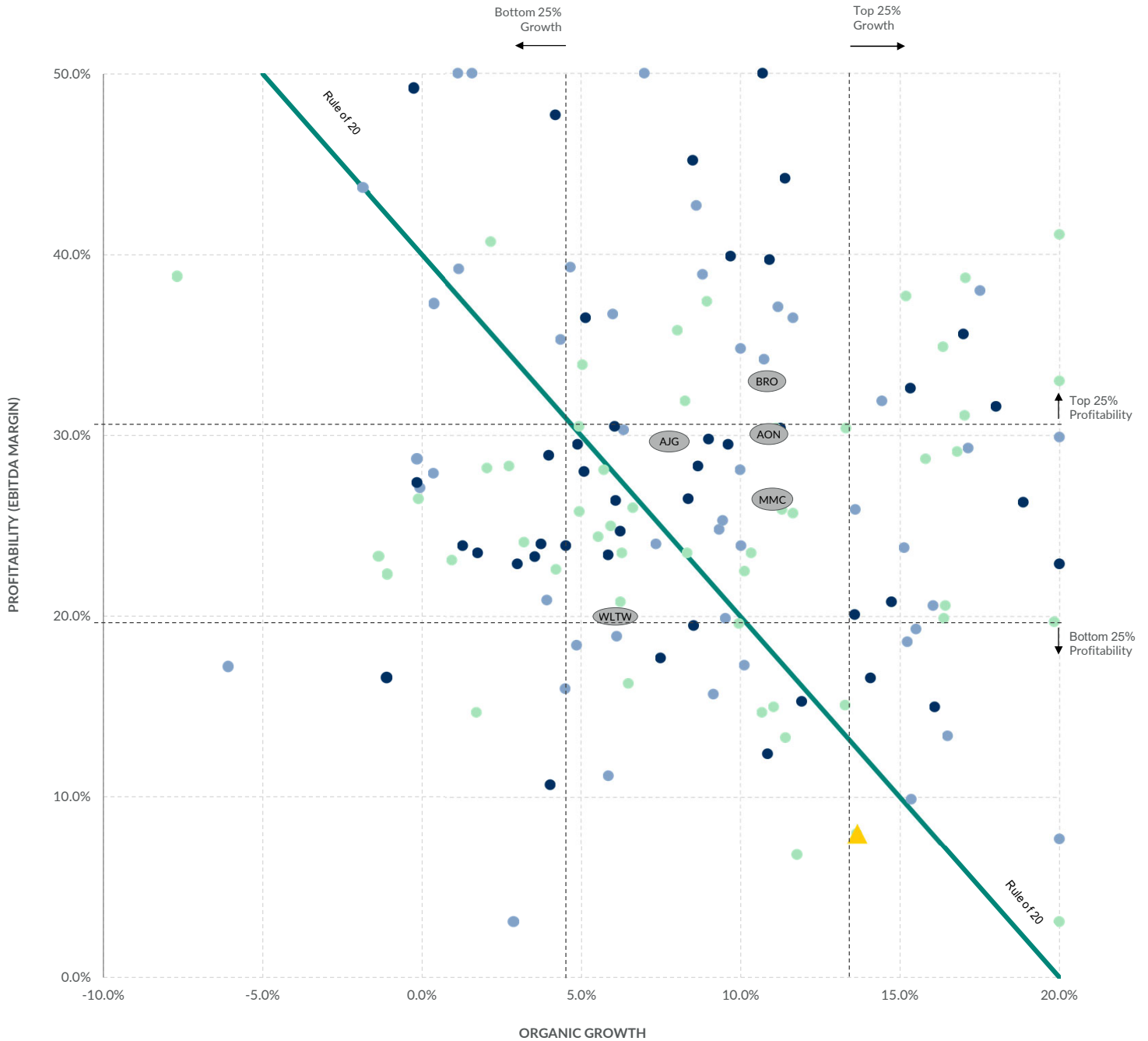
Your Rule of 20 rank: **20th - 30th percentile**

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 Q3 2021 results for AJG, AON, BRO, MMC and WLTW.



- Surveied firms with annual revenues less than \$10 million
- Surveied firms with annual revenues between \$10 and \$25 million
- Surveied firms with annual revenues greater than \$25 million

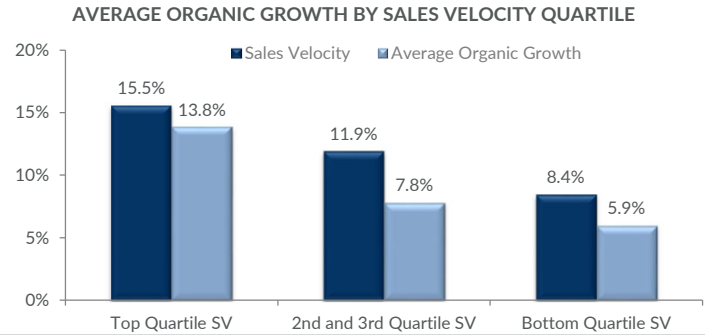
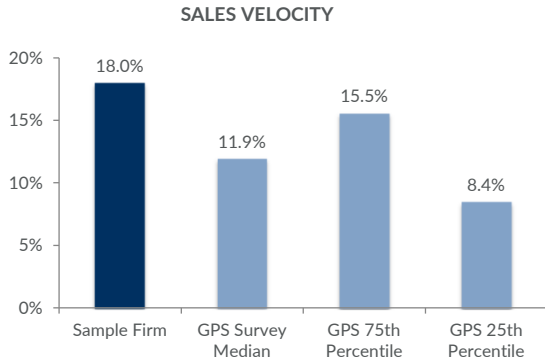
- ▲ Sample Firm
- Top and Bottom 25% of all firms
- Rule of 20 line (All points on this line indicate a Rule of 20 score of 20)

Scatter Plot

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. It shows every firm that completed the survey's total agency organic growth section and 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. The grey dotted lines show the top and bottom 25% of firms in organic growth and profitability. The solid green line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20. The firms are broken into groups based on revenue size, as distinguished by the different colored dots.

Note: Scatter plot represents Q3 2021 results for AJG, AON, BRO, MMC and WLTW.

SALES VELOCITY

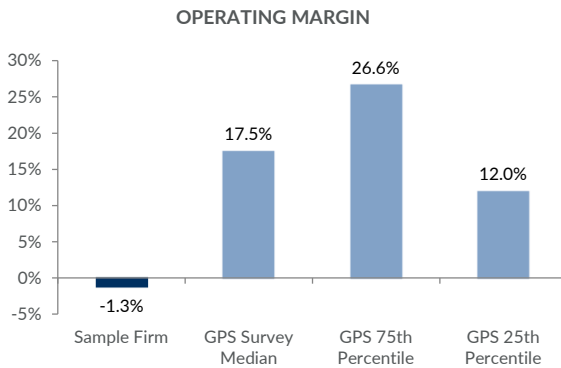


Sales Velocity

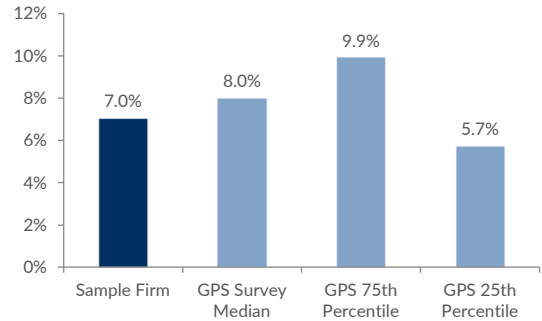
Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results. Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. The above graph shows average organic growth by sales velocity quartile - firms with the highest Sales Velocity post outsized organic growth.

Your Sales Velocity rank: **80th - 90th percentile**

OPERATING MARGIN & CONTINGENT INCOME AS % OF REVENUE



CONTINGENT/BONUS/OVERRIDE INCOME AS A % OF REVENUE



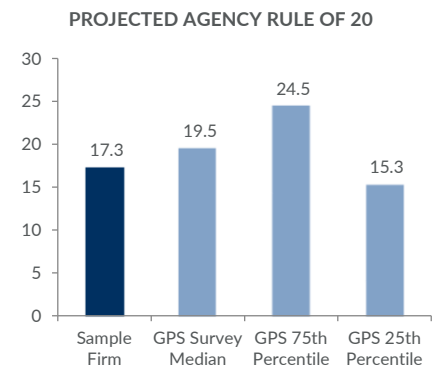
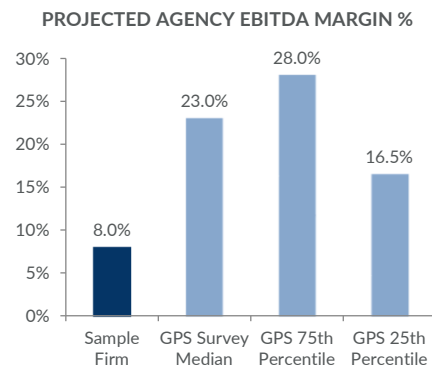
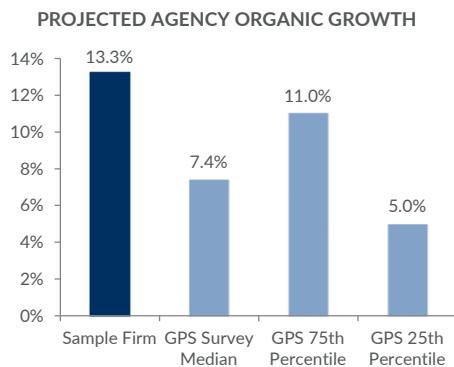
Your Operating Margin rank: **Bottom 10 percent**

Your Bonus Inc. as % of Revenue rank: **30th - 40th percentile**

Operating Margin

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

2021 PROJECTIONS

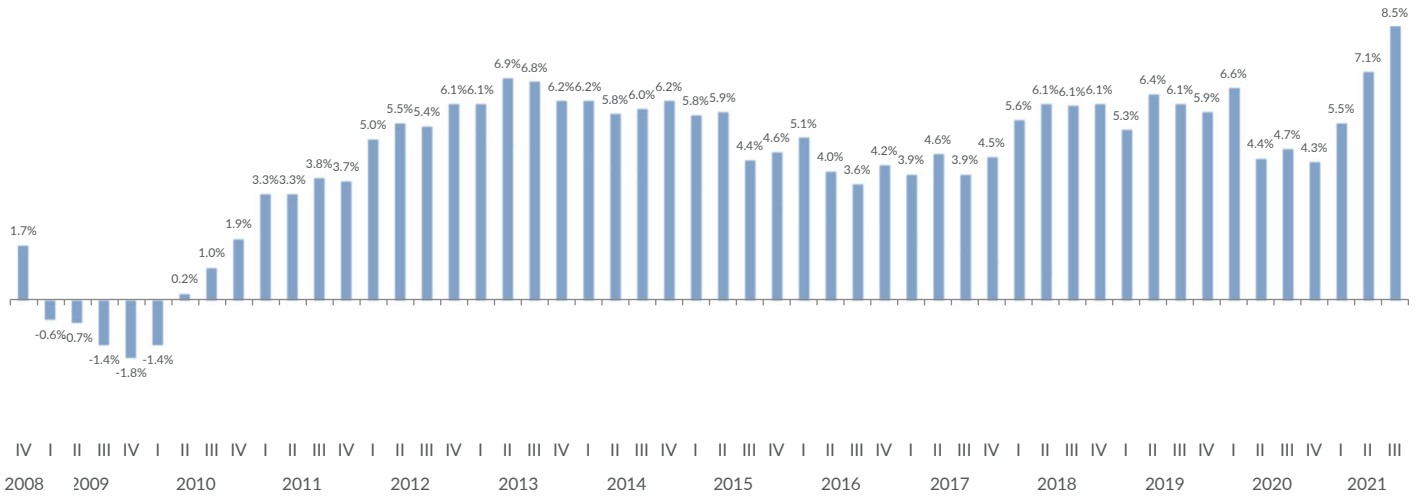


Your organic growth rank: **80th - 90th percentile**

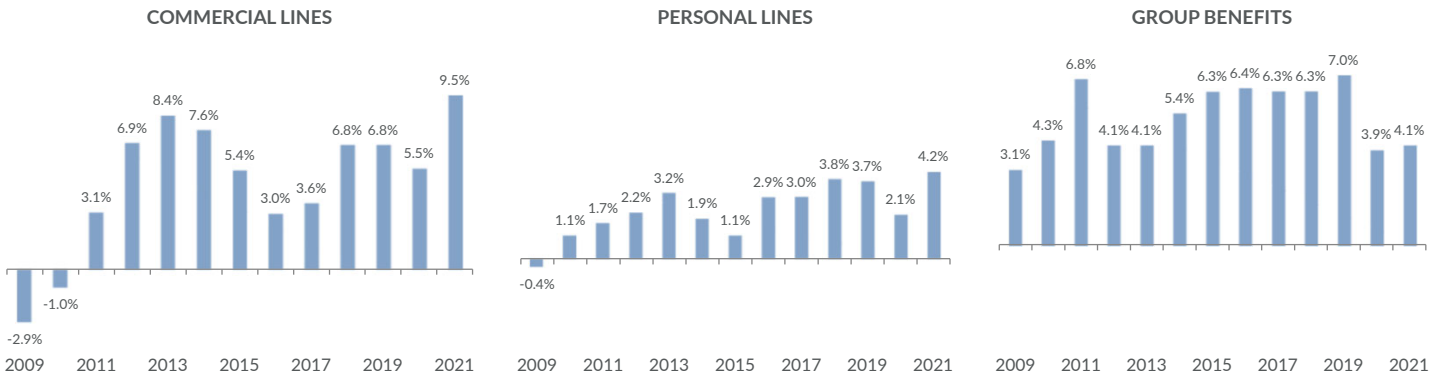
Your EBITDA margin rank: **Bottom 10 percent**

Your Rule of 20 rank: **30th - 40th percentile**

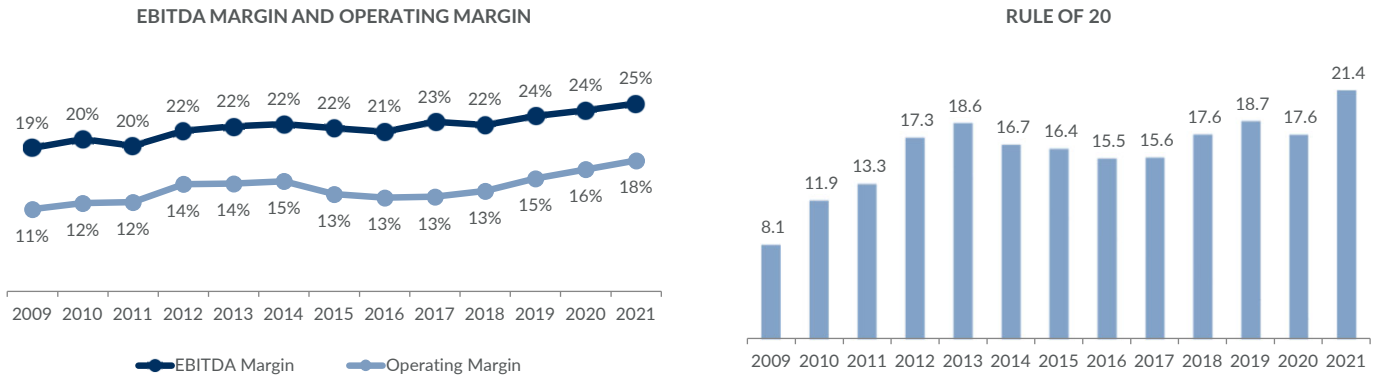
QUARTERLY ORGANIC GROWTH - TOTAL AGENCY MEDIUM
(Q4 2008 - PRESENT)



COMPARATIVE MEDIAN ORGANIC GROWTH BY PRODUCT LINE
(THIRD QUARTER NUMBERS, 2009 - 2021)



COMPARATIVE MEDIAN PROFITABILITY AND RULE OF 20 ANALYSIS
(THIRD QUARTER NUMBERS, 2009 - 2021)



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.

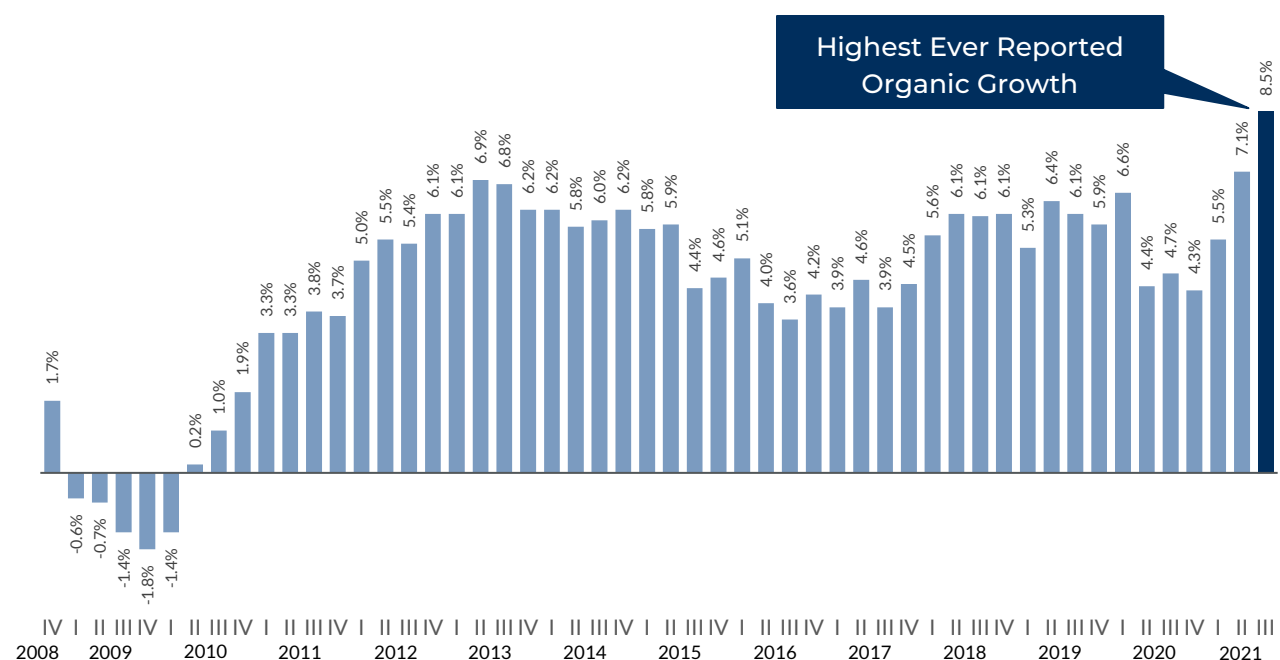


All Signs Point to the Best Year Ever for Insurance Brokerage

by Harrison Brooks

Organic growth and profitability records were shattered in this quarter's Growth & Profitability Survey (GPS). Despite the ongoing pandemic, insurance agents and brokers achieved an organic growth rate of 8.5%, the best quarterly result since the Survey's founding in 2008. These results, which come from over 170 participating agencies with median annual revenues of \$14.8 million, including more than 50 of *Business Insurance's* Top 100 brokers, are a tremendously positive reflection of the state of the industry.

Quarterly Organic Growth Q4 2008-Present



Highest Ever Reported Organic Growth

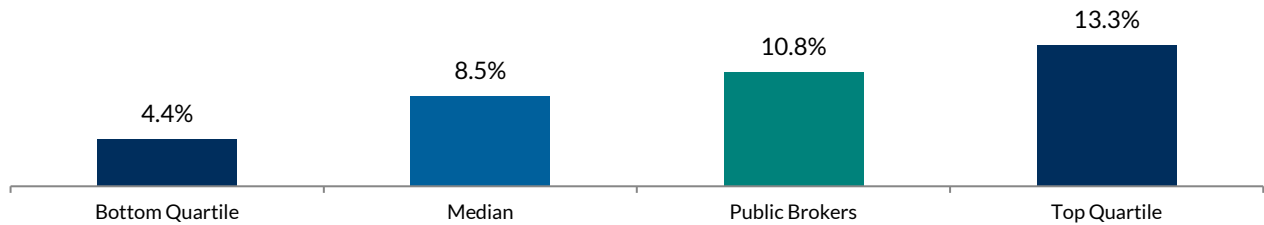
Source: Reagan Consulting Growth & Profitability Survey

It is no secret that insurance brokers continue to benefit from the hard market and general economic growth. Companies are returning to offices, sporting events are in full force as our Atlanta Braves clinched the World Series, vacation destinations are sold out, and wages are rising at the fastest pace in decades. Strong consumer demand and supply shortages are testing the economy with a rapid uptick in inflation. And while this rising economic tide appears to be floating all boats, not all firms are performing equally.

The organic growth gap between the top and bottom quartile agencies continues to widen. Top performing firms grew at 13.3% in Q3 while bottom-quartile firms grew at 4.4% – an 8.9% delta. For

reference, this gap was 8.6% in Q2. Public brokers outperformed the industry's median growth rate of 8.5% with a median organic growth rate of 10.8% through Q3.

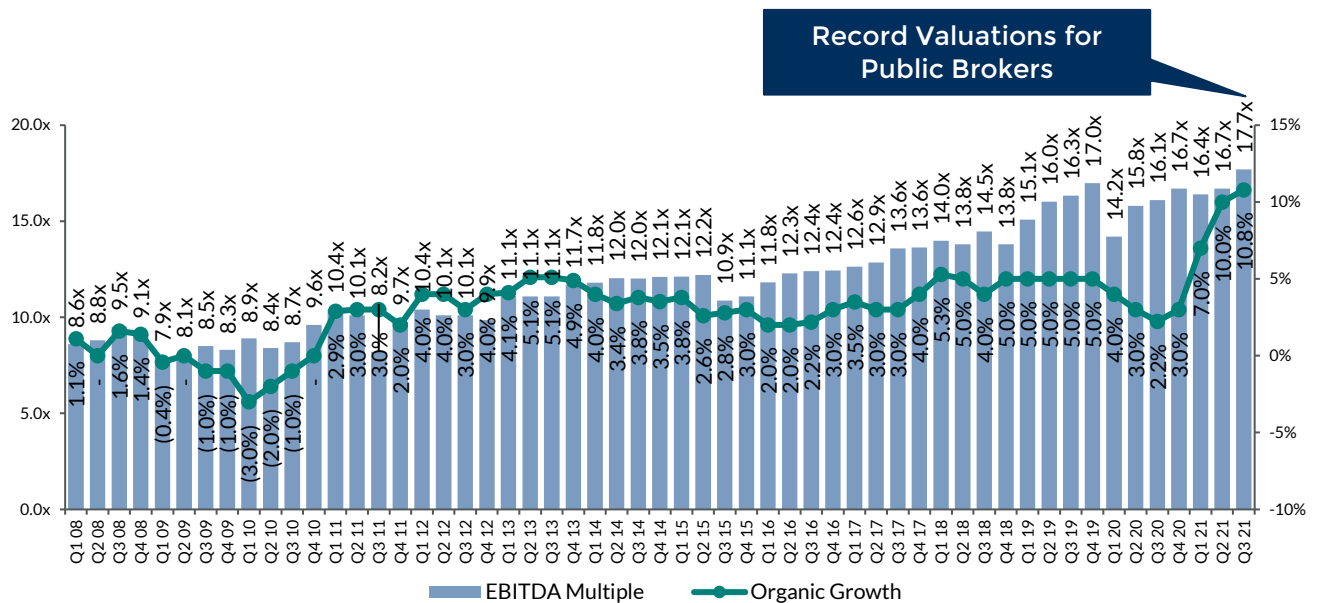
Q3 Organic Growth Rates



Growth Pushes Valuations Higher

Rising growth rates for the public brokers are driving record valuations of 17.7x EBITDA on a trailing twelve-month basis. The chart below highlights the concurrent surge in public broker growth rates and valuations.

Public Broker Organic Growth & LTM EBITDA Multiples



Source: Public company filings.

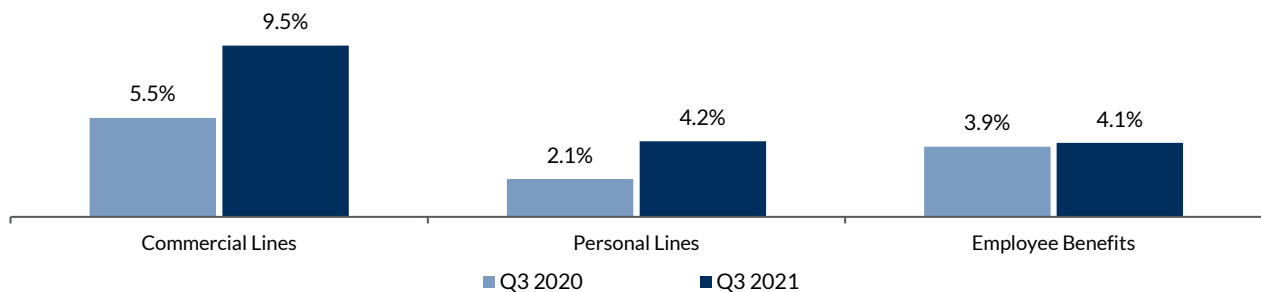
Growth is the most important driver of agency value. The industry's most discerning and exclusive buyers use growth as a gating factor, only seeking agencies with the highest growth rates. Recent developments in both the public and private marketplace are working to reinforce the importance of growth.

Commercial and Personal Lines Set Growth Records as Employee Benefits Lags

Growth rates also skyrocketed for both commercial and personal lines, with each line recording the largest year-over-year increase for Q3 in GPS history. Benefits growth, on the other hand, remained in line with Q3 2020 at levels not seen since 2013. What happened?

- 1) **Commercial Lines:** The 4% jump from 5.5% in Q3 2020 to 9.5% in Q3 2021 was primarily driven by the previously discussed hard market and favorable economic tailwinds. Sales velocity declined to 11.9% in Q3 from 12.4% in Q2.
- 2) **Personal Lines:** The 2.1% organic growth rate increase from 2.1% to 4.2% was largely driven by rate increases. Interestingly, firms located in coastal states had outsized organic growth in personal lines due to significant exposure increases. Their median growth rate was 6.2% as compared to the industry average of 4.1%.
- 3) **Group Benefits:** Growth increased by 0.2% from Q3 2020 due to the unprecedented COVID-driven soft benefits market that occurred in 2020. As Medicare picked up a significant amount of COVID claims and individuals slowed doctor visits for non-COVID issues, profitability spiked for benefits carriers, creating a soft market with group medical rate reductions reducing the group benefits growth for agents and brokers. 2021 group benefits rates have returned to pre-2020 levels as the world returns to work and many employers are paying a higher percentage of their employees' medical expenses; however, these rate increases are not fully reflected in the Q3 benefits organic growth numbers as group benefits policies are billed monthly. We expect group benefits growth to accelerate in the fourth quarter as pricing increases flow through agents and brokers' monthly financials.

Q3 Organic Growth Rates by Line



Source: Reagan Consulting Growth & Profitability Survey, Q3 Results

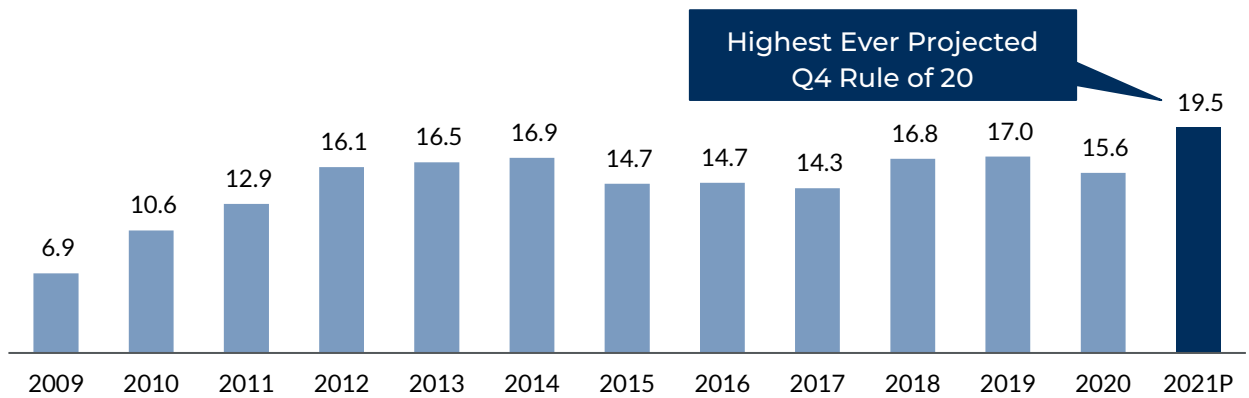
Record Investor Returns Coming Out of COVID

As the stock market continues to push to all-time highs and inflation anxiety abounds, investors are seeking refuge for their large cash deposits. One such refuge is independent insurance agents and brokers, which currently offer investors healthy returns as measured by Reagan's proprietary Rule of 20. This measure of agency value creation combines a broker's organic growth and profitability on a weighted basis by adding the organic growth rate to half of the agency's EBITDA margin. A score of 20

is considered high performance in most market conditions and indicates a healthy investor return of 15-17%.

Another Q3 record appeared in 2021 with the Rule of 20 median score of 21.4, meaning over 50% of GPS participants generated a 15%+ return for their shareholders through the first three quarters of 2021. When asked how the year would finish, agents and brokers projected a record Q4 Rule of 20 score of 19.5. This is slightly below Q3 results as contingent income has a disproportionate impact on profitability in the early quarters. Even with increasing wages and selling expenses, agents and brokers are projecting 2021 to be the highest performing year in the history of the GPS. Now, we wait and see if their optimism turns into reality.

Full-Year Rule of 20 Results



Source: Reagan Consulting Growth & Profitability Survey, Q4 results (2021 Projected)






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|  <p>Reagan serves as financial advisor to Holmes Murphy in its internal perpetuation planning</p> |  <p>Reagan serves as financial advisor to Horton in its internal perpetuation planning</p> |  <p>Reagan serves as financial advisor to Brown & Riding in its internal perpetuation planning</p> |  <p>Reagan serves as financial advisor to TrueNorth in its internal perpetuation planning</p> |  <p>Reagan serves as financial advisor to M3 Insurance in its internal perpetuation planning</p> |

... as well as those aligning with strategic partners.

| | | | | |
|--|---|---|---|---|
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|  <p>AHT INSURANCE</p> <p>Reagan served as financial advisor to Armfield, Harrison & Thomas in its sale to Baldwin Risk Partners</p> |  <p>Lipscomb & Pitts INSURANCE A HIGGINBOTHAM COMPANY</p> <p>Reagan served as financial advisor to Lipscomb & Pitts in its sale to Higginbotham</p> |  <p>TBM RISK ADVISORY INSURANCE</p> <p>Reagan served as financial advisor to TBM in its sale to Baldwin Risk Partners</p> |  <p>kpd. insurance RISK SOLUTIONS</p> <p>Reagan served as financial advisor to KPD in its sale to IMA</p> |  <p>Assurance</p> <p>Reagan served as financial advisor to Assurance in its sale to Marsh McLennan Agency</p> |



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