



The GPS Industry Snapshot | Q1 2022

9.3%	Median industry organic growth
8.0%	Projected year-end 2022 organic growth
33.0%	Median industry EBITDA margin
23.0%	Projected year-end 2022 EBITDA margin
11.5%	Median commercial lines organic growth
4.3%	Median personal lines organic growth
4.2%	Median group benefits organic growth

Stat of the Quarter

26.2

Median Rule of 20

Brokers posted the highest Rule of 20 score in survey history by nearly 4.5 points. This metric measures the combined impacts of organic growth and profitability on value creation. Record organic growth (9.3%) and EBITDA margin (33.0%) indicate that brokers are continuing to prosper as the calendar turns to 2022.

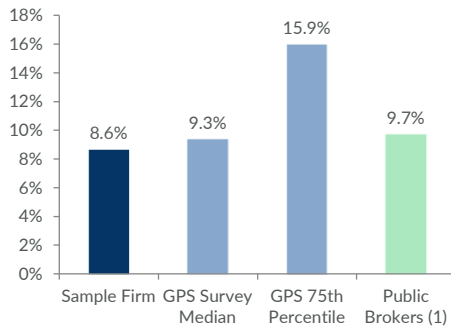
Reagan's GPS Survey is a real-time, quarterly look at the key drivers of value creation in the brokerage industry: organic growth and EBITDA margin. In Q1 2022, over 160 agencies participated in the GPS survey, with a median size of approximately \$14.7 million.



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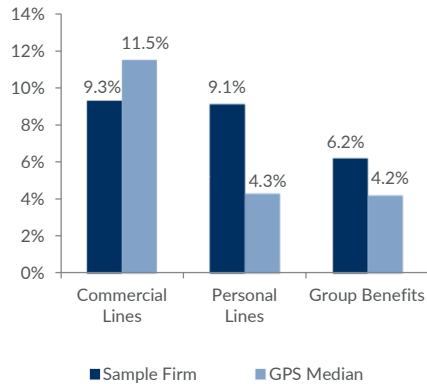
ORGANIC GROWTH

TOTAL AGENCY ORGANIC GROWTH

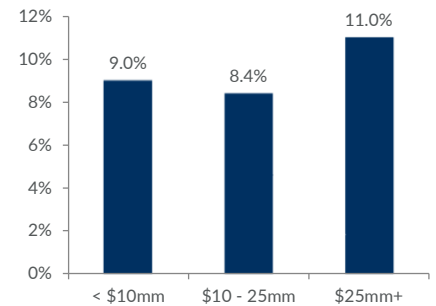


Your organic growth rank: **40th - 50th percentile**

ORGANIC GROWTH BY PRODUCT LINE

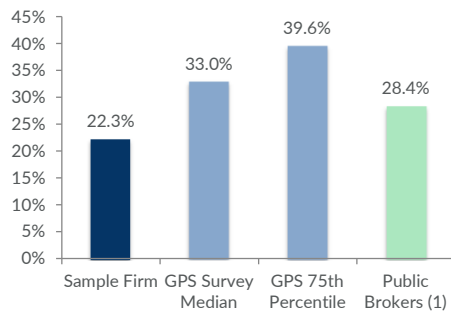


ORGANIC GROWTH BY SIZE CATEGORY



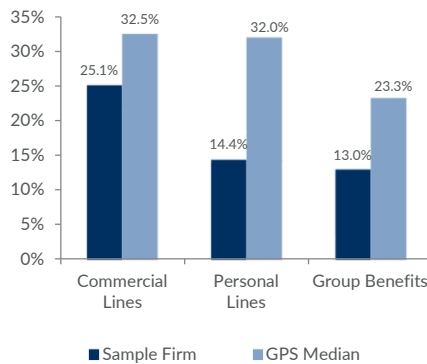
PROFITABILITY

TOTAL AGENCY EBITDA MARGIN

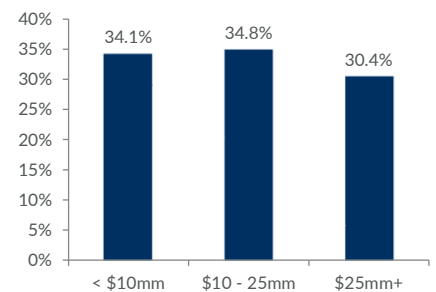


Your profitability rank: **10th - 20th percentile**

EBITDA MARGIN BY PRODUCT LINE

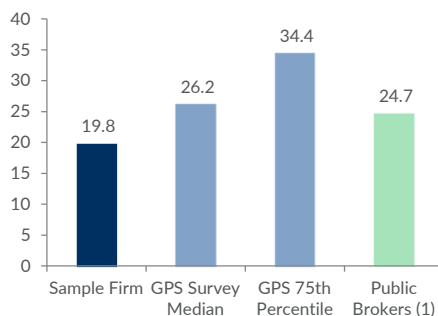


EBITDA MARGIN BY SIZE CATEGORY



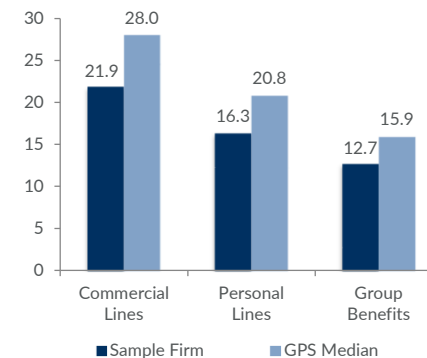
THE RULE OF 20

TOTAL AGENCY RULE OF 20

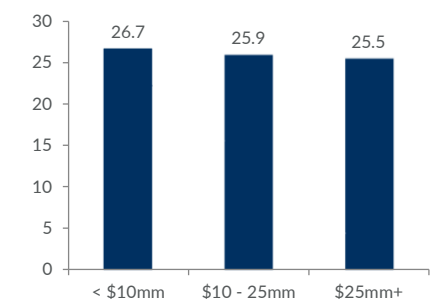


Your Rule of 20 rank: **30th - 40th percentile**

RULE OF 20 BY PRODUCT LINE



RULE OF 20 BY SIZE CATEGORY

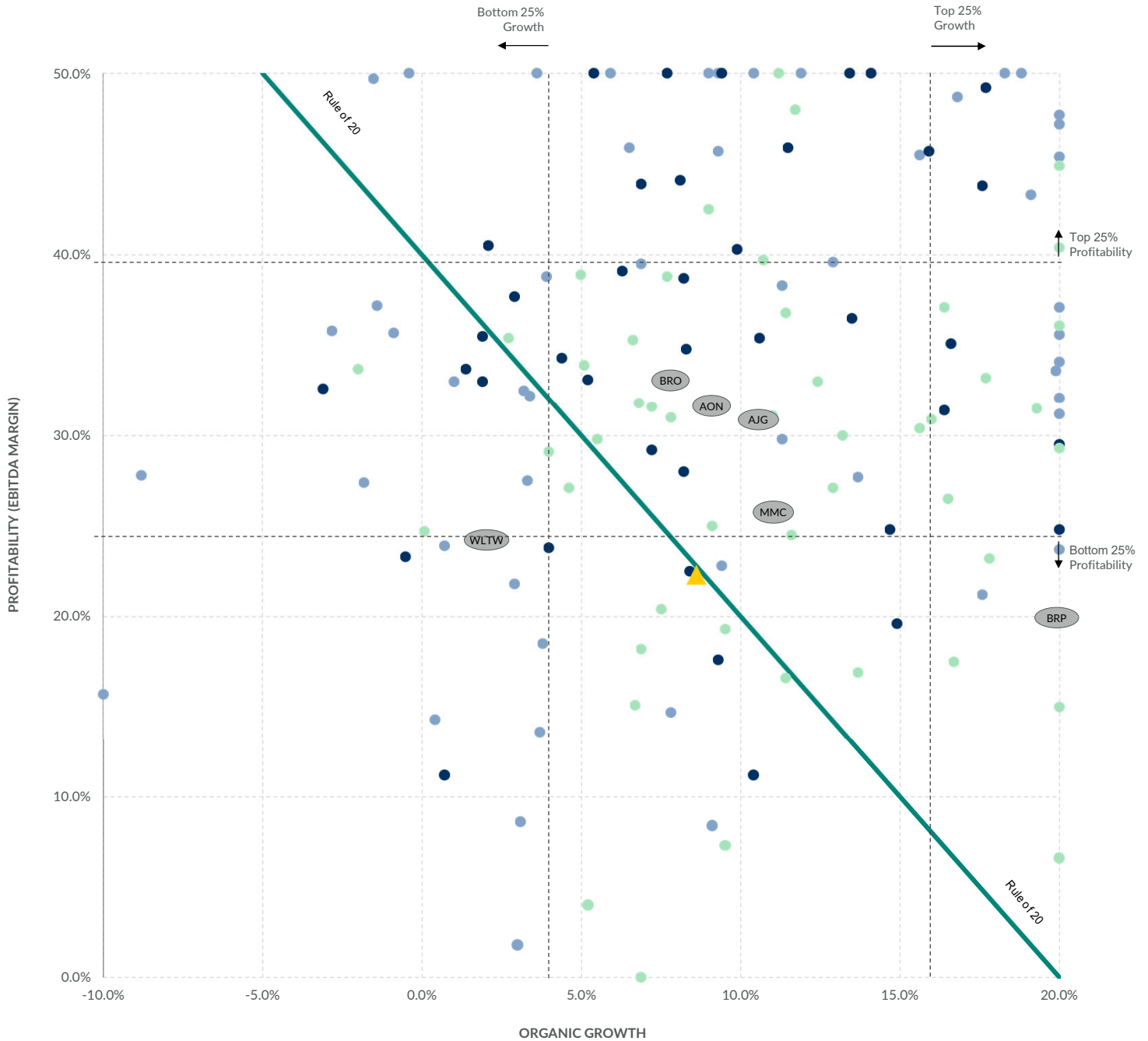


The Rule of 20

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 Sample Firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.

(1) Represents Q1 2022 results for AJG, AON, BRO, MMC and WLTW and Q4 2021 results for BRP.



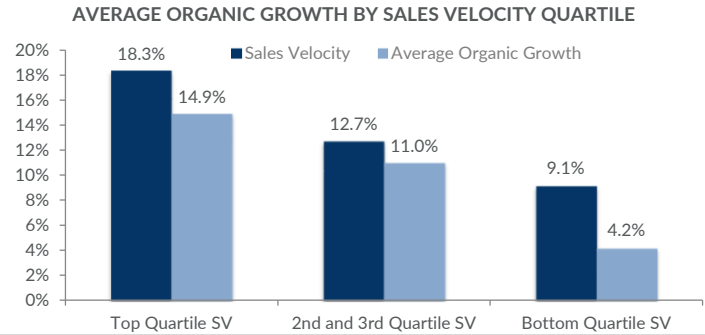
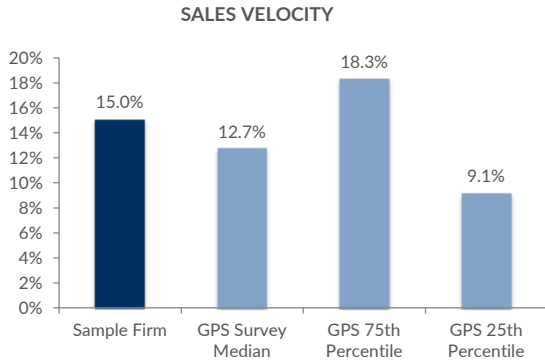
- Surveied firms with annual revenues less than \$10 million
- Surveied firms with annual revenues between \$10 and \$25 million
- Surveied firms with annual revenues greater than \$25 million
- ▲ Sample Firm
- Top and Bottom 25% of all firms
- Rule of 20 line (All points on this line indicate a Rule 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 Q1 2022 results for AJG, AON, BRO, MMC and WLTW and Q4 2021 results for BRP.

SALES VELOCITY

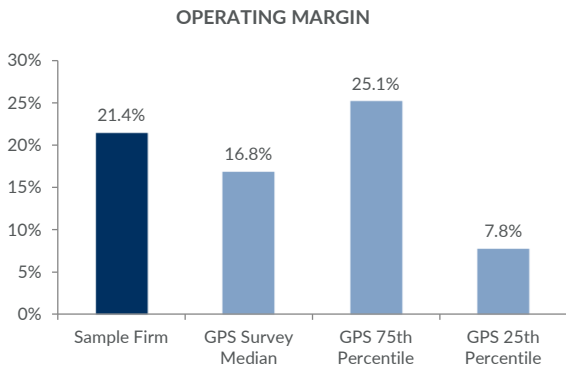


Sales Velocity

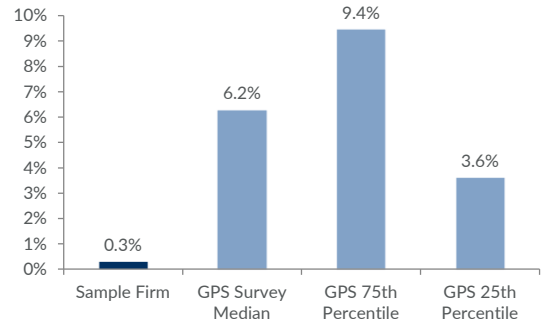
Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results. Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. The above graph shows average organic growth by sales velocity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

Your Sales Velocity rank: **60th - 70th percentile**

OPERATING MARGIN & CONTINGENT INCOME AS % OF REVENUE



CONTINGENT/BONUS/OVERRIDE INCOME AS A % OF REVENUE



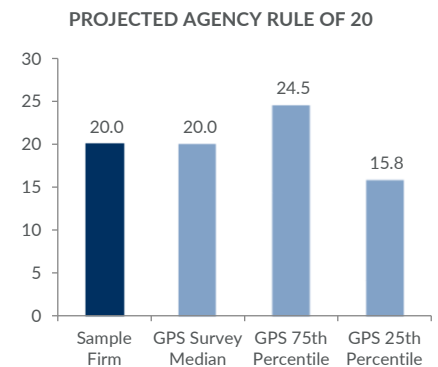
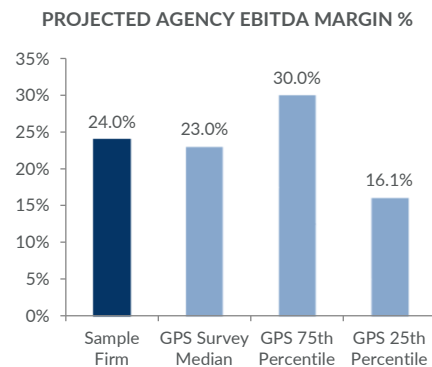
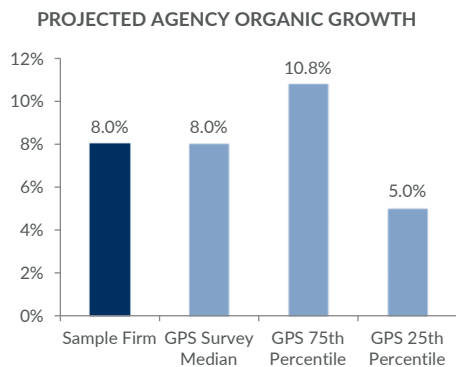
Your Operating Margin rank: **60th - 70th percentile**

Your Bonus Inc. as % of Revenue rank: **Bottom 10 percent**

Operating Margin

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

2022 PROJECTIONS

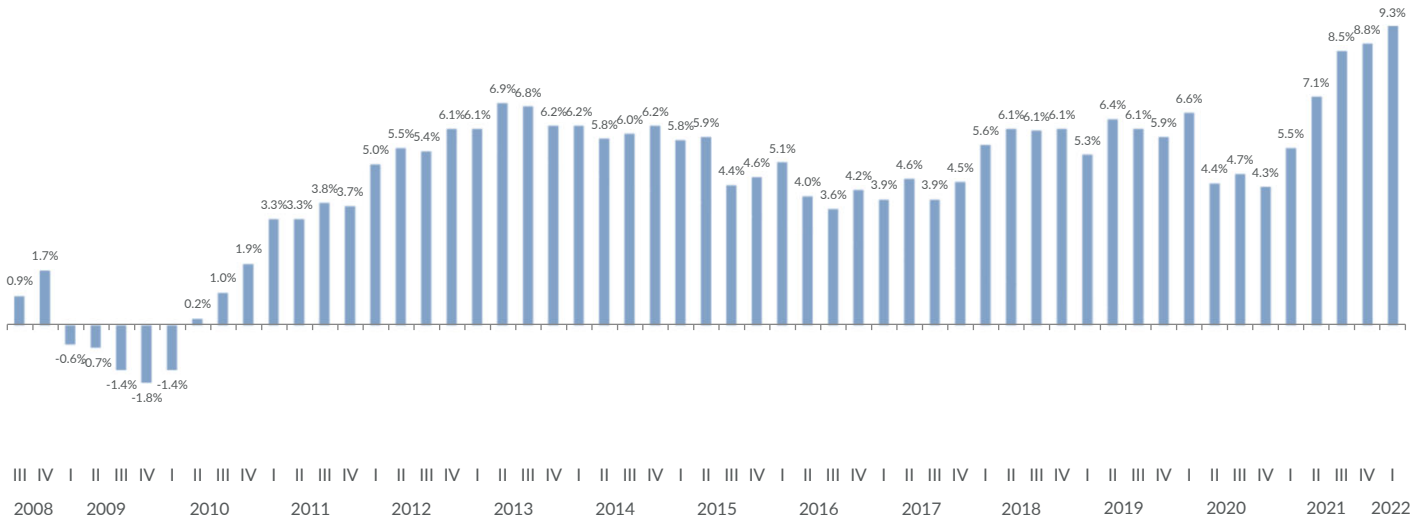


Your organic growth rank: **40th - 50th percentile**

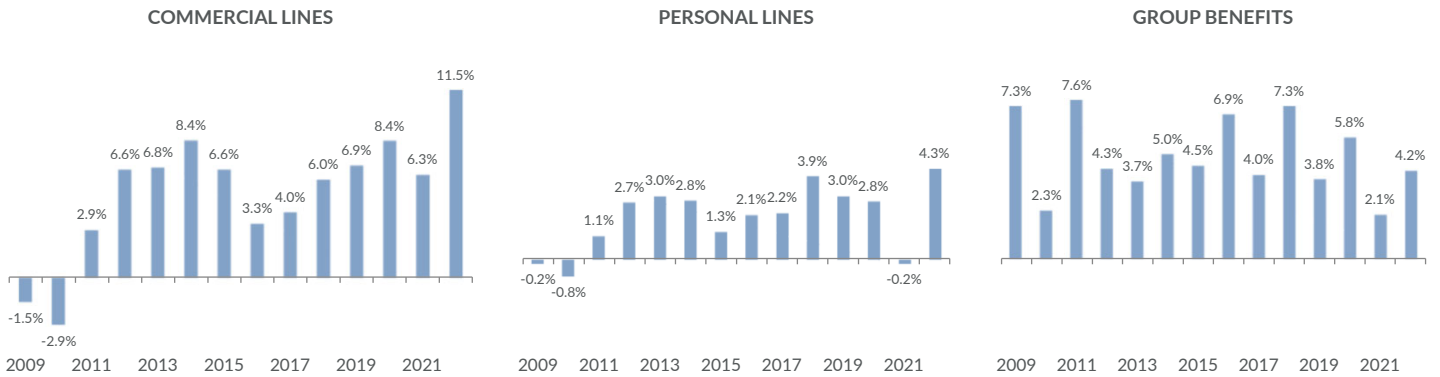
Your EBITDA margin rank: **50th - 60th percentile**

Your Rule of 20 rank: **40th - 50th percentile**

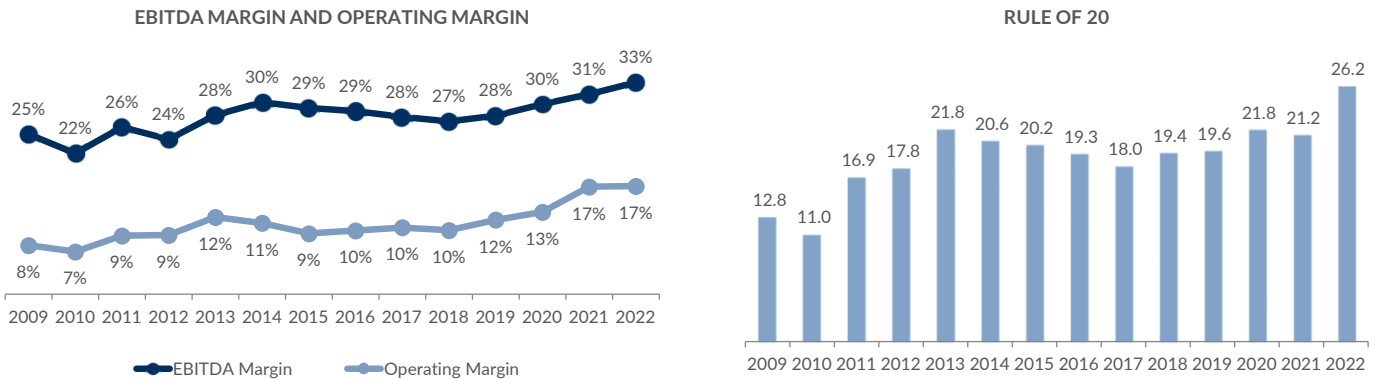
QUARTERLY ORGANIC GROWTH - TOTAL AGENCY MEDIAN
(Q3 2008 - PRESENT)



COMPARATIVE MEDIAN ORGANIC GROWTH BY PRODUCT LINE
(FIRST QUARTER NUMBERS, 2009 - 2022)



COMPARATIVE MEDIAN PROFITABILITY AND RULE OF 20 ANALYSIS
(FIRST QUARTER NUMBERS, 2009 - 2022)



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.



Record Performance Continues, But Warning Signs are Emerging

by Brian Deitz

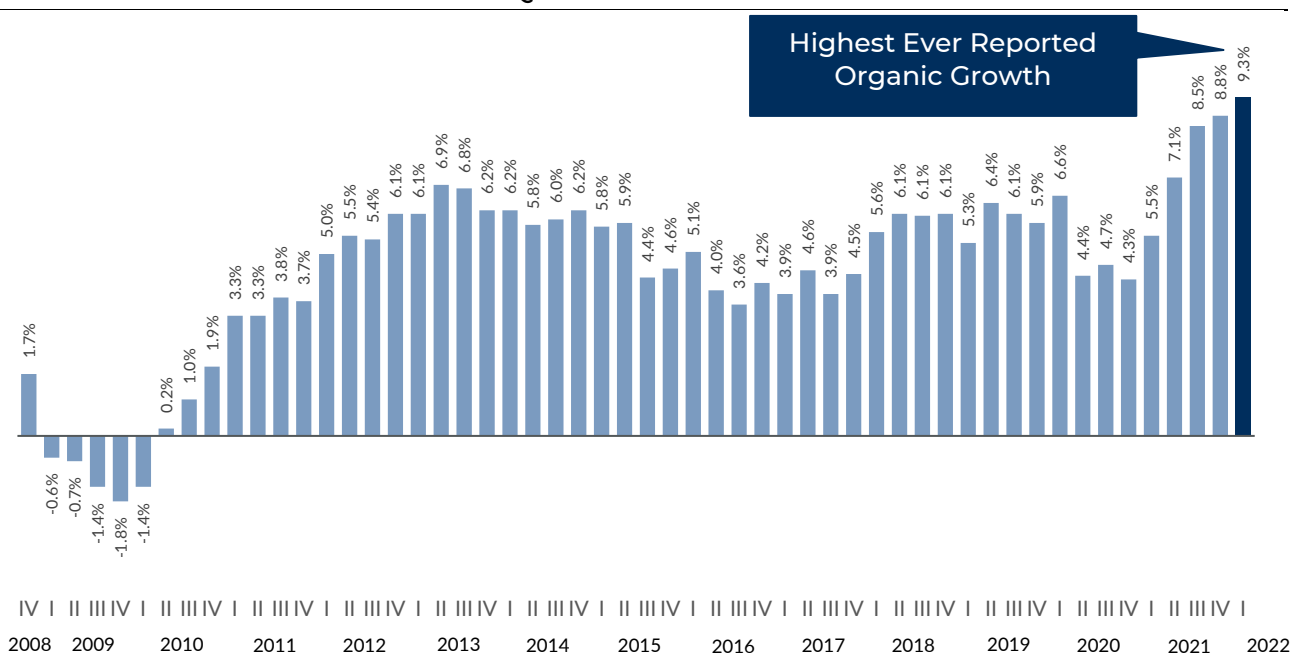
2022 has started off on the right foot for agents and brokers, continuing where the industry left off at the end of 2021. Median Q1 2022 organic growth for agents and brokers was 9.3%, the highest quarterly growth in the history of the GPS survey. The usual factors combined to generate this level of growth – a strong p-c rate environment and an economy continuing to grow. However, as the year unfolds, we’ve seen a few cautionary data points appear, such as inflation spiking, an inverted yield curve, war in Europe, and a declining Q1 2022 GDP. Are these negative storylines just noise, or will the record run come to an end in 2022?

Q1 2022 Performance

Organic Growth Sets Records

Q1 2022 represents the fourth quarter running that the industry has set a new organic growth record, starting with the 7.1% organic growth recorded in Q2 2021. Since then, every quarter has represented a new high. At 9.3%, Q1 2022’s median organic growth is 50 basis points higher than the previous record of 8.8% set just last quarter. The level of growth in the industry is remarkable. Consider this: 25% of Q1 participants grew organically at 15.9% or higher in Q1 2022.

Quarterly Organic Growth Q4 2008-Present



Source: Reagan Consulting Growth & Profitability Survey

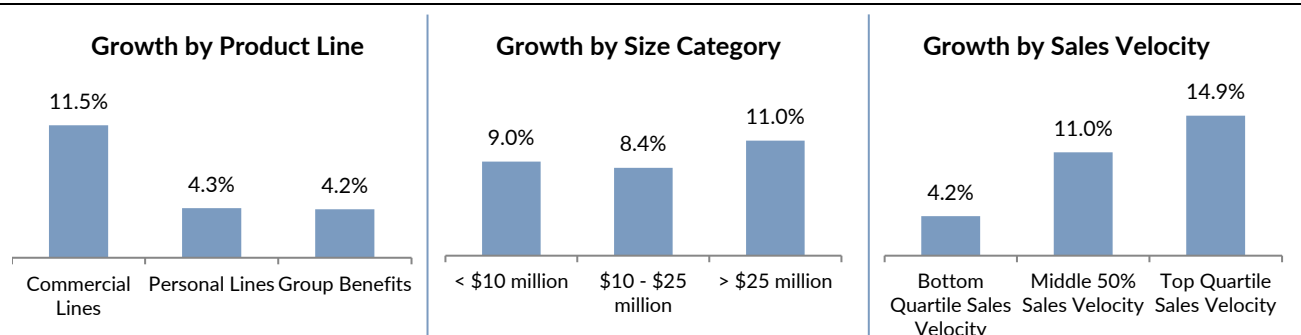
Breaking Down Q1 Organic Growth Performance

Product Line. Brokers continue to capitalize on the strong p-c rate environment. The hard market continues, especially within certain coverages, separating p-c growth from group benefits growth and driving Q1 commercial lines growth to 11.5%. This is the highest recorded commercial lines growth on record, topping Q4 2021's growth rate of 11.4%. Personal lines also saw a jump in organic growth to its second highest level ever at 4.3%, bested only by Q2 2018's growth rate of 4.6%. Group benefits, however, continues to lag historical highs and was actually the slowest-growing line of business in Q1 2022. The 4.2% organic growth reported for group benefits business isn't an all-time low, but is more of a middle-of-the-road result over the last ten years. While labor market statistics were generally positive in Q1, group benefits operations aren't benefitting from a p-c-like rate environment.

Firm size. Larger firms grew faster in Q1 2022, continuing a trend we've seen for several years. Firms over \$25 million grew at 11.0% organically, which was 2.0%-2.6% above the smaller size categories. We've previously attributed this advantage to larger firms having a greater exposure to the fastest-rising coverages (cyber, management liability, etc.). While this may be true, larger firms also recorded a sales velocity edge in Q1 2022. Firms over \$25 million reported a median sales velocity of 14.9% in Q1 2022, versus 10.6% for firms between \$10 - \$25 million and 11.5% for firms under \$10 million.

Sales velocity. With the economy and rate environment lifting all agents and brokers, new business written was the variable that separated the high performers from those purely riding the market wave. Firms in the top quartile of sales velocity grew organically at 14.9% in Q1, versus an organic growth rate of only 4.2% for those firms in the bottom quartile of sales velocity.

Q1 2022 Organic Growth Breakdowns

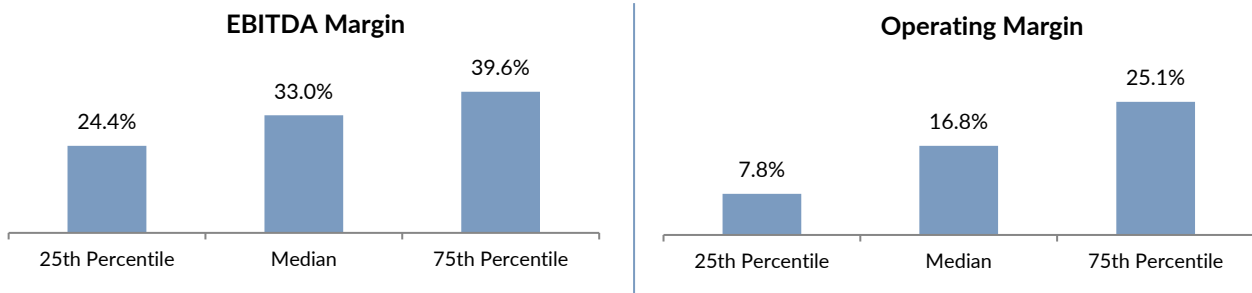


Sources: Reagan Consulting Growth & Profitability Survey, Q1 2022

Profitability Also Setting Records

Brokers aren't just growing at a record pace, they are returning dollars to the bottom line at record levels. Both EBITDA margin and operating margin were at high-water marks in Q1 2022. However, the story here is one of contingent income growth rather than strong revenue growth allowing brokers to leverage cost structures and expand margins. EBITDA margins expanded faster than operating margins as brokers took advantage of increased contingent income levels. Median contingent income growth in Q1 2022 was 18%, an incredible increase that generally drops straight to the bottom line for agents and brokers. Operating margins were only up 10 basis points year over year as brokers returned to more pre-pandemic levels of selling expenses versus well below-average spend in these areas in Q1 2021.

Q1 2022 Profitability Metrics



Source: Reagan Consulting Growth and Profitability Survey, Q1 2022 results

Real Storm Clouds or False Alarms?

Brokers are enjoying an incredible run of growth and profitability right now. When you are setting records as an industry every quarter, it is hard not to enjoy it. But Q1 also gave us some warning signs alongside the records. Specifically, there were economic and global signals that the environment buoying our industry’s performance is not permanent.

The first warning sign was war, as Russia invaded Ukraine on February 24, 2022. The conflict in Europe ignited concerns across the globe. Would the war spread? Would supply chains and energy supplies be affected? Would markets stumble? While some concerns have proved founded, the conflict has been largely contained to date and markets rebounded quickly from the initial decline. Should the invasion remain confined to Ukraine – and potentially resolve earlier than expected – this may be more of a reminder of the global nature of our business than a long-term impactor of agency performance.

The second warning sign was an inverted yield curve, which happened in late March / early April. An inverted yield curve is the term used to describe the phenomenon where longer-term bond yields are lower than shorter-term yields, as was the case when the yield on the 2-year treasury bill exceeded the yield on the 10-year treasury. This inversion signals instability in the bond market and is generally an indicator of a recession within the next two years.

The third warning sign was delivered in early April, when it was reported that US inflation reached 8.5%, the highest level in 40 years. Inflation had been climbing steadily, but the increase in March was the largest over the past year and a wake-up call for the markets. Inflation will put pressure on the expense structures of agents and brokers, but may also drive revenues higher due to increased premiums.

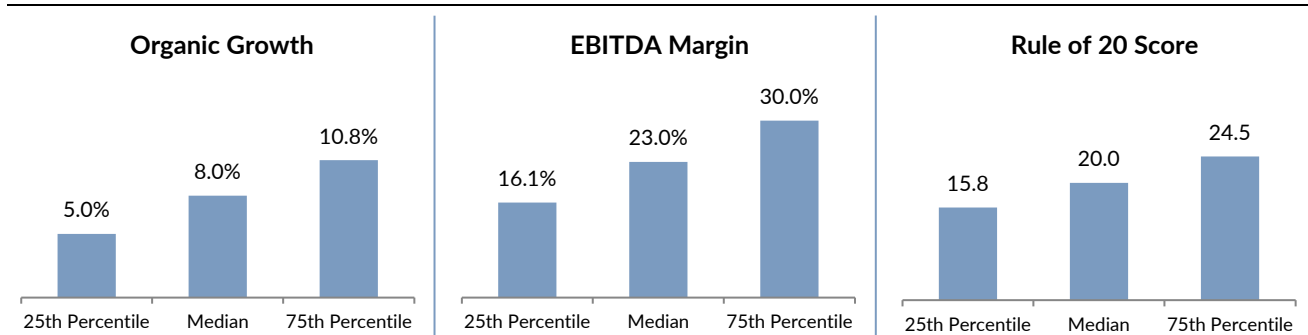
The final cloud on the horizon was the biggest, and really a reflection of the first three. In late April, the US Commerce Department reported that GDP declined by 1.4% in Q1 2022. This was an unexpected report and left economists wondering whether a recession was coming or whether it was an unfortunate but non-recurring decline. For agents and brokers, GDP growth has been a huge driver of growth. Because economic results are generally reflected in agent and broker performance roughly six months or so in arrears, our industry’s strong Q1 performance is likely still being influenced by

2021's 5.7% GDP increase. We likely won't see the effects of an economic decline in Q1 until later this year.

Looking Forward

Agents and brokers do not seem overly concerned about these economic clouds on the horizon. GPS brokers are projecting full-year 2022 organic growth of 8.0%, which would be the second-highest full-year growth in GPS history. From a profitability standpoint, brokers are projecting a full-year EBITDA margin of 23.0%, which would be the highest on record. And median projected 2022 Rule of 20 scores are projected to meet 20.0 for the second consecutive year. As the year progresses, we'll find out for sure if any of these warning signs have real teeth or if the run of record performance will continue.

2022 Full-Year Projections



Sources: Reagan Consulting Growth & Profitability Survey, Q1 2022

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