



The GPS Industry Snapshot | Q3 2022

9.5%	Median industry organic growth
9.3%	Projected year-end 2022 organic growth
25.0%	Median industry EBITDA margin
22.0%	Projected year-end 2022 EBITDA margin
11.8%	Median commercial lines organic growth
5.9%	Median personal lines organic growth
5.8%	Median group benefits organic growth

Stat of the Quarter

5.9%

Median personal lines organic growth

Brokers posted the highest personal lines organic growth rate in survey history for the second consecutive quarter. Prior to Q2 2022 (5.5%), brokers had never reported personal lines organic growth in excess of 5%.

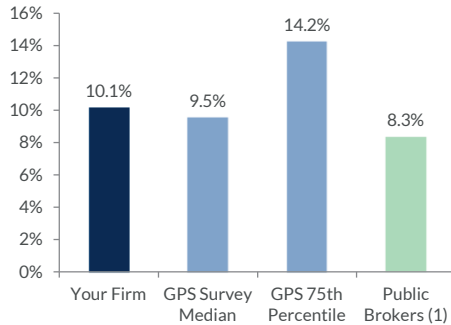
Reagan's Growth & Profitability Survey is a real-time, quarterly look at the key drivers of value creation in the brokerage industry: organic growth and EBITDA margin. In Q3 2022, approximately 140 agencies participated in the GPS, with median annual revenues of approximately \$18.9 million.



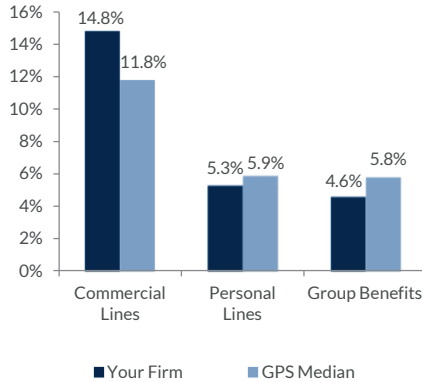
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ORGANIC GROWTH

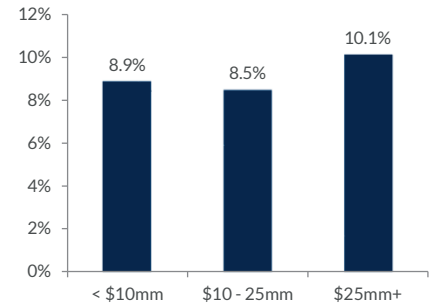
TOTAL AGENCY ORGANIC GROWTH



ORGANIC GROWTH BY PRODUCT LINE



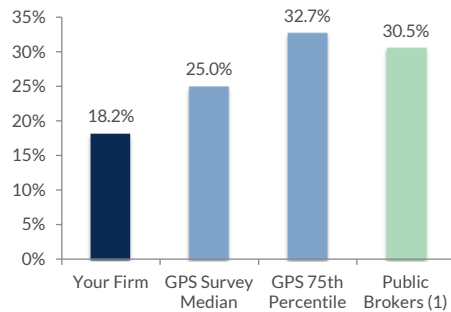
ORGANIC GROWTH BY SIZE CATEGORY



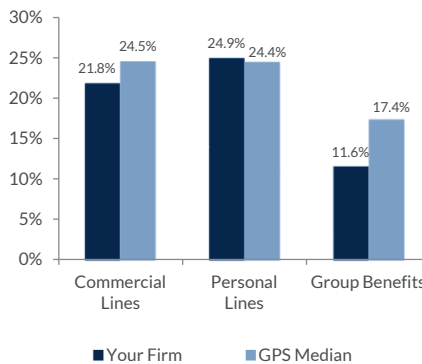
Your organic growth rank: **50th - 60th percentile**

PROFITABILITY

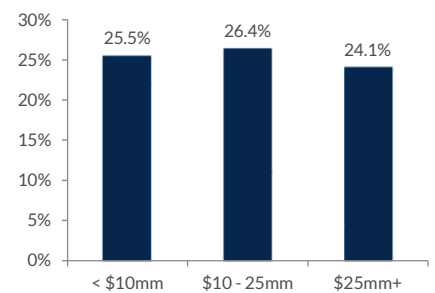
TOTAL AGENCY EBITDA MARGIN



EBITDA MARGIN BY PRODUCT LINE



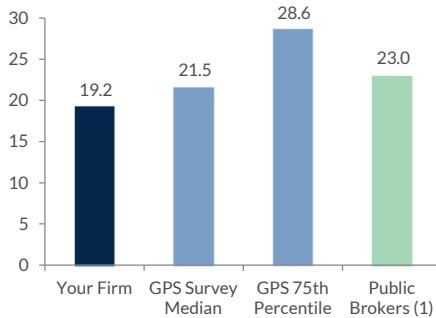
EBITDA MARGIN BY SIZE CATEGORY



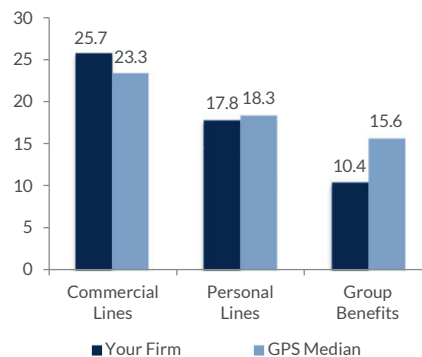
Your profitability rank: **10th - 20th percentile**

THE RULE OF 20

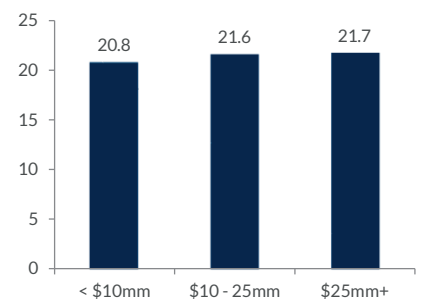
TOTAL AGENCY RULE OF 20



RULE OF 20 BY PRODUCT LINE



RULE OF 20 BY SIZE CATEGORY



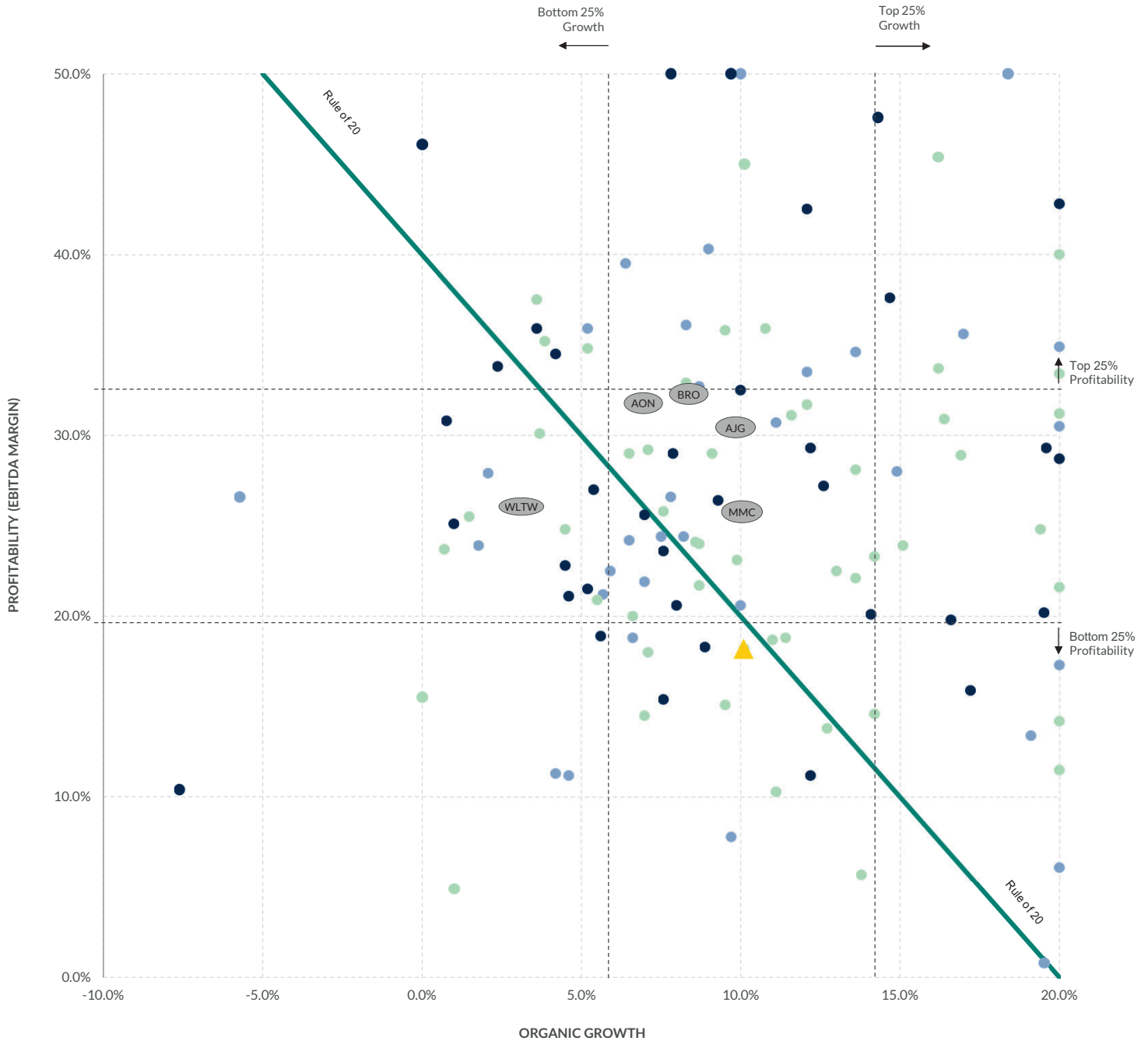
Your Rule of 20 rank: **30th - 40th percentile**

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 2022 results for AJG, AON, BRO, MMC and WLTW.



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

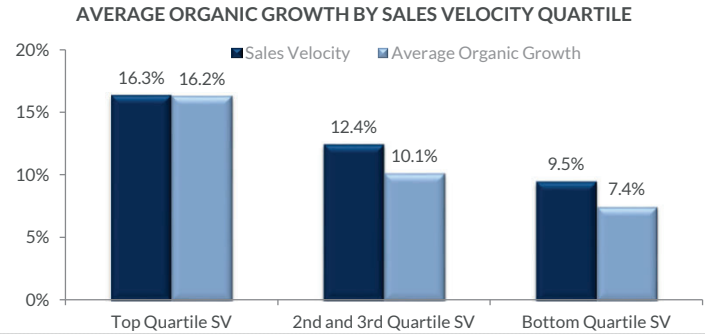
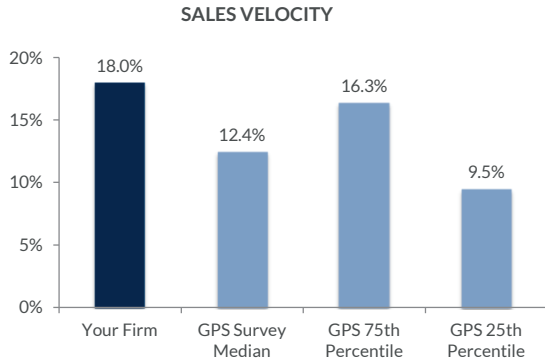
- ▲ Your Firm
- Top and Bottom 25% of all firms
- Rule of 20 line (All points on this line indicate a Rule of 20 score of 20)

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 2022 results for AJG, AON, BRO, MMC and WLTW.

SALES VELOCITY

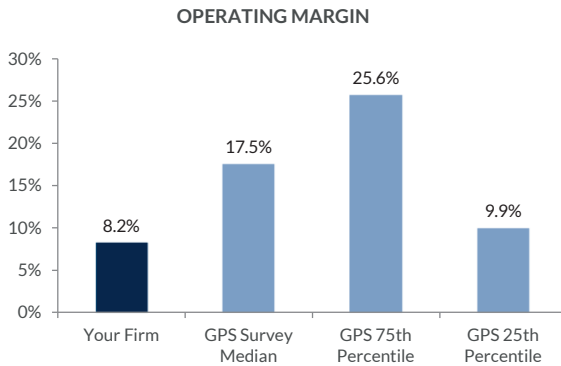


Sales Velocity

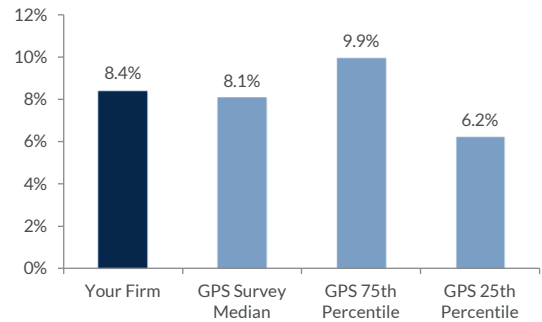
Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results. Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. The above graph shows average organic growth by sales velocity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



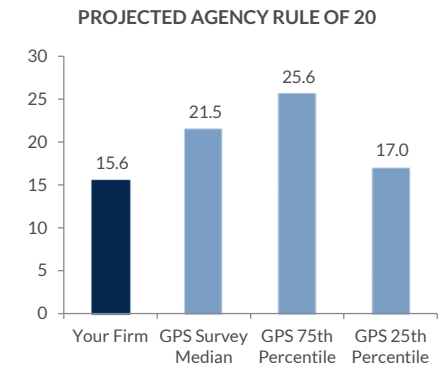
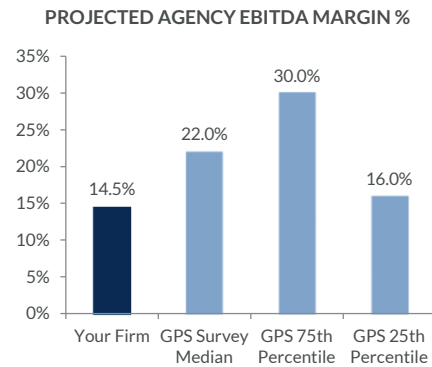
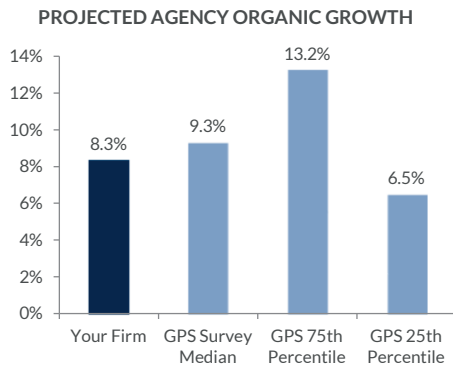
Your Operating Margin rank: 10th - 20th percentile

Your Bonus Inc. as % of Revenue rank: 50th - 60th percentile

Operating Margin

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

2022 PROJECTIONS

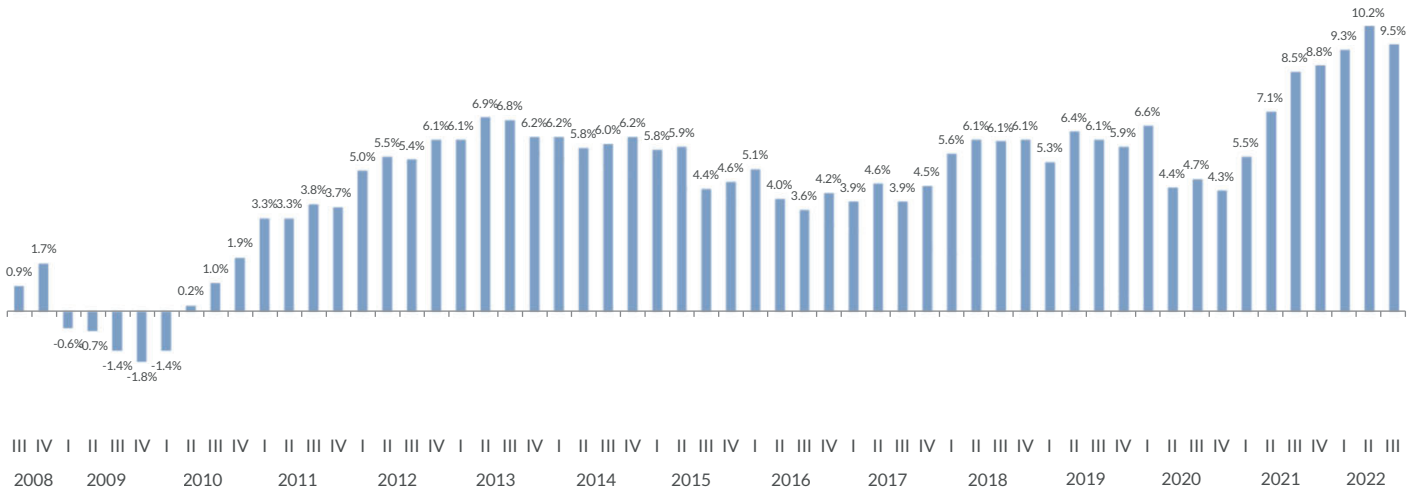


Your organic growth rank: 40th - 50th percentile

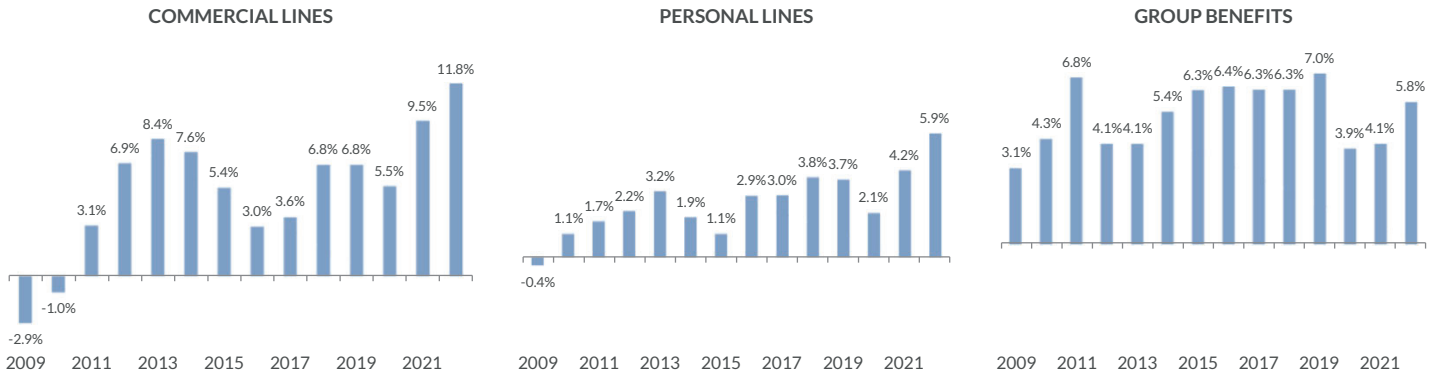
Your EBITDA margin rank: 10th - 20th percentile

Your Rule of 20 rank: 10th - 20th percentile

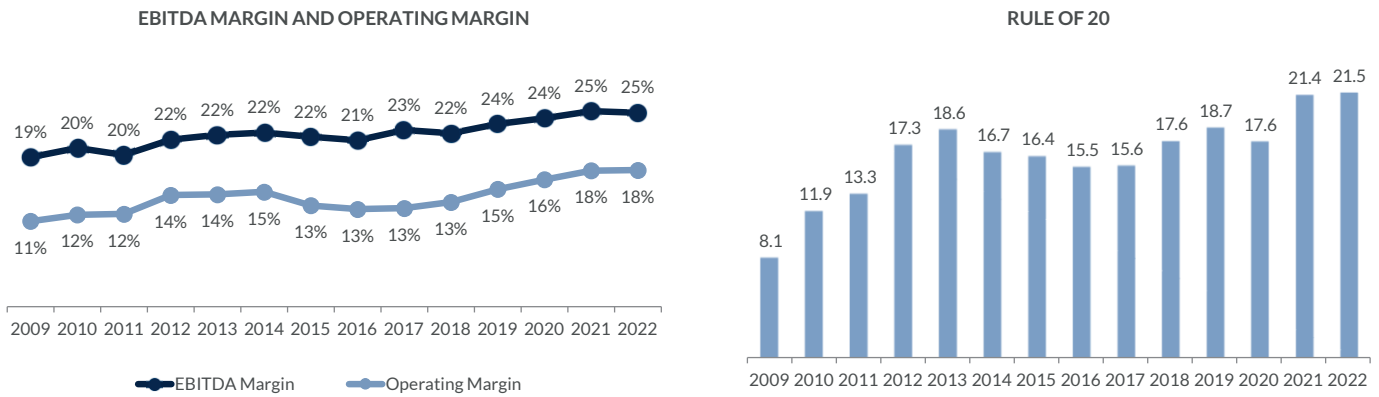
QUARTERLY ORGANIC GROWTH - TOTAL AGENCY MEDIAN
(Q4 2008 - PRESENT)



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



COMPARATIVE MEDIAN PROFITABILITY AND RULE OF 20 ANALYSIS
(THIRD 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.



A Decelerating Growth Trend... A Sign of Things to Come?

by Mark Crites

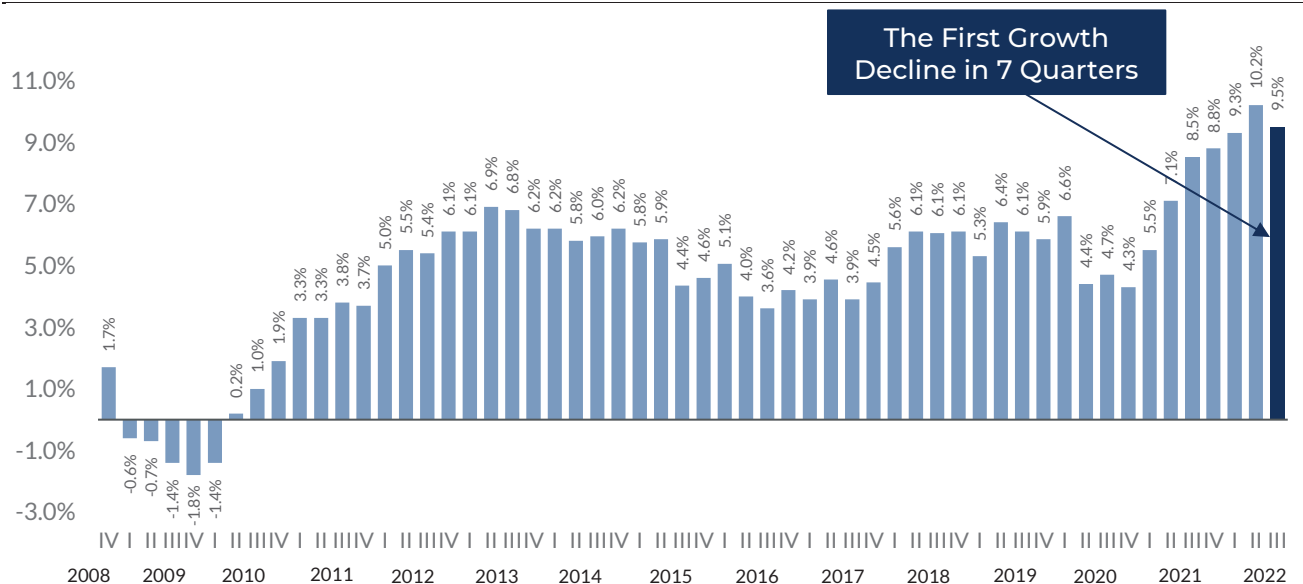
Market Uncertainty Looms

Significant recent events have made market uncertainty the norm in 2022. First, it was the Russia-Ukraine war that escalated in February 2022 and sent markets into a tailspin. Then, inflation hit its highest level in 40 years in early April at 8.5%.¹ In response, the Federal Reserve has increased short-term borrowing rates by 75 basis points four times in 2022 (so far). The rate increases have fueled market volatility and a stagnated economy with mid-term elections up next. Has this market uncertainty impacted agents and brokers? Well, not yet. While the insurance industry generally lags the broader market, for the time being, agents and brokers continue to march forward at a blistering pace.

Q3 2022 Organic Growth Still at Record Levels

For the first time since Q1 2021, agents and brokers did not set a new organic growth record. However, the median Q3 2022 organic growth for agents and brokers was 9.5%, the second highest quarterly growth rate in the history of the GPS survey and just 0.7% behind the previous quarter. This deceleration could be a sign of the economic realities beginning to impact the industry. However, the positive P&C rate environment and increased exposures driven by inflationary trends will help agents and brokers counterbalance any market pressures.

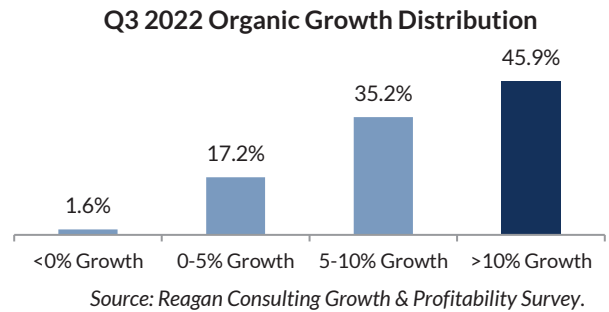
Quarterly Organic Growth Q4 2008-Present



Source: Reagan Consulting Growth & Profitability Survey.

(1) Source: Bureau of Labor Statistics.

Consider these growth metrics in Q3: over 45% of survey respondents posted double digit organic growth and over 81% of respondents posted organic growth over 5%. On the other hand, only 1.6% of respondents published negative results, which is the lowest percent of respondents of any quarter in GPS history. This result is particularly impressive in light of current market uncertainty.



Breaking Down Q3 Organic Growth Performance

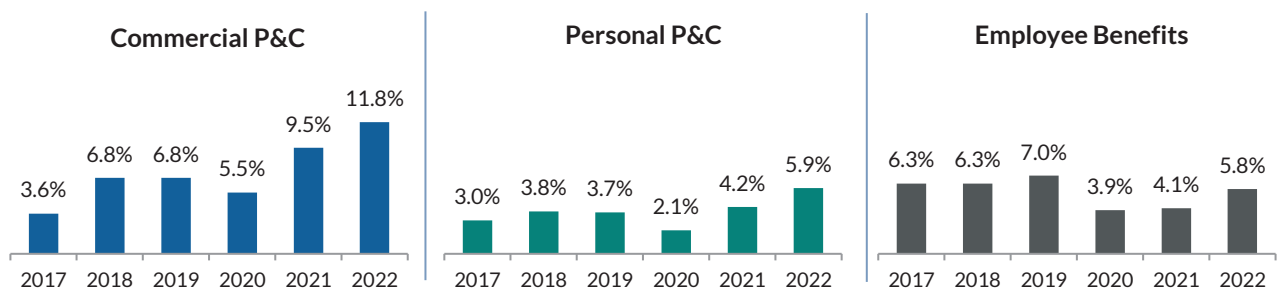
It is no secret that Commercial Lines has led the way for agents and brokers during this record growth spurt since the beginning of 2021. It seems as if Personal Lines and Group Benefits have both taken a back seat as of late. However, in Q3, both Personal Lines and Group Benefits outpaced prior quarter growth (Q2 2022) and the same period last year (Q3 2021). Will the next few quarters see a more balanced attack? Let's take an in-depth look at each line.

Commercial Lines While Commercial Lines did not reach the peak it saw in Q2 at 12.2%, it still posted its highest Q3 growth rate on record of 11.8%, double the pace of the two other primary lines of business. The most significant growth contributor continues to be the strong P&C rate environment. While Q3 2022 P&C pricing results are not yet published by the CIAB, our clients continue to see strong rate increases on major commercial renewals (especially in commercial auto, cyber and professional lines) and anticipate the 20th consecutive quarterly increase of P&C premium pricing.

Personal Lines Personal Lines set another record in Q3, posting its highest quarterly growth rate of 5.9% vs. 5.5% in Q2 2022 and 4.2% in Q3 2021. After a COVID-19 lull when clients were more focused on bottom-line protection, Personal Lines has outperformed historical norms and become a differentiator for many agents and brokers seeking to round out accounts and create a stickier client relationship. Expect the heightened focus here to continue.

Group Benefits Group Benefits has bounced back in a big way in 2022 posting 5.8% growth in Q3 vs. 5.6% in Q2 2022 and 4.1% in Q3 2021. Looking back, from 2015-2019, Group Benefits was the most consistent line of business. That all changed when COVID-19 arrived. Now, as executives and HR leaders are focused on making their workplace a desirable destination, a competitive employee benefits package is table stakes. Expect Group Benefits to continue to improve.

Q3 Organic Growth by Line of Business

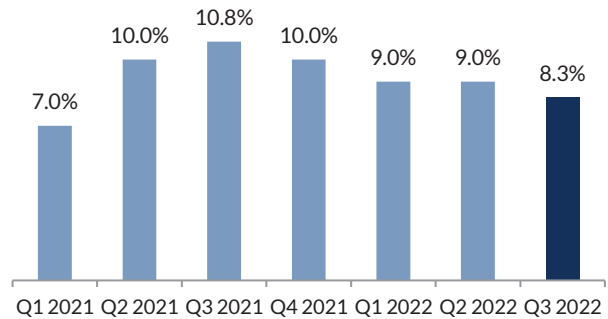


Source: Reagan Consulting Growth and Profitability Survey, Q3 results.

Public Brokers...An Early Indicator?

The decelerating growth trend is not only impacting independent agents and brokers. Public brokers generated median organic growth of 8.3% during Q3, down from 9.0% in Q2 and 10.8% in Q3 2021. Interestingly, this trend started much earlier for the public brokers (in Q4 2021). We surmise that this is due to the public brokers' significant geographic reach and larger clients that are impacted more rapidly by economic swings. The public broker performance trend could be a precursor of what is to come for GPS firms.

Public Broker Median Organic Growth (YTD Period)

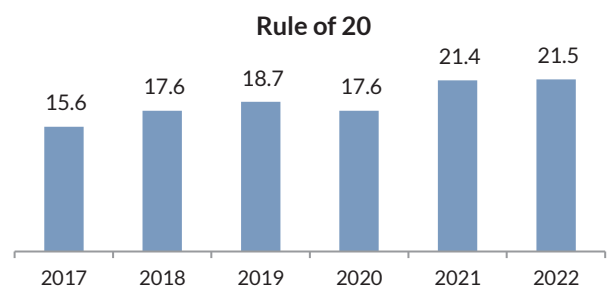
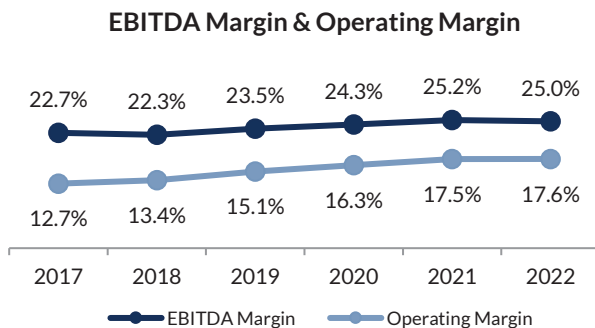


Source: Public Filings (includes AJG, AON, BRO, MMC, WLTW).

Profitability Remains Steady

Organic growth is the most significant driver of profitability. As growth goes, profitability generally follows. Like the growth story, EBITDA margins contracted slightly in Q3 2022 to 25.0% from 25.2% a year ago. However, operating margins (which exclude contingent/bonus income from carriers) notched 0.1% higher from 17.5% in Q3 2021 to 17.6% in Q3 2022, a new Q3 record. The improvement in operating margin signals that agents and brokers are watching expenses carefully even as travel and entertainment spending approaches pre-pandemic levels.

Q3 Profitability Metrics (2017-2022)



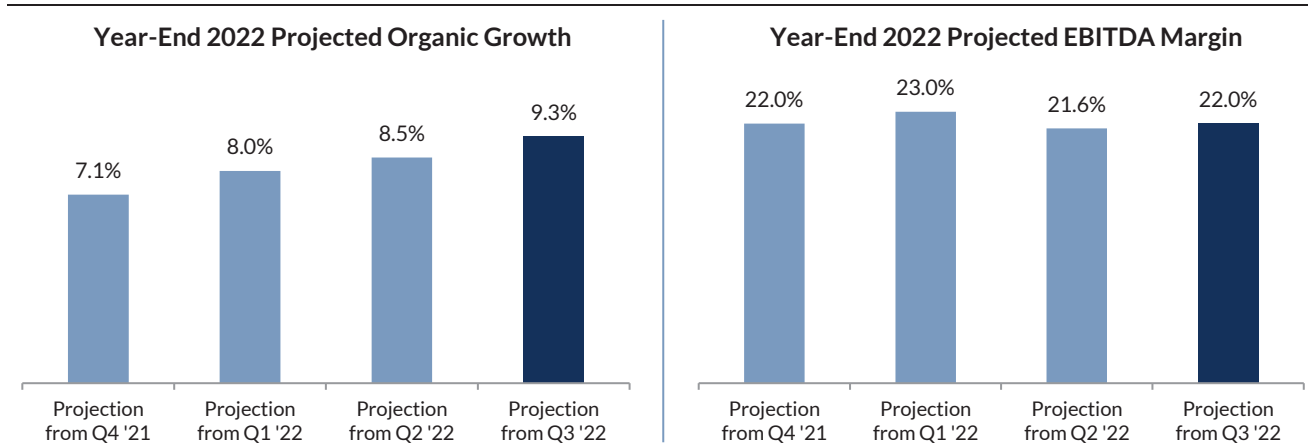
Source: Reagan Consulting Growth and Profitability Survey, Q3 results.

With strong organic growth and steady profitability (at historically high levels), the median Rule of 20 metric (calculated by adding organic growth rate to one-half of an agency's EBITDA margin) reached 21.5, the highest Q3 score ever recorded. While this figure would typically decline in Q4 since EBITDA margins are inflated during the first three quarters of the year by contingent/bonus income, GPS firms are projecting a full-year 2022 Rule of 20 score of 21.5, consistent with actual results through Q3. For context, 2021 is the only year in the history of the survey when GPS firms achieved a score of 20 (20.6 in 2021).

What Happens Next?

In each of the last four quarters, agents and brokers have improved their year-end organic growth estimates from 7.1% in Q4 2021 to 9.3% at the end of Q3. If 9.3% organic growth is achieved, agents and brokers would post the single highest organic growth rate for a full-year since the beginning of the GPS survey in 2008, outpacing last year's record of 8.8%. Brokers have not been quite as optimistic about profitability. However, a 22.0% projected EBITDA margin would be the third highest full-year EBITDA margin on record (trailing only 2021 at 22.6%, and 2020 at 22.4%).

Year-End 2022 Projections




What is hard to fathom is that agents and brokers may post their best year ever in 2022 (after a record setting 2021) in the face of significant market headwinds including global unrest, staggering inflation, rising interest rates and relatively low GDP growth. While we need to keep an eye out for decelerating growth trends as we enter 2023, agents and brokers continue to prove that they can thrive during uncertain times.

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Reagan serves as financial advisor to M3 Insurance in its internal perpetuation planning



Reagan advised on the recent merger and serves as advisor on internal perpetuation planning to Sterling Seacrest Pritchard



Reagan serves as financial advisor to Holmes Murphy in its internal perpetuation planning



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Reagan served as financial advisor to York in its sale to IMA



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