

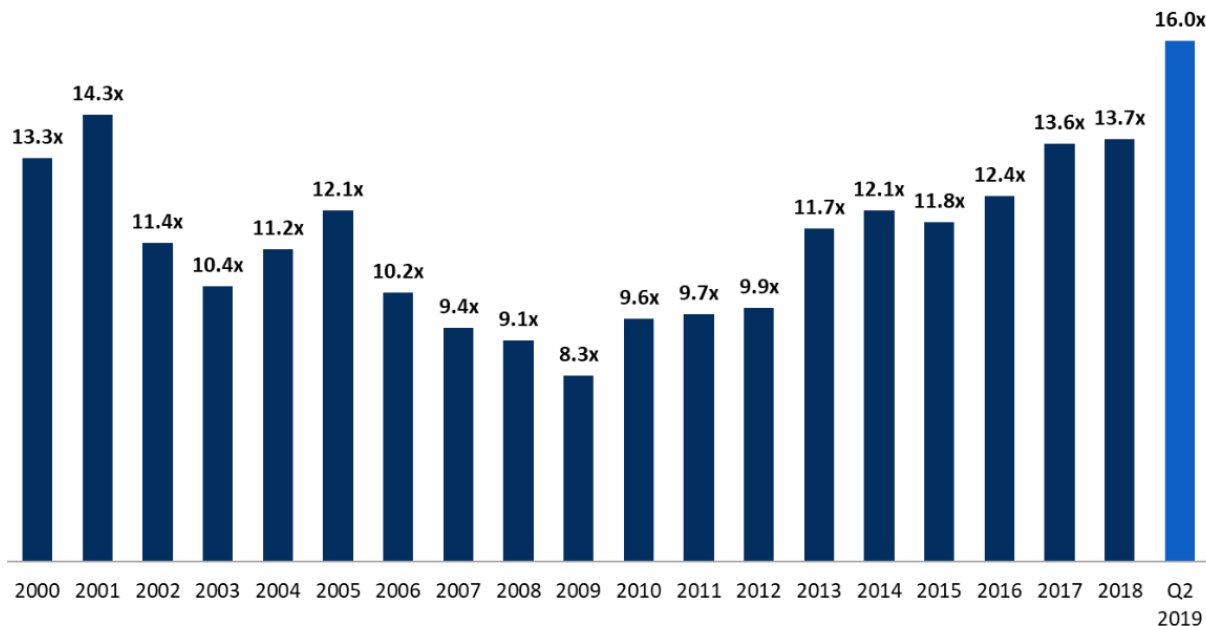
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Public Broker Valuations are Staggering

We may have to start thinking about valuation differently. Based on June 30, 2019 stock prices, the average public broker valuation is 16.0 x EBITDA. These are never-before-seen valuations for the group of five publicly traded brokers (Aon, Arthur J. Gallagher, Brown & Brown, Marsh & McLennan and Willis Towers Watson). In fact, public broker valuations, as a multiple of EBITDA, are now 60% higher than they were in 2012 and nearly double the financial crisis valuations of 2009. Even in the hard markets of the early 2000s brokers did not reach these elevated valuations.

Public Broker Valuations (Multiple of EBITDA)



Source: Public Broker SEC Filings

Note: Stock prices and financial data updated for all public brokers as of June 30, 2019.

The multiples above also do not include Goosehead, a personal lines insurance agency that went public in the spring of 2018. Based in Texas, Goosehead has both a traditional model and also a franchise model and is using both to drive rapid growth. In case you haven't followed the Goosehead story, the company has revenue of approximately \$75 million and adjusted EBITDA of approximately \$20 million in the twelve months ending June 2019. It has a market capitalization of approximately \$680 million. Goosehead is trading at well over 30 x EBITDA.

It appears that investor demand for insurance brokers is insatiable at the moment. Private equity has poured billions of dollars into brokers over the past several years. Lenders are offering cash flow loans to agents and brokers in never before seen volumes. And now publicly traded brokers are valued at 16.0 x EBITDA – or more.

It remains to be seen whether these valuations will be sustained. But if they are, there will likely be several trickle-down implications for the industry:

- Private equity-backed brokers often value themselves using public broker multiples, so recent trends, if continued, would also lead to enhanced valuations for PE-backed firms

brokers) demonstrate higher sustainable multiples, they will be able to increase the multiples they are paying in acquisitions – potentially leading to an even more aggressive M&A marketplace

- The market conditions that are driving public broker valuations higher (investor demand, organic growth, tax rate changes, etc.) will also influence internal valuations, pushing them higher as well.

The equity markets are traditionally volatile in August. We're eager to see Q3 public broker valuations in a couple of months to begin assessing whether these Q2 multiples are a quick pop or a new paradigm.

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