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May 18, 2022

Where is our industry heading?

To our friends and clients,

This month, Reagan Consulting hosted the 2022 Reagan Summit in Atlanta. The Summit set a new attendance record, with over 210 industry leaders representing 135 brokerages, including 55 of the industry's 100 largest brokers. The feedback from attendees was overwhelmingly positive with several attendees commenting that it was the best industry event they've ever attended.

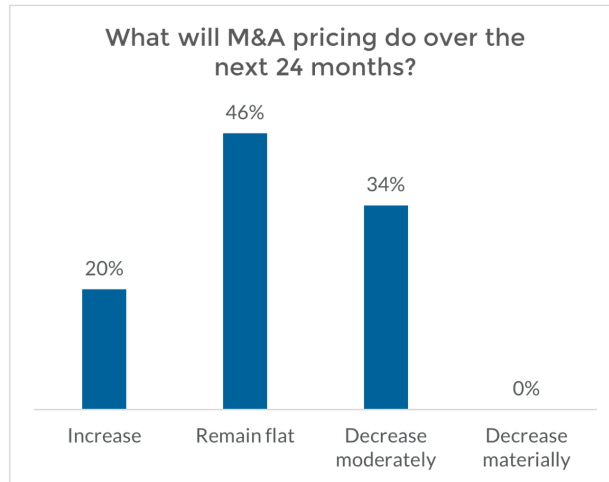
The goal of the Summit is simple – to be the best face-to-face idea-exchange our industry has to offer. The Reagan team shared cutting-edge perspectives, facilitated conversations with several of the industry's most successful players, and was also joined by a handful of outside speakers including Simon Sinek, who shared relevant lessons from his most recent *New York Times* best-seller, [The Infinite Game](#).

In addition to the open exchange of ideas, Reagan gathered perspectives from the entire group through polling technology. This provided some surprising take-aways.

Agency Valuations

The escalation of agency valuations over the past decade is unprecedented. Agency valuation multiples of EBITDA have doubled. Today's valuations are at all-time highs, driven by a combination of strong agency performance, supply-demand dynamics, and macro-economic tailwinds. But with headwinds recently developing, including a potential recession for the U.S. economy, rising inflation and interest rates and predictions of the end of the recent hardening P&C market, industry observers can't help but wonder if valuations will now decline.

months. To our surprise only one-third of attendees believe valuations will decrease. In fact, 20% of attendees believe valuations will actually increase beyond today's levels.

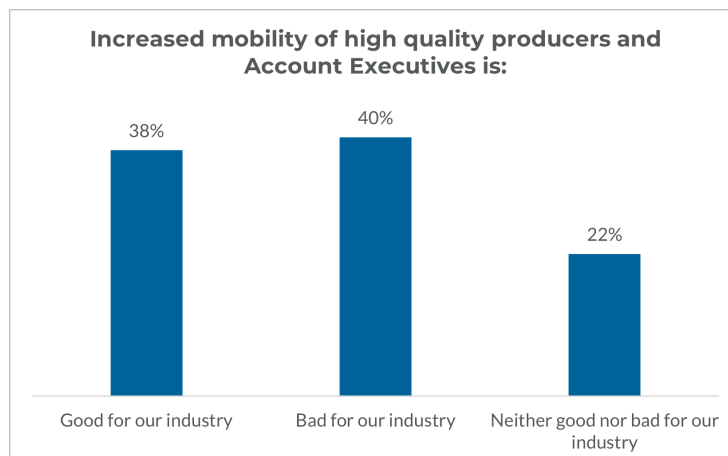


Talent "Free-Agency" and "Lift-Outs" as Growth Strategy

Another Summit topic was talent mobility. As COVID vastly accelerated work-from-home arrangements, geographic barriers fell, making it possible for brokerage employees to work from nearly anywhere.

Production team "lift-outs" have become increasingly common. What is a lift-out? It is when a rival brokerage hires one or more producers from a competitor, with an economic incentive to bring their clients with them. Several large brokers are actively building recruiting and integration infrastructures to support aggressive lift-out strategies.

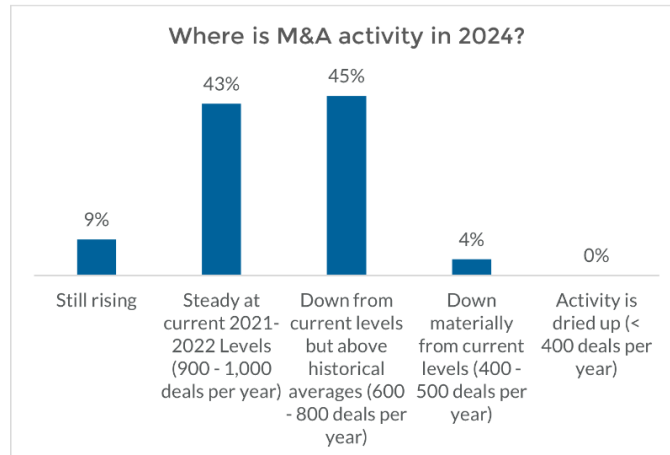
Is free agency good for our industry? We posed this question to the attendees and expected a resounding "no", as historically brokers worried over the impact of free agency on agency valuation. However, to our surprise, less than half (40%) of the attendees view free agency as a bad thing - with the majority believing it is either good for the industry, or neutral.



More M&A Coming but Many Remain Passionate about Employee Agency Ownership

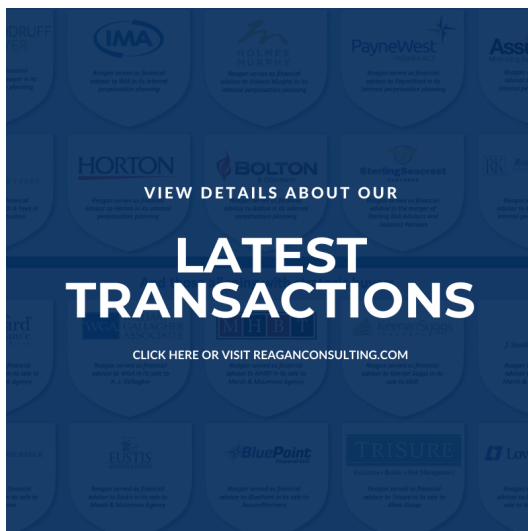
A new record for M&A transactions has been set in 7 out of the past 10 years, with 2021

two years, consolidation activity will *remain steady or increase*, while the vast majority of those remaining predicted it will decrease only slightly.



Despite this projection of continued frenzied M&A activity, the majority of Summit attendees remain deeply dedicated to employee ownership for their own firms. They believe employee ownership offers the greatest chance of building a “forever company” capable of truly serving clients and attracting talent through the industry’s inevitable ups and downs.

From Reagan’s perspective, insurance brokerage is truly an amazing industry. Nearly every segment has prospered during the past 25 years. Publicly traded brokers outperformed the overall market dramatically. Private equity investors achieved nearly universally-strong returns. Owners of privately-held brokers have achieved 25 years of double-digit returns. And from the insight, energy, and commitment demonstrated by the Summit attendees, we see no reason not to be bullish about the industry’s future.



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