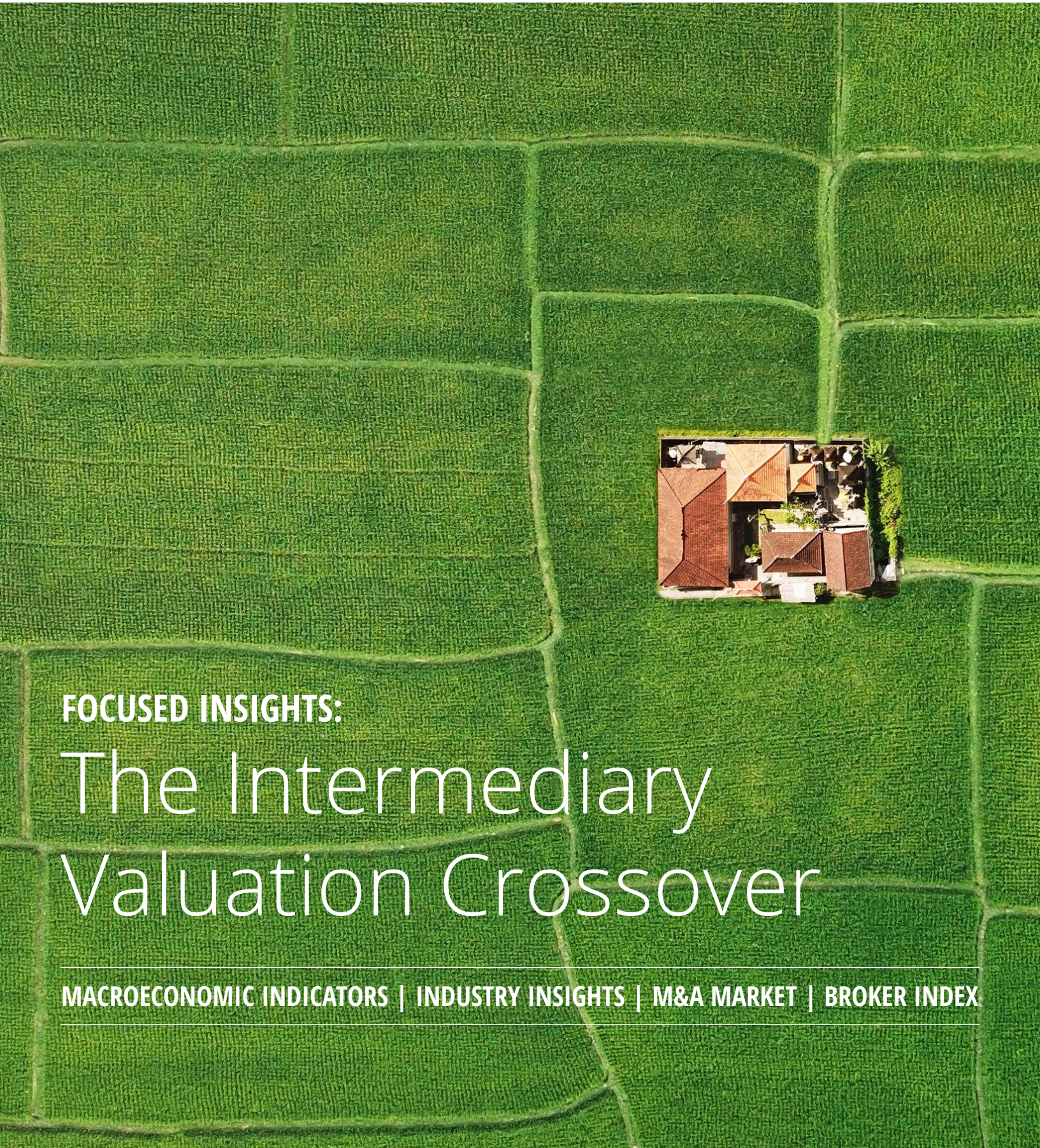
WAYPOINT

A MARSHBERRY MARKET REPORT

2022
August



FOCUSED INSIGHTS:

The Intermediary Valuation Crossover

MACROECONOMIC INDICATORS | INDUSTRY INSIGHTS | M&A MARKET | BROKER INDEX

MarshBerry's WayPoint offers macroeconomic indicators relevant to your brokerage or agency, industry insights from our proprietary database, updates on the M&A market and key transactions from the previous month, and a market overview from the six publicly traded retail brokers on a monthly basis.

The goal is to provide you with timely data allowing you to stay current on developments in the insurance brokerage industry while driving key business decisions.

If you have any questions about WayPoint, or there is additional content that you would find useful for future updates, email us at **WayPoint@MarshBerry.com.**

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WayPoint | Focused Insights

Focused Insights:

The Intermediary Valuation Crossover

The M&A valuation landscape for insurance brokerage firms is starting to shift, with specialty firms offering potential partners more growth opportunities because of their niche specialization.

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"Most predict dynamic economic factors will drive continued growth for the surplus lines market for the balance of 2022."

— The Wholesale & Specialty Insurance Association (WSIA)

The Intermediary Valuation Crossover

A major inflection happened recently around the merger & acquisition (M&A) valuations of specialty insurance firms vs. their retail counterparts. Historically, retail firms commanded higher valuations given that the relationship with the insured trumped the one step removed nature of the intermediary — while specialty firms were valued at a (sometimes substantial) discount.

The market is now seeing specialty firms command a premium, as the market and buyers are recognizing the strong value that specialty firms bring to the market.

This shift happened from 2020 to 2021as M&A deal activity showed that specialty insurance firms increased their average valuation by 24%, according to MarshBerry data.

24%

Increase From 2020 to 2021 in Specialty Insurance Firms Valuations

This contrasts with retail firms increasing their average valuations by 9% during the same period. Valuations of specialty firms in the second half of 2022 are likely to remain robust, given projected firm demand from buyers for specialty firms.

9%

Increase From 2020 to 2021 in Retail Firms Valuations

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Here are three keys to why there will likely be a continued increase in demand and valuations for specialty insurance firms:

1. Brokers are looking to experts for specialized risk needs.

Customers are looking for more than just a broker who can complete an insurance purchase, they are demanding a knowledgeable advisor who provides solutions. This shift in customer preference has accelerated the need of firms to gain access to MGA (Managing General Agent) capabilities: unique solutions and sophisticated value–added services. This movement is influenced by uncertainties affecting the insurance and economic environment, including:

- Losses in the cyber insurance market which have caused carriers to either reduce or eliminate capacity for this coverage resulting in much higher premium costs.
- Property coverage for hurricane–exposed risks (especially in Florida) continues to be in short supply while at the same time many Florida windstorm carriers could potentially be downgraded by ratings agency Demotech. On August 1, Demotech downgraded United Property & Casualty Insurance Company (UPC) and assigned the insurer a "Moderate" financial stability rating. However, Demotech is currently postponing the downgrades of over 20 other insurers after receiving questions from the Florida Office of Insurance Regulation. The potential for additional downgrades has further strained pricing in the Florida market.

2. Insurance rates are rising in select categories.

As rates continue to increase, some insureds will value the ability to place risk with a firm that has greater expertise around highly specialized or niche risks that may be harder to place with generalists.

While overall insurance rate increases are moderating, premiums for commercial and property insurance continue to rise sharply in certain segments — including commercial cyber (+27.5%), umbrella (+10.5%), commercial property (+8.6%), and commercial auto (+5.9%).[1]

+27.5%
Commercial Cyber

+10.5%
Umbrella

+8.6%
Commercial Property

+5.9%
Commercial Auto

1. https://www.ciab.com/wp-content/uploads/dlm_uploads/2022/05/Q1-2022-PC_FINAL.pdf.

Furthermore, surplus lines premium rose 32.4% year–over–year (YoY), the highest rate of increase since 2009, to $31.4 billion in the first half of 2022, according to the U.S. Surplus Lines Service and Stamping Offices' 2022 midyear report. There will likely be continued strength in the surplus lines market in the second half of 2022, as many carriers "true up" their actuarial projections for losses in the fourth quarter in preparation for their annual insurance filings. Many times, in a firming or "hard" market, this reconciliation of anticipated increased claims/losses results in higher premiums in the fourth quarter compared to other quarters.

↑ 32.4%

Rise in Surplus Lines Premium Year-Over-Year

The Wholesale & Specialty Insurance Association (WSIA) also stated that "most predict dynamic economic factors will drive continued growth for the surplus lines market for the balance of 2022."

3. Technology and data are driving differentiation.

The adoption of advanced technology has become table stakes for most brokerages in order to maintain personalized relationships. However, MGAs are able to adopt new technologies quicker because of their smaller size and established distribution channels. And while Zoom and other collaborative technology tools have helped all firms bridge the gap in face–to–face interactions, the technology of data analytics and predictive modeling is where specialty firms can offer advanced insights and unique solutions to produce better outcomes.

MarshBerry sees the strength in M&A and valuations for specialty firms continuing in the second half of the year, as buyer interest remains high given the value specialty firms bring to the overall distribution sector.

WayPoint | Macroeconomic Indicators

U.S. Macroeconomic Indicators

Market Trends and Current Statistics

Key U.S. macroeconomic indicators that are likely to impact firms within the insurance industry.

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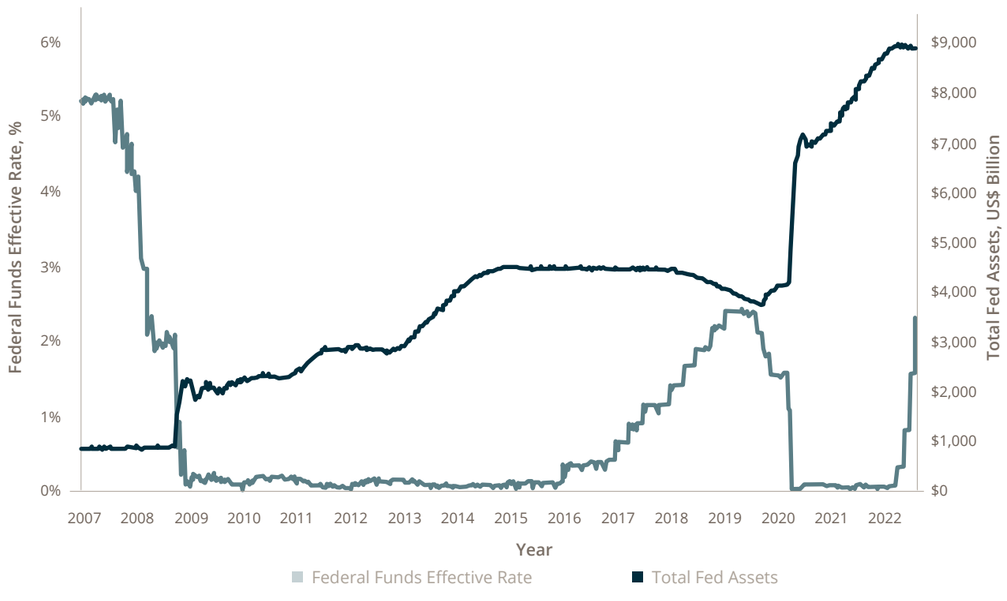
Fed Raises the Federal Funds Rate by 75 Basis Points, May Do So Again to Fight Inflation

On July 27, the Federal Reserve (Fed) raised the federal funds rate target range from 2.25% to 2.5%. This was up from the prior range of 1.5% to 1.75% in June. This is the second consecutive increase of 0.75 points. The Fed has now raised its target federal funds range at four successive meetings as it seeks to combat high inflation and return it to the Fed's 2% objective. Prior to June's 0.75 point target range increase, the Fed had not raised the federal funds target by more than 0.5 point since 1994. The Fed also continues to reduce its asset holdings as an additional measure to fight inflation. In its statement, the Fed noted that unemployment has remained low and job gains have been strong in recent months while inflation continues at elevated levels, and it anticipates ongoing increases in the target range will be appropriate.

The federal funds rate has an impact both on short and long-term interest rates. Although long–term rates are affected by several factors, including economic outlook, inflation expectations, rate expectations, and global demand and supply, **the federal funds rate is a crucial driver in affecting its level and direction. In turn, long–term rates affect consumer and business borrowing costs.**

Fed Funds Rate and Total Fed Assets



Source: Board of Governors of the Federal Reserve System (US) 7/29/22.

Inflation Rises 9.1% in June, Higher than Expected

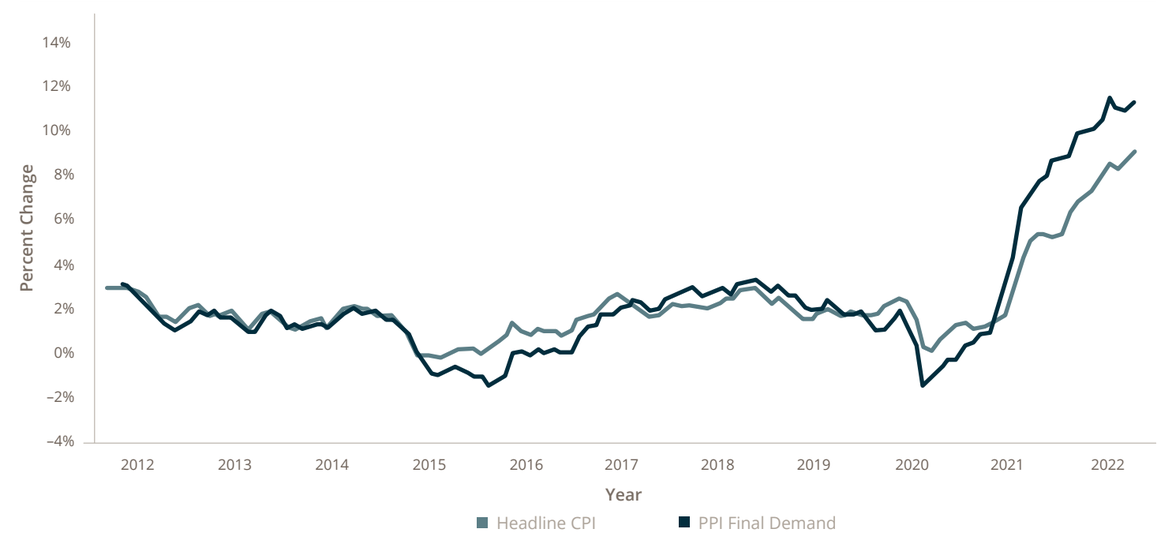
In June, the Consumer Price Index (CPI) recorded a headline increase of 9.1%, the largest recorded YoY increase in over 40 years, and above the 8.8% Dow Jones estimate. The Producer Price Index (PPI) for final demand recorded 11.3% YoY growth, short of March's 11.6% mark, but still an increase from April and May levels as the index records its second highest level since the U.S. Bureau of Labor Statistics began publishing the final demand index.

While the CPI measures inflation for consumers based on surveys of what households are buying, the PPI measures selling prices by domestic producers of goods and services.

Over the past decade, headline PPI and CPI have remained close to each other. However, in early 2021, the two indexes began to separate as PPI began to rise faster than CPI. In December 2021, PPI was rising at a double–digit rate from the year prior and has remained above 10% for seven consecutive months. In comparison CPI, which has been rising at its fastest pace in 40 years, reached 9.1% annual growth in June.

The primary driver of growth in both indexes over the past 12 months has been rising energy prices. The second largest increases in the indexes were transportation and warehousing prices for the PPI and food prices for the CPI. Looking at core inflation, which allows a better look at long–term inflation trends by removing the most volatile parts of each index, each index saw a third straight month of declines in June, registering at 5.9% for core CPI and 6.4% for core PPI. However, **for CPI, these levels have not been seen since 1982 and these are the highest core PPI numbers since the final demand index was first published.** Core CPI removes food and energy costs, while core PPI removes food, energy, and trade services.

Headline Inflation



Source: U.S Bureau of Labor Statistics; CPI released 7/13/22, PPI released 7/14/22.

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Can an Inverted Yield Curve Predict a Recession?

There are a lot of indicators of economic health. But few have the track record of the "yield curve inversion" for predicting recessions.

Recessions are most often declared once we are well into one, starting to emerge from it, or even after it has ended. But that doesn't keep economists and financial journalists from trying to predict when one might be nearly upon us.

Indicators for a possible recession include negative gross domestic product growth, a high unemployment rate, rising interest rates, or if the two–year U.S. Treasury note returns higher yields than the 10–year note, also known as the yield curve inversion.

The reason a two–year note yield would exceed that of its 10–year counterpart is usually an issue of lack of investor confidence in long–term investments and their expected return due to rising inflation, rising interest rates and an expectation of a slowing economy. In short, investors become doubtful that the return on a 10–year note would be better than the return on a shorter–term note.

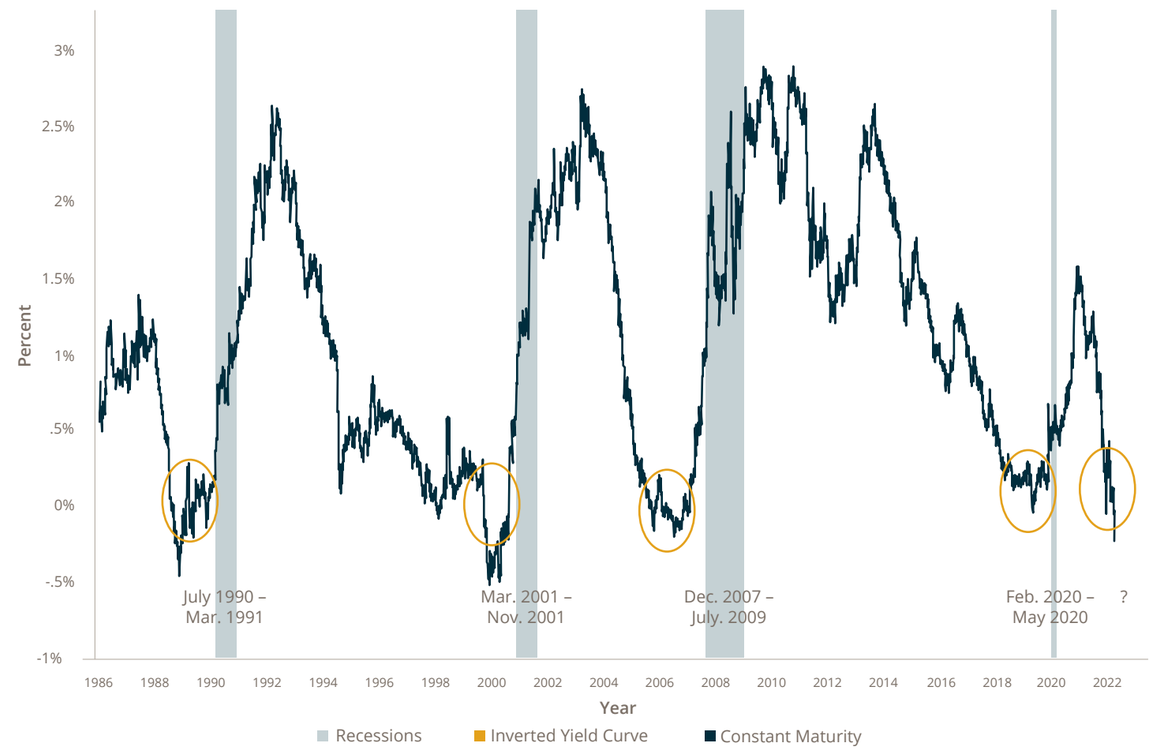
Of all recession indicators, the inverted yield curve is one of the most historically accurate. Almost every recession over the past 60 years has been preceded by an inverted yield curve. The exception is 1966, where the inverted yield curve only preceded an economic slowdown, but not an official recession. The most recent three–month recession of 2020 was preceded by a brief yield curve inversion.

Keep in mind, a yield curve inversion doesn't cause a recession. It's simply a reaction to other economic factors (i.e., rising inflation and increased interest rates) that make investors jittery enough to take an action (i.e., buying short–term bonds) that exhibits their feelings about investment risks.

Most recently, the yield difference between the 10– and two–year Treasury notes dropped below zero on 4/1/22, bounced back up a few days later, but dipped below zero again on 7/6/22 and continues to be inverted.

Is all of this pointing towards a recession? Maybe. How long will a recession last and what will the impact be? No one really knows. But in the meantime — insurance brokerages and carriers may want to consider doing some advanced scenario planning and assess how they will maneuver through potential volatility and macroeconomic changes.

10–Year Treasury Constant Maturity Minus 2–Year Treasury Constant Maturity



Source: FRED Federal Bank of St. Louis, 7/26/22.

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Consumer Confidence Is Affected by Inflation, Signaling a Slowing Economy

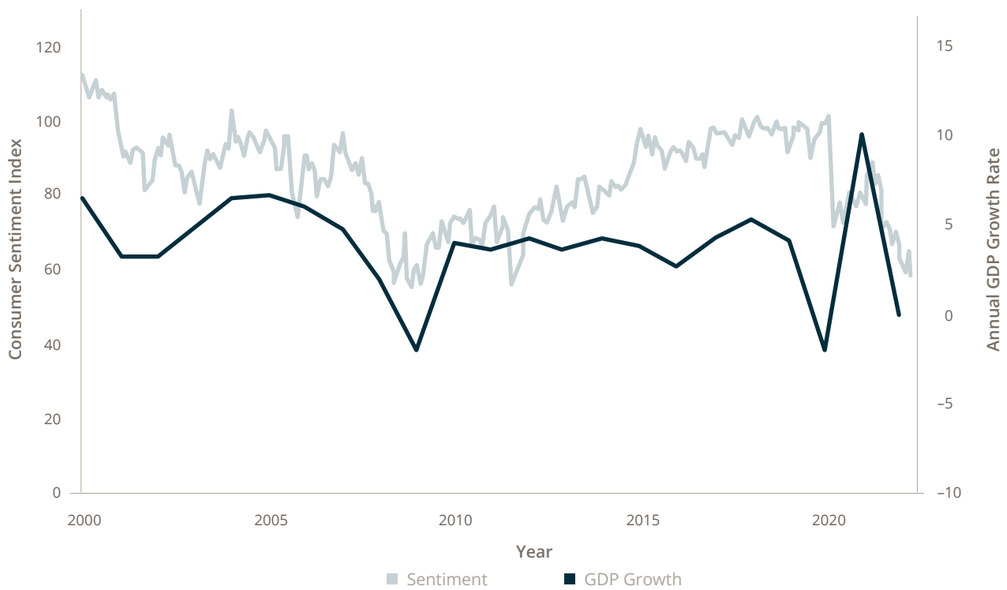
As fear of a recession looms and market conditions worsen, consumers are feeling the impact and adjusting spending habits.

With consumer spending making up 70% of Gross Domestic Product (GDP), this has a large influence over the direction of the economy.

The University of Michigan recently released its report on Consumer Sentiment Retail Sales, providing insight to the future economic outlook.

Consumer sentiment increased to 51.1 in July after a record low of 50.0 the previous month. This contrasts with the 85.5 reading registered in July 2021. Historically, the University of Michigan Consumer Sentiment Index hit a record high of 112.0 in January 2000 and a record low of 50.0 in June of 2022.

GDP Growth & Consumer Sentiment



Source: FRED Federal Bank of St. Louis, released 7/27/22.

Even with the increase to consumer sentiment and economic conditions subindex increase to 57.1, up from 53.8 previously, the expectations gauge continued to decrease, falling to 47.3, hitting the lowest point since 1980. Consumers agreed on the detrimental effect of prices on personal finance with 49% blaming inflation for decreasing their living standards.

Consumers are not just feeling this effect, they are acting on it, as real retail sales declined in June.

With inflation increasing 1.3% on a monthly basis in June, the 1% increase in retail sales did not keep up. The largest contributors to the increase in sales were in food and gasoline, two areas with increased rising costs. The increased spending in these categories reflects the increase in nominal sales values, not consumer demand, resulting in slightly decreased to stagnant consumer demand as reflected by spending habits in the retail market. Even so, consumer resilience is holding strong showing as debt to after–tax income remains below long–term levels and household net worth holds steady as the stock market sees upticks.

As consumers face the burden of increased borrowing costs, rising inflation, and market downturns, their skepticism is compelling. **The average real earnings of workers is down 3.6% YoY in June as wages struggle to keep up with inflation.** Combine that with international political turmoil on the coattails of a global pandemic and consumers are weary.

3.3

Increase in Consumer Sentiment Subindex for June

49%

Of Consumers Blame Inflation for Decreasing Their Living Standards

The largest contributors to the increase in sales were in food and gasoline, two areas with increased rising costs.

1.3%

Increase in Monthly Inflation

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Industry Insights

MarshBerry's Perspectives for High Performance (PHP)

Insights from our proprietary financial database to help drive your business.

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Growth Rates in *Business Insurance* Top 100 Brokers

As insurance firms continue to consolidate and "barriers to entry" increase, organic growth could be key in identifying valuable firms.

While the "barrier to entry" hasn't risen significantly — a broker needed $19.3M to enter into *Business Insurance's* Top 100 nearly twenty years ago, compared to $24.4M in 2022 — it has become more difficult to break into the top 50.

$24.4M

Needed by a Broker to Enter into Top 100 in 2022

The 50th ranked broker on the list has grown 149% in revenue since 2002, while the 25th rank has grown 318%, and the 10th a staggering 735%.

Growth has been driven by a combination of acquisitions and presumably organic growth. In 2021, the top 10 brokers' revenue comprised 66% of the total Top 100 revenue. This ratio has trended down over the years, driven by revenue growth within the 11th – 50th ranked brokers.

2021

Top 10 Brokers' Revenue Comprised 66% of the Total Top 100

While the overall YoY revenue growth of the combined Top 100 firms was 19.1%, 42 of those firms individually failed to grow by 10% or more. And given the hard Property & Casualty (P&C) rate environment (where increased premiums should be naturally bolstering revenue), it can be assumed that nearly a quarter (24 firms) of the Top 100 firms' "growth" is either negligible or negative since they failed to exceed 6% growth YoY.

This includes all growth, organic and from M&A — which comes at a much higher cost. **Organic growth is key to the future outlook of a firm and more highly valuable to carrier partners.**

Within Connect, MarshBerry's executive peer exchange network, the average organic growth rate all of firms in 2021 was 8.4%. According to PHP, MarshBerry's proprietary financial database, the Best 25% of firms within the network had an 18.3% organic growth rate in 2021. This exceeded 66 of the Top 100 insurance brokers' growth rate.

18.3%

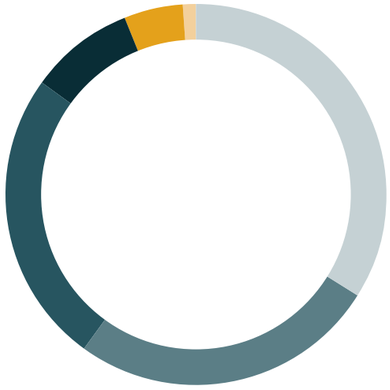
was the Organic Growth Rate in 2021 of the Best 25% Firms in PHP

In the latest data, firms are seeing a lift from overall good economic conditions. Favorable conditions such as rising interest rates have increased investment worth as firms grew over the past year.

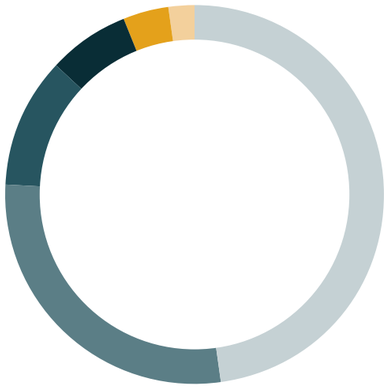
If these conditions worsen, with fears of an upcoming recession and stock market volatility, firms will be forced to be more proactive regarding growth.

2022 Top 100 by Revenue Band

2017 Top 100 by Revenue Band



2012 Top 100 by Revenue Band



Source: S&P Global Market Intelligence, Insurance Journal, and other publicly available sources. 7/8/22.

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Surplus Lines Premiums Surge in the First Half of 2022; Strength Seen Continuing in Second Half

Surplus lines premiums rose 32.4% to $31.4 billion in the first half (H1) of 2022, according to the U.S. Surplus Lines Service and Stamping Offices' 2022 mid–year report. This compares to the same period a year ago (H1 2021) where surplus lines premiums rose 21.9% for a total of $24.04 billion. This continues the growing trend of surplus lines premium growth over the last several years. The H1 of 2019 saw a growth rate of 12.6% YoY, while H1 2020 increased by 10% YoY.

There will likely be continued strength in the surplus lines market in the second half of 2022 as stamping offices usually report higher premiums in the third and fourth quarters compared to the first and second quarters.

WSIA also stated that "most predict dynamic economic factors will drive continued growth for the surplus lines market for the balance of 2022."

Growth Rate of Surplus Lines Premiums

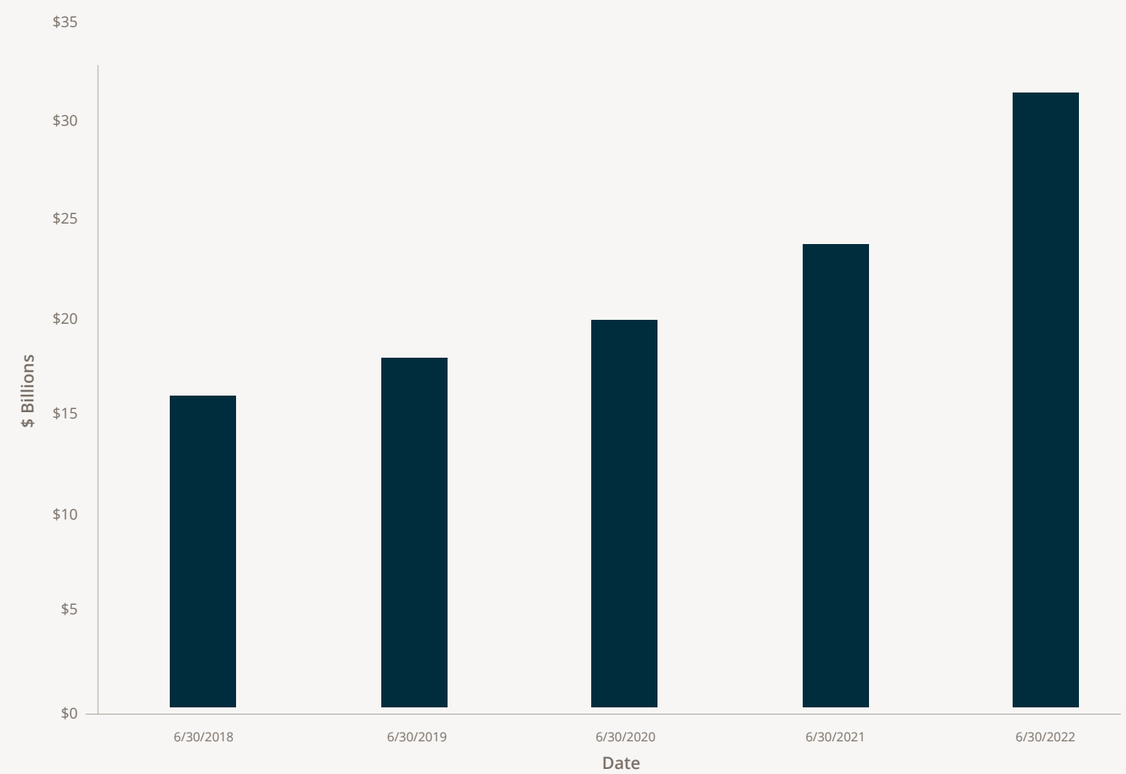
H1 2022
32.4%

H1 2021
21.9%

H1 2020
10%

H1 2019
12.6%

Historical Surplus Lines Premiums



Source: The Wholesale & Specialty Insurance Association, 7/2022.

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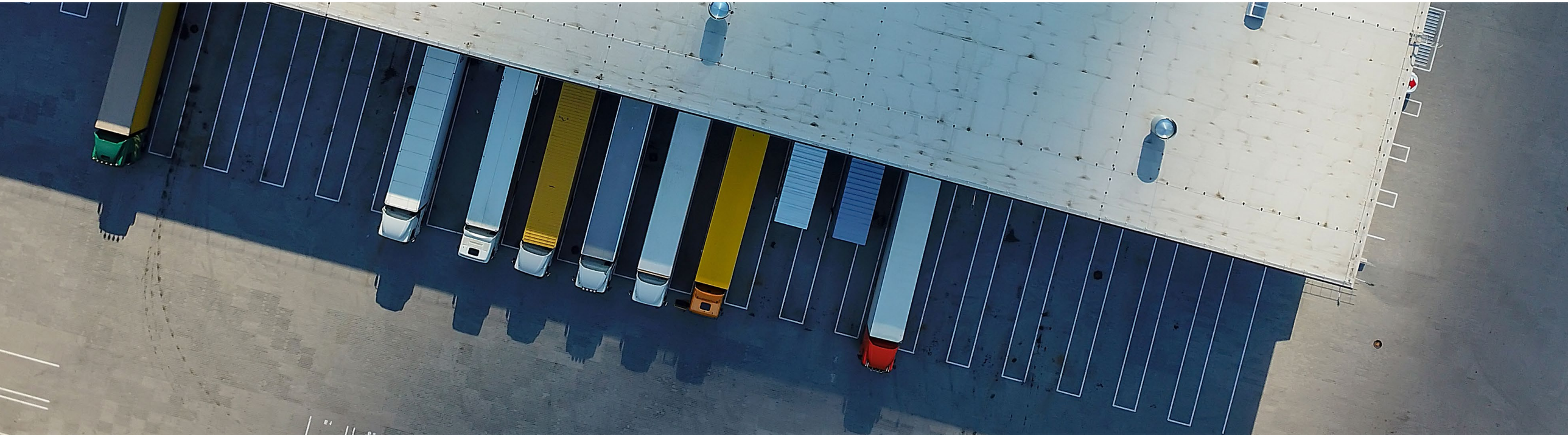

M&A Market Update

The Latest Deals and Insights

Who's buying? Who's selling? And why should you care? Phil Trem, MarshBerry's President of Financial Advisory, highlights the current M&A market and provides a look at transactions in July 2022.

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M&A Market Continues to Thrive but Questions on Valuation Continue to Linger

The market continues to see fluctuations in both the U.S. and global economies. On a domestic level, there have now been two straight quarters of decline in the GDP (technically a recession), rising inflation, rising interest rates to combat inflation, and the federal government's sweeping economic legislation under the Inflation Reduction Act of 2022.

All of this continues to create tumult in the stock markets, and concerns about the economic challenges the market is currently facing.

Questions surround whether the short–term economic outlook and higher interest rates will impact the insurance distribution industry merger & acquisition (M&A) activity.

The broader outlook still looks very favorable. Buyers continue to have a large acquisition appetite and potential sellers are looking for partnerships that help them further their business models. MarshBerry continues to closely watch the interest rate environment to understand what will happen with demand if the cost of capital continues to rise.

The good news on this front is that many of the buyers raised a significant amount of debt over the last nine months and have enough dry powder to continue acquiring into next year — and for some into the summer 2023. At some point, buyers will need to pull down additional capital from the debt markets and the cost of that borrowing will be greater than what we have grown accustomed to.

Valuations are expected to continue to hold firm at the high watermark levels seen in recent months and years.

The waters get a bit murkier as we look to mid to late 2023. It will be important to keep a keen eye on inflation and interest rate levels to see how big of an impact this might have on the brokerage industry.

2022 Acquisition Detail (YTD 7/31/2022)

Who's Buying

Insurance Broker — *Independent:* 23

Insurance Broker — *Public:* 18

Insurance Broker — *Private Capital Backed:* 194

Insurance Company and Other: 22

Bank and Thrift: 6

What's Being Bought:

Full Service: 75

P&C: 135

Employee Benefits: 53

Retail vs. Specialty:

Retail: 206

Wholesale: 29

MGA: 28

Market Update

As of July 31, 2022, there have been 263 announced M&A transactions in the U.S. The current volume of deal announcements represents a 25% decrease compared to this time last year. However, there have been consistent increases in monthly announcements since March of this year. Over the last three years there has been a strong increase in deal activity as fourth quarter (and year end) approaches, so the 2022 deal count is anticipated to close the year out strong.

Private Capital backed buyers accounted for 194 of the 263 transactions (73.8%) through July, remaining atop the various buyer classes. As previously mentioned, this trend is expected to remain consistent throughout the rest of 2022 as dry powder continues to be deployed. Public brokers have remained consistent with last year in terms of total deal count, making up 6.8% of total announced transactions.

Strong deal activity from the marketplace's most active acquirers has remained constant through July. Ten buyers accounted for 54.9% of all announced transactions observed, while the top three (Hub International Limited, Acrisure, LLC, and BroadStreet Partners, Inc.) account for 22.8% of the 263 total transactions.

2022 Year–to–Date Most Active Buyers

Buyer	2022 YTD Announcements	2022 YTD Rank	2021 Announcements	2021 Rank
Hub International Limited	21	1	49	4
Acrisure, LLC	19	2	74	2
BroadStreet Partners, Inc.	16	3	46	5
Inszone Insurance Services, Inc.	14	4	17	16
Keystone Agency Investors LLC	11	5	23	13
Peter C. Foy & Associates Insurance Services, LLC	11	5	77	1
Risk Strategies Company, LLC	10	7	25	11
Integrity Marketing Group LLC	8	8	36	8
Higginbotham & Associates, Inc.	7	9	7	25
Arthur J. Gallagher & Co.	7	9	22	14
The Hilb Group, LLC	6	11	28	9

Disclosure: All deal count metrics are inclusive of completed deals with U.S. targets only. Scorecard year-to-date totals may change from month to month should an acquirer notify MarshBerry or the public of a prior acquisition. 2022 statistics are preliminary and may change in future publications. Please feel free to send any announcements to M&A@MarshBerry.com. Source: S&P Global Market Intelligence, http://www.insurancejournal.com, http://www.businessinsurance.com/, and other publicly available sources.

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Deal Spotlight:

Patriot Growth Insurance Services Acquires BMT Insurance Advisors

June 30, 2022
Patriot Growth Insurance Services, LLC (Patriot) announced its acquisition of BMT Insurance Advisors (BMT).

Patriot, a private equity–backed, retail brokerage aggregator, is a growth–focused national insurance services firm that partners with employee benefits and P&C agencies across the U.S.

Patriot delivers key administrative resource and strategic support that allows agency partners to operate autonomously, helping to preserve local market brand and relationships. In 2022, Patriot was ranked as the 35th largest privately held broker in the U.S. by Business Insurance. Philadelphia, PA–based BMT, previously a business division of WSFS Financial, is an insurance brokerage and risk management consulting firm that provides custom insurance solutions for personal and commercial lines, with specialization in educational institutions, small businesses, nonprofits, and social service organizations.

"When we partner with a new agency, we always look for commonalities in philosophies, beliefs, and values so we know it is a good fit within the Patriot community. BMT Insurance Advisors checked all the boxes," said Matt Gardner, Chairman and CEO of Patriot.

MarshBerry Advises ESP Specialty Insurance Brokerage through Acquisition

July 13, 2022
MarshBerry's client ESP Specialty Insurance Brokerage (ESP) was acquired by Specialty Program Group LLC (SPG).

ESP is a national insurance broker and program administrator, offering niche insurance solutions to the sports, leisure, recreation, hospitality, and entertainment industries. In 2021, ESP covered over 850K youth participants, had insured limits of over $1.5B across special events of all types, and was the top broker for youth tackle football leagues. ESP's other unique client types include bowling centers, escape rooms, miniature golf, driving ranges, laser tag, batting cages, axe throwing, trade shows, and concerts.

Along with staple general liability and property coverage, ESP offers their clients other unique coverage such as liquor liability insurance, event cancellation insurance, weather insurance, and prize indemnity.

ESP's specialized client base, unique product offerings and hyper focus on customer service including online servicing capabilities was what attracted SPG and ultimately led to the acquisition. SPG, a wholly owned subsidiary of HUB International Limited, was established to acquire and scale best–in–class insurance underwriting facilities and specialty businesses.

In the press release announcing the deal, SPG President & CEO Christopher Treanor stated: "They're a nice complement to our portfolio of specialty companies and fit with our model of acquiring companies with niche expertise and a focus on customer service."

MarshBerry, as a leader in sell side advisory services for multiple types of service businesses within the overall insurance ecosystem, is proud to have represented ESP in this transaction. MarshBerry is uniquely positioned to represent firms such as ESP given our deep knowledge base of both the MGA and retail broker distribution models. ESP is a great example of how MarshBerry drives premium valuations by leveraging our broad industry knowledge and experience.

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Public Broker Performance

MarshBerry's Broker's Index

The latest performance and insights on the public broker composite.

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MarshBerry Broker Index 2Q22 Earnings Update

Six publicly traded insurance brokers recently reported results for the second calendar quarter of 2022: Arthur J. Gallagher & Co. (AJG), Aon plc. (AON), Brown & Brown, Inc. (BRO), Marsh & McLennan Companies, Inc. (MMC), Willis Towers Watson Public Limited Company (WTW), and BRP Group, Inc. (BRP).

Below are notable themes and takeaways from these earnings reports and year–to–date stock performances.

Amidst the current market volatility, MarshBerry's Broker Index again outperformed benchmark indices through August 11, 2022, highlighting the strong fundamentals of the insurance brokerage industry.

While the S&P 500 and the Dow Jones Industrial Average (DJIA) ended July in negative territory, the public broker composite handily outperformed both major indices.

Although the overall performance of equities is down across the board, as indicated by the two major indices, investors appear more confident that the insurance distribution sector can deliver stable growth despite the challenging environment.

2Q22 Results Were Strong for Public Brokers

Insurance brokers once again reported strong results for the second quarter, which were attributed to a combination of improving new business, strong retention, and continued insurance rate increases.

Most brokers reported organic growth rates in the range of 8%–10% for the quarter. MMC reported organic revenue growth of 10% in 2Q22, in–line with its 10% organic growth in 1Q22. This was its fifth consecutive quarter of double–digit growth. BRO reported organic growth of 10.3% in 2Q22, while AJG saw organic growth of 10.7% in the same period. Above the 8%–10% range, BRP posted 2Q2022 organic growth of 24%, with double–digit organic growth in all four segments. BRP's MGA of the Future segment's organic revenue grew 70% YoY, which was the best quarter in the firm's history as a public company. AON reported 2Q22 organic growth of 8%, on–par with 1Q22's 8%, citing ongoing strong retention and net new business generation.

8–10% Average Organic Growth Rates Reported in 2Q2022

24% Organic Growth Rate Reported by BRP in 2Q2022

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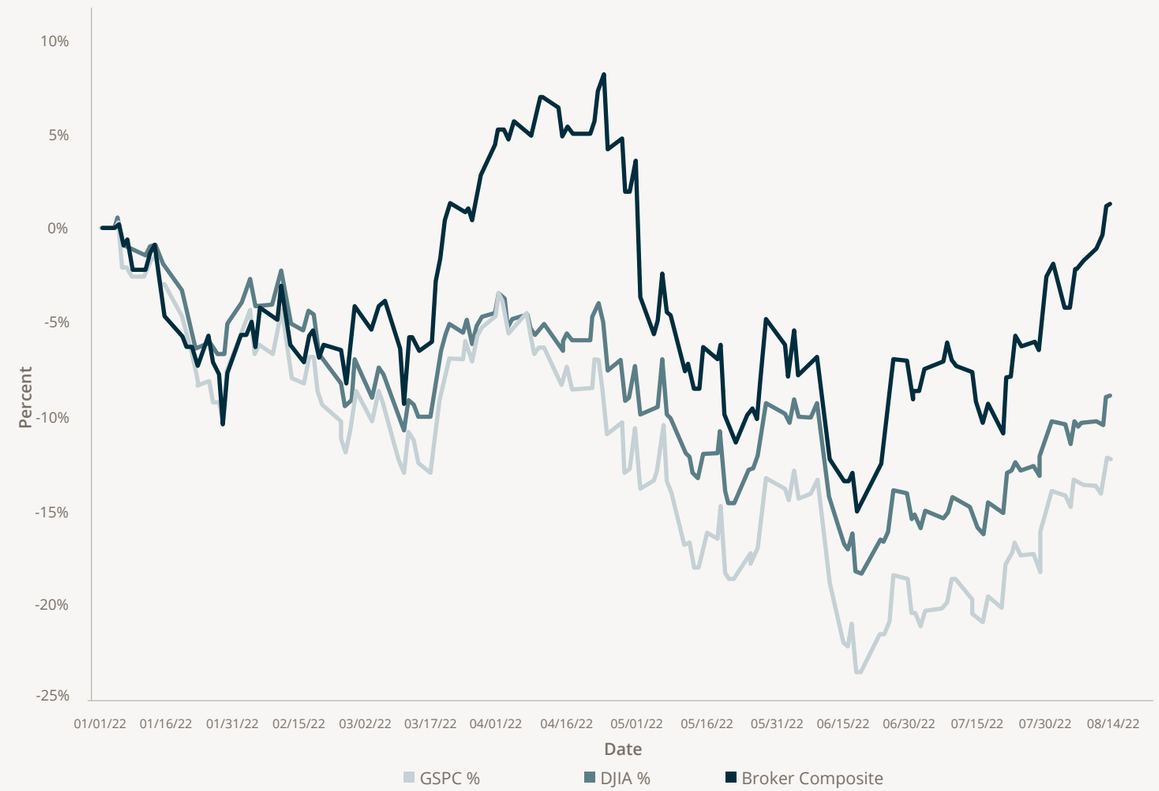
YTD Performance: Public Broker Composite vs. Major Indices (1/1/22 – 8/11/22)



1.4% Broker Composite

–8.9% Dow Jones

–12.3% S&P 500

Source: Yahoo Finance, June 30, 2022.

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Brokers Cited Greater Macroeconomic Challenges

While management at many brokers cited concerns about the macroeconomic environment, many noted that their companies are well positioned for continued growth.

For example, WTW CEO Carl A. Hess said on WTW's 2Q22 earnings call:

> "Our portfolio of businesses is relatively noncyclical, we estimate that about 80% of our revenue base is recurring, often built upon nondiscretionary solutions and services."

WTW also sees the business as less sensitive to economic downturns. In 2020, when U.S. GDP declined by 2%, WTW posted organic revenue growth of 2%; in 2008–2009's recession, WTW's predecessor posted organic revenue growth of 2% to 4%.

Outlook for Balance of 2022

While many brokers saw economic growth moderating from the impact of continued inflation, federal fund rate increases, and geopolitical tensions, they remained confident in their abilities to meet their organic growth targets for 2022.

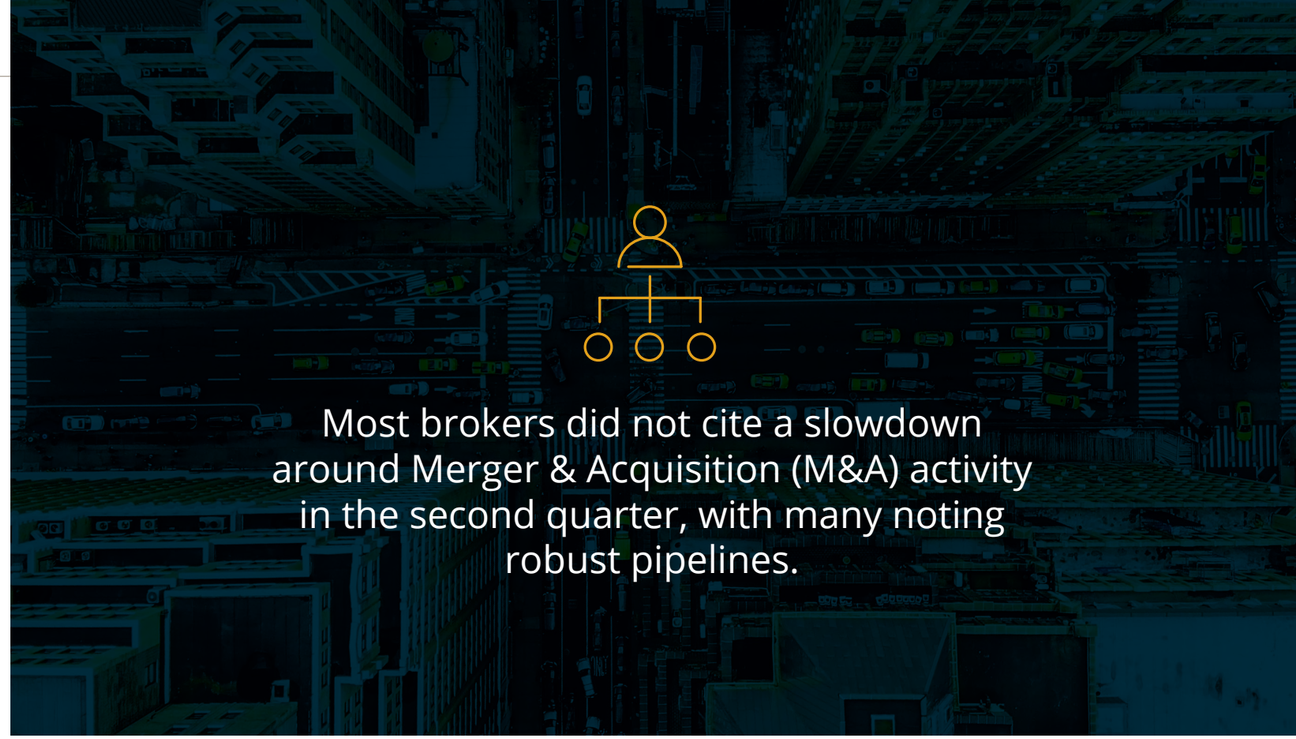
Aon PLC's CFO Christa Davies said on Aon's 2Q22 earnings call:

> "While we're seeing signs of economic uncertainty, we remain confident in the strength of our firm and our financial guidance for 2022 (mid–single–digit or greater organic revenue growth, margin improvement and double–digit free cash flow growth). Overall, our business is resilient, and our Aon United strategy gives us confidence in our ability to deliver results in any economic scenario."

While MMC remains positive about its outlook for the H2 of 2022, the firm noted greater uncertainty in the macroeconomic outlook:

> "The highest inflation in two generations, geopolitical tumult, central bank hawkishness, and bear markets in risk assets."

The firm sees full year 2022 organic growth coming in at the high end of its guidance of mid–single digits or better, and solid growth in adjusted EPS.



M&A Activity

Most brokers did not cite a slowdown around M&A activity in the second quarter, with many noting robust pipelines. AJG's CEO J. Patrick Gallagher noted on AJG's 2Q22 call that the firm's pipeline has more than 40 term sheets signed or being prepared, representing nearly $350 million of annualized revenue. He also did not see concerns around a recession having an impact on M&A deals. AJG CFO Douglas Howell noted that AJG has "more than $4 billion of tuck–in M&A capacity here in '22 and '23 combined."

BRO also saw strong M&A performance over 2Q22, with eight acquisitions completed, representing annual revenue of approximately $11M. The pipeline continues to be strong, as the firm engages with many prospects and has already completed two deals in the current quarter.

Overall, **the second quarter results from the public insurance brokers came in fairly strong, with management teams confident around meeting their guidance for 2022**. Although the heightened macroeconomic challenges will likely continue, most view their businesses as well positioned to meet growth targets.

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Public Broker Comps

Market Capitalization ($M)

	2018	2019	2020	2021	Q2 2022
AON	$ 34,901	$ 48,344	$ 47,641	$ 64,560	**$ 57,064**
AJG	$ 13,559	$ 17,915	$ 23,957	$ 35,368	**$ 34,293**
BRO	$ 7,705	$ 11,120	$ 13,417	$ 19,854	**$ 16,464**
BRP	n/a	$ 986	$ 2,477	$ 4,088	**$ 2,795**
MMC	$ 40,181	$ 56,109	$ 59,404	$ 87,525	**$ 77,506**
WTW	$ 19,575	$ 25,984	$ 27,167	$ 28,983	**$ 21,728**

Total Enterprise Value ($M)

	2018	2019	2020	2021	Q2 2022
AON	$ 40,557	$ 56,197	$ 55,770	$ 74,536	**$ 68,064**
AJG	$ 16,633	$ 22,404	$ 28,293	$ 41,693	**$ 40,292**
BRO	$ 8,773	$ 12,344	$ 14,912	$ 21,213	**$ 18,543**
BRP	n/a	$ 983	$ 2,799	$ 4,863	**$ 4,002**
MMC	$ 45,012	$ 69,328	$ 71,050	$ 99,148	**$ 91,274**
WTW	$ 23,262	$ 31,987	$ 31,944	$ 30,035	**$ 25,311**

Total Enterprise Value / EBITDA (x)

	2018	2019	2020	2021	Q2 2022*
AON	15.8	21.1	17.6	15.6	**24.5**
AJG	21.9	21.4	22.5	32.5	**19.7**
BRO	15.4	20.5	20.3	27.1	**17.7**
BRP	n/a	27.7	24.9	26.9	**18.8**
MMC	25.6	20.9	20.6	19.9	**16.3**
WTW	8.2	8.6	9.5	8.1	**8.3**

*Total Enterprise Value as of 6/30/22 divided by the Last Twelve Months of EBITDA.

Total Revenue ($000)

	2018	2019	2020	2021	Q2 2021	Q2 2022
AON	$ 10,775,000	$ 11,021,000	$ 11,072,000	$ 12,204,000	$ 2,889,000	**$ 2,988,000**
AJG	$ 5,118,000	$ 5,842,200	$ 6,121,500	$ 7,036,200	$ 1,664,700	**$ 2,043,000**
BRO	$ 2,014,246	$ 2,392,171	$ 2,613,375	$ 3,051,398	$ 727,352	**$ 839,700**
BRP	n/a	$ 137,800	$ 240,919	$ 567,290	$ 119,706	**$ 232,460**
MMC	$ 14,949,000	$ 16,713,000	$ 17,209,000	$ 19,883,000	$ 5,037,000	**$ 5,382,000**
WTW	$ 8,763,000	$ 9,266,000	$ 9,011,000	$ 9,699,000	$ 2,360,000	**$ 2,124,000**

Source: S&P Global Market Intelligence, Company Reports, BRP Group, Inc., FactSet, 8/22/22. EBITDA: Earnings Before Interest, Taxes, Depreciation & Amortization. AON = Aon plc; AJG = Arthur J. Gallagher & Co.; BRO = Brown & Brown, Inc.; BRP = Baldwin Risk Partners; MMC = Marsh & McLennan Companies, Inc.; WTW = Willis Towers Watson Public Limited Company. 2022.

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P/E Multiple

	2018	2019	2020	2021	Q1 2022	Q2 2022
AON	47.0	33.7	27.3	76.3	58.7	**41.3**
AJG	23.2	26.2	31.0	36.7	40.0	**35.6**
BRO	17.0	28.2	29.3	34.3	34.9	**28.8**
BRP	n/a	59.4	68.1	45.1	n/a	**25.7**
MMC	26.8	37.9	29.4	32.9	27.8	**23.3**
WTW	36.0	30.0	25.8	13.4	7.2	**14.3**

Debt / EBITDA (x)

	2018	2019	2020	2021	Q2 2022
AON	2.7	3.0	2.8	3.5	**3.5**
AJG	3.3	3.6	3.1	3.2	**3.0**
BRO	1.6	2.4	2.4	2.3	**3.7**
BRP	n/a	0.3	2.9	4.3	**5.7**
MMC	2.0	3.8	3.7	2.4	**2.2**
WTW	2.6	2.6	3.3	1.7	**3.6**

EBITDA Margin

	2018	2019	2020	2021	Q2 2022**
AON	21%	25%	29%	21%	**26%**
AJG	20%	22%	27%	25%	**25%**
BRO	30%	30%	31%	32%	**33%**
BRP	n/a	21%	18%	20%	**18%**
MMC	20%	22%	24%	27%	**30%**
WTW	21%	25%	22%	37%	**21%**

**Quarterly revenue divided by quarterly EBITDA.

EBITDA ($000)

	2018	2019	2020	2021	Q2 2021	Q2 2022
AON	$ 2,293,000	$ 2,742,000	$ 3,212,000	$ 2,579,000	**$ 751,000**	**$ 800,000**
AJG	$ 1,036,800	$ 1,280,300	$ 1,629,700	$ 1,767,500	**$ 423,700**	**$ 557,200**
BRO	$ 612,420	$ 718,304	$ 817,871	$ 980,706	**$ 240,941**	**$ 277,400**
BRP	$ n/a	$ 28,500	$ 43,956	$ 112,909	**$ 20,054**	**$ 42,484**
MMC	$ 3,028,000	$ 3,610,000	$ 4,049,000	$ 5,399,000	**$ 1,512,000**	**$ 1,594,000**
WTW	$ 1,806,000	$ 2,285,000	$ 2,025,000	$ 3,553,000	**$ 504,000**	**$ 378,000**

Total Enterprise Value / Forward Total Revenue (x)

	2022	2023	2024
AON	5.9	5.6	5.3
AJG	4.7	4.2	3.8
BRO	6.1	5.7	5.4
BRP	4.3	3.5	2.8
MMC	4.3	4.1	3.9
WTW	3.0	2.9	2.7

Source: S&P Global Market Intelligence, Company Reports, BRP Group, Inc., FactSet, 8/22/22. EBITDA: Earnings Before Interest, Taxes, Depreciation & Amortization. AON = Aon plc; AJG = Arthur J. Gallagher & Co.; BRO = Brown & Brown, Inc.; BRP = Baldwin Risk Partners; MMC = Marsh & McLennan Companies, Inc.; WTW = Willis Towers Watson Public Limited Company. 2022.

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1. Completed sell side transactions in the Merger & Acquisition Transactions in Insurance Brokerage 1999–2021 in which a financial advisor was used; Ranked by Total Number of Deals. 2 These totals include certain transactions completed by MarshBerry professionals while employed at another firm, whereby substantially all of the assets were acquired by MarshBerry. Total completed buy side and sell side transactions in the United States as reported by S&P Global Market Intelligence. This data displays a snapshot at a particular point in time each year, of the total number of buy side and sell side deals as reported by S&P Global Market Intelligence. It has not been updated to reflect subsequent changes, if any.

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