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counterpoint

FEATURING

Think 2025

What's your end game?

Set goals to stretch in the next 5 years so you can achieve success as you define it.

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About counterpoint

CounterPoint is the proprietary publication of MarshBerry. The magazine offers eleven editions annually and is published for independent insurance agents and brokers, national brokers, private equity firms, banks, credit unions, insurance carriers and specialty distributors.

New Year, New You?

We have said it before, yet we are saying it again: 2019 is shaping up to be another record year in the industry. With Merger and Acquisition ("M&A") deal count on pace to break 2018 highs,[1] and multiples expected to once again eclipse the prior year,[2] it was no doubt a busy and exciting year for the insurance distribution space, however you participated in it. And just like the holiday season, we hope you take time to celebrate all that you accomplished throughout the year.

With a new decade upon us, now is the time for you to consider: ***What will my business look like in 2020 and beyond?***

With the new year comes time for self-reflection and that much hyped New Year's Resolution. Maybe it is to eat less carbs, get to the gym more often or pick up that long-forgotten hobby.

Much like your personal life, your business needs a resolution to lay the groundwork for future success. Ask yourself: Where are we as a firm and where do we want to go? Do I want to grow organically or test the M&A waters? Do I need to hire new producers, or make some tough staffing decisions? You owe it to your business to set clearly defined goals in order to succeed. What can you do this week, month or year to set your firm up for long-term success?

Just like the gym during the first week in January, the industry is crowded with firms of all shapes and sizes. Come mid-year, like that gym, the crowd will likely thin as these competitors join bigger brokers to arm themselves with more resources. We firmly believe, however, that with a comprehensive strategic plan (resolution, if you will) in place, you will set yourself up for long-term success, allowing your organization to stand apart from the pack.

John M Wepler
Chairman & Chief Executive Officer, MarshBerry

[1] *Source: S&P Global Market Intelligence. Based on data through October 31, 2019 versus October 31, 2018.*
[2] *Source: MarshBerry internal deal tracking database. Based on data through September 30, 2019.*

Think 2025

What's your end game?

By **Phil Trem,**
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What does success look like to you? You've heard the question before, but have you actually stopped to consider what you want the end game to look like for your business? Are you growing a firm that you expect to pass to the next generation of leaders? Do you want to leverage the dynamic Merger & Acquisition ("M&A") market and attract a buyer so you can realize a return on your greatest asset and fulfill other life goals? Seriously, what's your plan?

We are moving into a new decade. Let that sink in for a minute. As we enter 2020, it's time to think about what's next.

What is your five-year plan to accomplish by 2025? What type of organization do you want to be, who will be leading your business and how will your firm be set up to win? You can only answer these questions when you back up and define what winning means to you. And, you can do this by addressing:

- Where are you today?
- Where do you want to be tomorrow?
- How will you get there?

Where Are You Today?

The recurring revenue that is fundamental to your business makes complacency an easy route — but flat growth is not how you attract talent, create value for internal shareholders or maximize the value you'll gain from your business.

According to MarshBerry's proprietary financial management system Perspectives for High Performance ("PHP"), average firms are seeing an organic growth rate of 6.5% while the Best 25% are seeing a little over 16% organic growth.[1] That means, most firms are just getting by. They might be stable, but they aren't producing the type of growth that positions them to write their own story. Instead, they'll have to accept "whatever happens."

Stop and assess your business today. Address talent — your bench. Are there empty spots on the roster? Do you have leaders in place who are invested in the firm and who contribute to the business like they own it? Are your producers motivated to land new accounts, or do they need more training and development to truly produce? Do you have operational systems in place so the business can run without you at the helm?

Identify what's missing, and also list your assets. What do you have going for you as a firm? What are your strengths — why do people love to work for you? Why do clients stick with you?

Take-Away Tip: By taking an honest look at where your organization is today and identifying gaps, you can focus on setting goals to strengthen your business. That way, you can steer your firm toward success, as you define it.

Where Do You Want to Be Tomorrow?

Here's the strategic planning piece.

Now that you have identified the areas of your business that need work, you need a plan you can execute on to strengthen your position.

- What are your goals? Define it as a number ($10M by 2025) or an event (I am going to retire and transition leadership in 2025).
- What do you want for your employees?
- What do you want for your clients?
- Who is best to succeed you?

Take-Away Tip: It's time to think 2025. Consult with peers who have been through the strategic planning process and rely on advisors who can guide you through it and will hold you accountable.

How Will You Get There?

Now, it's time to execute.

You know what areas to focus on to create a high-performing organization, and you have set goals to reach by 2025 so you can address your weaknesses and continue

By taking an honest look at where your organization is today and identifying gaps, you can focus on setting goals to strengthen your business.

[1]Last Twelve Months ending 6/30/2019. "Average" is the average of all agencies in the PHP database, while "Best 25%" is the best 25% of the Average. Only includes agencies from U.S. and Canada.

Commit to putting a strategic plan into action by structuring teams, setting deadlines and supporting staff as they work toward company goals.

building on your strengths. You've defined what success looks like to you.

Reaching your goals will only happen if you break them down into projects, delegate them to colleagues, follow-through to check in on progress and reward your team for their wins.

Take-Away Tip: Plenty of firms create strategic plans that gather dust because they lack the execution piece. A plan exists, but there are no plays so the team can help the business win. Commit to putting a strategic plan into action by structuring teams, setting deadlines and supporting your colleagues as they work toward company goals.

It's Your Story to Write

Ultimately, strategic planning is writing a storyline for your business.

It's about looking ahead and deciding what happens at the conclusion, then detailing the events that will lead up to the end. Writing your business story requires some soul-searching. You'll have conversations with family and your team about what the future could look like. You'll dream a bit about what you hope for tomorrow. Then, you must build the series of events that will guide you toward the end you have in mind.

Plenty of businesses operate "as usual." Then, their owners and team members do not get an opportunity to achieve the desired ending. Our challenge to you: stop and plan. Ask the three questions: Where are you today? Where do you want to be tomorrow? How will you get there? Set a deadline — 2025. Need help getting started? Contact me, and I'll help you get there.

METRIC OF THE MONTH

What the Tech is Going On?

Is there any relationship between growth and tech investment?

It seems that even the high growth firms in the insurance distribution space can no longer resist increasing their firm's investment in equipment and technology. This metric will take a look into an insurance firm's equipment and tech spending as a percentage of net revenue that includes spending on computers and maintenance, software for both internal and external use, telecommunications and IT consulting.

Based on year-to-date 2019 data, new trends are emerging in regard to how much insurance agents and brokers are investing in their equipment and technology. We researched data from MarshBerry's proprietary financial management system, Perspectives for High Performance ("PHP"), and the database shows in the pictured metric that high growth firms (those ranking in the top quartile based on organic growth) have increased investments in technology significantly over a five-year period, going from 2.6% to 4.1% of net revenues. This breaks from a tendency of relative stagnation over the years in average tech budgets. Over the course of 2014 to 2018, technology spend has been on a gradual increase (from 3.0% to 3.7%), holding steady at 3.7% for the past three years.

W O M E N I N I N S U R A N C E

WHERE INNOVATION AND INCLUSION MEET

The 2019 Insurance Industry Charitable Foundation's (IICF) Women in Insurance Global Conference attracted more than 600 women and men to the Sheraton New York Times Square Hotel for presentations, networking, storytelling, inspiration and planning.

As the largest and most dynamic conference of its kind, the three days of empowerment and networking were set on an action-driven platform. Speakers, ranging from leading industry CEOs to bestselling authors to experts in diversity and inclusion, led conversations about:

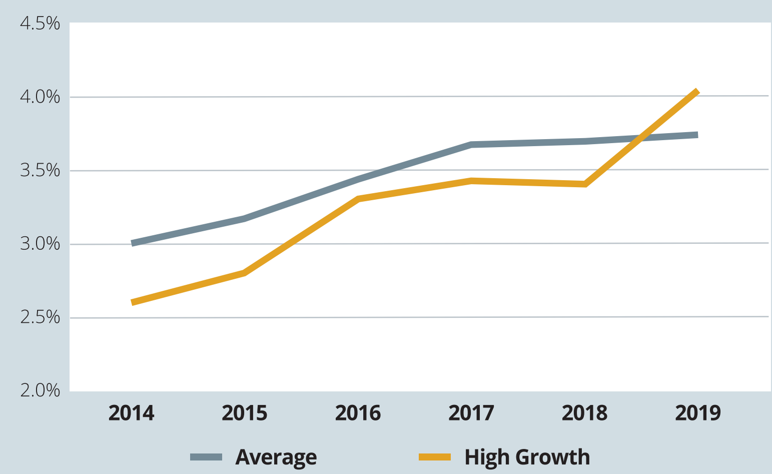
- Creating inclusive workplaces primed for innovation.
- Recruiting and promoting diverse talent to leadership positions.
- How technology is changing insurance products and practices.

MarshBerry was proud to partner with the IICF on this initiative through the creation of a white paper capturing key insights and findings to build the action plan that empowers firms.

Want to learn more?
Download the complimentary white paper at **www.marshberry.com/IICF.**

The uptick in spending amongst high growth firms is notable. This increase is equivalent to a 36% rise in overall technology investment in the past five years, whereas the average firm has only increased tech spending by 26% over that same time frame. MarshBerry will monitor this trend moving forward to see whether it continues through the end of 2019 and in 2020.

EQUIPMENT & TECH
AS A PERCENTAGE OF NET REVENUE



Source: MarshBerry proprietary financial management system, Perspectives for High Performance ("PHP"). Results include most recent 2019 data available through 6/30/2019 (Trailing Twelve Months from 6/30 for all prior years as well). "High Growth" agencies are the agencies that rank within the top 25% based on organic growth. Data accessed 10/21/2019

Bigger Benefits

Alera Group's acquisition of Benefit Commerce Group gives the progressive, fast-growing firm an expanded platform to continue its success story.

By **Eric Hallinan,**
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Scott Wood still has the eight pages of handwritten notes from when he sat down with Rob Lieblein in 2012 to build a strategic plan and vision for Benefit Commerce Group (BCG). Wood heard Lieblein speak at a conference and retained him to help design a future for the company. Lieblein is now chief development officer for Alera Group, Inc. ("Alera").

"We executed on that plan, along with many of our own ideas, and it became a springboard for our success," says Wood, principal and CEO of the Scottsdale, Arizona based firm, which Alera made as its 77th acquisition in August 2019.

BCG's growth during the last decade as a progressive employee benefits consulting business attracted Alera, the independent national insurance brokerage and wealth management firm. Alera had always been interesting to Wood — and, in fact, its "fingerprints are all over BCG," dating back to the strategic plan and stack of notes Wood keeps from his work with Lieblein.

For Wood and BCG, the decision to become a part of a platform that is 1,700 employees strong and serves thousands of clients was all about the people. Ultimately, BCG wanted to more deeply support and generously reward its team.

Wood explains, one of the challenges of being a high growth firm is the pressure on EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization). "Our dilemma has always been that we've wanted to put a program in place to reward our leadership team and key staff, but selling stock internally was not a good option for us because to do that, you have to have a specific level of earnings so people can buy stock at a discount and finance it," he says. "Your EBITDA has to support the debt, and we were not able to do that because we invested heavily in growing the company, including adding staff and operations in anticipation of future growth."

With a focus on its vision for the future, BCG has been a true success story since its inception. Beginning in 2015, it was recognized as an Inc. 5000 firm and was a four-time honoree on this list of the fastest growing private companies in America. But, as Wood points out, there are pressures that come with success. And, a desire to generously reward BCG's people "was a driving force" for the acquisition, he says.

First a Plan, Then a Partnership

Wood describes how his firm came to a decision that Alera was an ideal match.

In 2018, BCG consulted with MarshBerry because they hadn't decided on their perpetuation strategy. "We didn't have the data points to make a decision," Wood says, adding that a lesson firms can take away is that no matter what direction they decide on for the future, go in prepared with a plan. "You should know what the considerations are because you are going to be faced with opportunities and challenges. You need to collect, analyze and model all of that information."

During an exploratory process, BCG worked with MarshBerry to define their key objectives for the future - whether it would stay the course, perpetuate internally or pursue a sale. What they knew is that they wanted to retain their well-known brand — and talent. "We didn't want someone else dictating how we were going to do business because we have been very successful — our staff, clients and culture contribute to that," Wood says.

So, BCG and MarshBerry engaged in an intentional process to determine what exactly the firm needed to continue its growth, support its people and continue a strong culture. It was at that point they started to entertain the possibility of selling the firm. Based on the key objectives BCG had previously set, they worked together to identify potential buyers — including Alera. "We did not waste our time meeting with buyers who didn't align with our objectives," Wood says, relating the importance of creating the strategic plan and vision before investigating market opportunities.

BCG had previously been in conversations with Alera to be part of the original set of companies to form the firm. However, the timing just wasn't right. Four years later, following some discovery discussions and a financial analysis — it was clear the direction they wanted to take.

Business as Usual — Except Bigger

"I've sold companies, I've bought companies and I've been a part of different transactions — I've seen the good and the bad," Wood relates.

"So, I wanted to have alignment that would create the best possible outcomes for our staff, and that is what led us to Alera."

BCG emphasizes training and is committed to developing its people. In 2017, the firm's longest-tenured client management executive became BCG's director of education and training. "We are the only firm in Arizona that has this type of training position and commitment to training, and it goes back to creating a culture of success," Wood says. "How do you do that? Through good training, by giving staff the knowledge they need."

Unfortunately, many firms' on-the-job-training experiences are brief. "People get hired and thrown into the fire," Wood relates. "That doesn't happen here at BCG. We have a comprehensive onboarding and training program."

At the beginning of every year, BCG leadership meets with every employee in the company. "We discuss their challenges and successes — what gaps they have in their skills. Then we plan and schedule the specific training that each employee needs. We also have planned topics for the year overall for the entire team," Wood shares.

Employees grow their careers at BCG — and now with the Alera acquisition, BCG's people are receiving greater financial rewards for their performance. In fact, BCG provided every employee in the company with a significant transaction bonus. Alera also offers a profits interest incentive structure that will permit BCG the opportunity to share equity opportunities with key employees and allow them to participate in the upside of the stock appreciation.

> Employees grow their careers at BCG — and now with the Alera acquisition, BCG's people are receiving greater financial rewards for their performance.

"In addition to having the opportunity to provide a transaction bonus and award profits interest, we have a year one and year three earn-out, where we will have the opportunity to share up to 20% of those earn-out dollar proceeds with our employees," Wood says. "That allows us the chance to drive a lot of alignment."

Ultimately, the Alera deal is creating opportunities for BCG to grow, Wood says. He added that the deal worked out "as advertised" and even better than he expected, with Alera fulfilling every promise discussed at the table. "We'll have opportunities to collaborate with other partner agencies and to fill in some gaps that we have and, most importantly, we'll have the capital to acquire other like-minded firms to join us and Alera, and we can all continue to grow," he says.

Wood can continue a strategic vision in a bigger, broader, more capitalized way, he adds. "It's business as usual, but just a lot more of it," he quips. "We have more resources to support it."

Have a story about your firm that you want to share?

Email us at Editorial@MarshBerry.com to share your thoughts!

Does This Bull **Still Have Legs?**

By **Brian Ambrosia,** Vice President

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We've said it before, but the market for selling an insurance brokerage is red hot. Driven by strong demand amongst an increasing field of buyers with significant cash to deploy, the industry is experiencing an all-time high with respect to firm valuations and Merger & Acquisition ("M&A") activity.

For the year to date ("YTD") through the third quarter of 2019, the number of publicly announced deals outpaced the total of the first three quarters of 2018, suggesting with even more confidence that 2019 will in fact be another record-setting year with respect to deal activity.[1] If that occurs, 2019 will be the third year in a row where the total number of announced transactions exceed the prior year.

> Although we can't say with certainty what the future will hold, we do believe that the M&A market will remain strong for an extended period of time.

And the number of insurance brokerage deals that closed each year in 2015 through 2019 will far exceed the historical averages. For example, for the 10 years between 2005 and 2014, the average number of publicly announced transactions on an annual basis was 254.5. Between 2015 and 2018, however, that number exactly ***doubled*** to an annual average of 509. MarshBerry projects that in 2019, the number of publicly announced deals will exceed 600.

As the number of reported deals have increased, so have valuations. According to information from MarshBerry's proprietary deal tracking database, valuations are up approximately 15% since 2016.[2] For the Last Twelve Months ("LTM") ending September 30, 2019, the average platform firm sold for 10.08 times its pro forma Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) at closing, with a potential for another 3.05 times (13.13 times combined) EBITDA based on an earn out.[3] As a multiple of revenue, the average firm that sold in the LTM period did so for 3.09 times at closing, with an opportunity for another .92 times in an earnout. For comparison, the average firm that sold in 2008 did so for 1.46 times revenue at closing with an opportunity for only .34 times revenue in an earnout. That's an increase of 123% in approximately the past 11 years.

> This extended period of increasing levels of deal activity and valuations has many owners asking whether the bull market still has legs or whether we're at a bubble that's about to burst.

Although we can't say with certainty what the future will hold, we do believe that the M&A market will remain strong for an extended period of time and that although valuations may level off or even pull back slightly, the current levels are not indicative of a so-called "bubble" that is on the verge of bursting.

There are many contributing factors to the current state of the industry. Two of the primary drivers of the increase in deal activity and valuations that we've experienced are the emergence of private equity ("PE") backed brokers and the long term low interest rate environment. Generally speaking, we don't see any significant changes in the near future.

The Private Equity Effect

The most significant catalyst of the current bull market has been the emergence of the PE backed insurance brokers.

They came on the scene in a big way in 2008 and 2009 when two publicly traded insurance brokers — Hub International Limited and USI Holdings Corporation — were taken private by Private Equity firms. Notwithstanding one of the worst economic environments since the Great Depression, both were later sold for significant gains. Since that time, the number of PE firms investing in insurance agents and brokers has exploded and today there are almost 30 that are active acquirers.[4] These buyers recognize the favorable attributes that the insurance distribution industry possesses, and we don't see them losing interest in the space anytime soon.

Favorable Interest Rate Environment

One major way PE backed buyers fund the acquisitions they make is through the debt markets.

Utilizing borrowed money to fund acquisitions helps them achieve the return on equity metrics many of their investors have grown to expect. But borrowing money requires the payment of interest, and as interest rates increase, so do interest expenses. Historically speaking, we have been in an environment of extraordinarily low interest rates since 2008. Beginning in December 2015, however, the Federal Reserve began raising interest rates and did so on nine separate occasions between December 2015 and July 2019. Since July, however, the Fed has cut interest rates three times, most recently on October 30, 2019, to a federal funds rate of 1.75%. In doing so, the Fed indicated that it will target the federal funds rate in a range between 1.5% and 1.75% and that it does not intend further reductions in interest rates absent something that "materially changes the outlook" of the economy. This tells us interest rates will remain at historical low levels for the foreseeable future, thereby supplying plenty of capital for PE backed buyers to continue their buying spree.

So if you're an agency or broker owner and were starting to feel like the horse may have left the barn, we believe that the bull remains, and will likely be there for a while.

[1] Year to Date ("YTD") is as of September 30 of given year. All transactions are announced deals involving public companies, private equity backed brokers, private companies, banks as well as others including private equity groups, underwriters, specialty lenders, etc. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not necessarily been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that historically, a low percentage of transactions were publicly announced, but we believe that this has risen to over 50% today. Past performance is not necessarily indicative of future results.

[2] MarshBerry proprietary financial and productivity management benchmarking system Perspectives for High Performance ("PHP"). The system calculates critical financial and productivity ratios and compares these ratios to the Average Performance and Best 25% of the group. Data from each subscriber is updated every quarter, but in total the database changes almost daily.

[3] Multiples calculated based on deals closed for each time period noted. Platform firms are defined as high level transactions for a buyer, typically due to a new geography niche, expertise, size, talent etc.

[4] MarshBerry Opinion & Experience

2020 Goal Setting

Find your "Sofa Money" First

By **Nick Kormos,** Vice President
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There are all kinds of statistical guesses floating around the internet about how much money is currently jammed, or lost inside, the couches of Americans, with some estimating more than a billion dollars. Imagine if every family dug out their spare change on an annual basis and how those funds could boost the economy!

> It's easy to let these hidden crumbs of revenue fall deeper into the cracks of your agency management systems.

The problem is there isn't enough money in an individual household to motivate them to dig though the crumb-filled cushions of their sofas to reap the reward. In a business setting, it works much the same. It's easy to let these hidden crumbs of revenue fall deeper into the cracks of your agency management systems.

While executing strategic planning for our clients, goal setting is often an unsettling part of the conversation when the owners realize the amount of new business they need to generate in order to hit their growth targets. Once this is divided amongst the available producers the number continues to feel more unrealistic by the minute. What needs to be considered, however, are the efforts of assigned account managers to improve their positions with their trading partners to extract more value.

Have you considered...

1 HOW MUCH REVENUE COULD BE GENERATED BY ADDING ANCILLARY LINES OR CROSS-SELL LINES TO EXISTING ACCOUNTS?

According to our Connect Platform partner, RiskMatch, less than 5% of our Platform Members' clients have a separate cyber policy where the average commission is over $900. Of course, some of these clients may have cyber enhancement built into their commercial package or simply don't have the exposure. However, if our Member firms added a cyber policy to 10% of the clients that don't have one, that alone would account for a 2% increase in commercial revenue. That is for just one line!

2 HOW MUCH OF YOUR PREMIUM IS BEING FILTERED THROUGH INTERMEDIARIES UNNECESSARILY?

Our average Platform Member has 33% of their premiums going through intermediaries to get to the actual carrier. Some of those accounts may have good reasons, but certainly not all. In this case, if the average Member were able to move 10% of that intermediary premium to a direct relationship, and improve their commission by 4%, they would get another 1.2% revenue increase on their entire book.

3 ARE YOU BEING PAID THE APPROPRIATE COMMISSION FROM YOUR TRADING RELATIONSHIPS?

Our Platform Members are able to see and leverage the data around what the average commission being paid by carriers is against what they are receiving by line of business and by industry code. This changes the conversation and moves more toward leveling the playing field.

So don't settle for a below average growth rate, or resolve yourself to solely hiring or pushing harder on producers. As you sit down to set goals for 2020, consider setting one to increase revenue/account. Reach into the couch cushions of your existing client base and find that revenue you never knew was lost!

The 5 Ways High-Performing Firms Achieve Above-Average Organic Growth

Do you want to achieve higher organic growth? For most firms, that's not even a question. Of course, growth is necessary to increase revenues and provide opportunities for team members. Growth is essential for thriving and perpetuating your business.

By **Curt Vondrasek,**
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Technically, organic growth is a firm's overall revenue increase from new and existing business minus its leakage. And, there's a stark difference between the organic growth rates of high-performing firms and those considered average.

MarshBerry's proprietary financial management system, Perspectives for High Performance ("PHP"), compiles 35 years of historical broker data, approximately 1,000 firms, 480+ key ratios and $5 billion in aggregate revenue to analyze a firm's overall performance. Based on this data, the average PHP firm is experiencing a 6.5% organic growth year to date in 2019. The top performing 25% of firms are growing organically by 16.1% in 2019.[1]

What do high-performing firms do to achieve double-digit organic growth that is nearly three times what average firms accomplish? Based on our research and benchmarking studies, here are five of the top metrics top-performing firms focus on that allow them to grow organically and perform as best-in-class agencies.

1 NEW BUSINESS GROWTH

New business growth for high-performing firms is 24.6% vs. 14.5% for average firms.[2] High-performing firms are simply writing more new business every year, and this activity is fueled by a well-trained, effective producer staff that is supported by operational systems that allow them to focus on hunting.

2 ACQUISITIONS

The top PHP firms supplement organic growth with strategic acquisitions — and this is especially true in Property & Casualty ("P&C") business. In fact, the top 25% of firms acquire 81.4% more net revenue than average performing firms, according to MarshBerry data.[3]

3 PRODUCTIVE SERVICE STAFF

When we measured commissions per person among service staff and producers, we found that high-performing firms get more productivity from this staff. According to PHP data, high-performing companies have revenue per service person that is 24.6% higher than average performing firms.

4 DEBT FOR INVESTMENTS

The old saying, "You've got to spend money to make money," is actually true. While paying off debt vs. acquiring more is a wise way to operate a business, it's not necessarily how you grow a business. Firms that take smart risks and borrow money to fund growth realize greater revenues. High-performing firms have 38.5% higher average current portion long-term debt than average performing firms.[4]

5 EFFICIENT COLLECTIONS

High-performing firms collect premiums due faster and have fewer accounts receivable exceeding 90 days. They are 26% more efficient with collecting accounts within 30 days and have zero debts due past 90 days.[5]

There's no secret to achieving organic growth. There are no shortcuts either. High-performing firms invest in their people and their organizations, and they focus on generating new business and supplementing that with strategic acquisitions. They stay on top of accounts receivables so they can maintain a healthy cash flow. Where is your firm falling short?

Assess how your firm manages these five categories and consider how you can improve those areas of your business. The payoff will be greater organic growth.

[1] *MarshBerry proprietary financial management database, Perspectives for High Performance ("PHP"), as of 10/4/19.*
[2] *PHP, Last Twelve Months ending 6/30/19.*
[3] *PHP, as of 10/4/19.*
[4] *PHP, as of 8/4/19.*
[5] *PHP, as of 8/4/19.*

2019 MarshBerry Connect Network Year in Review

MARSHBERRY CONNECT

By **Christina Moran, Ph.D.,** Vice President
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The past year has been one of upgrades and changes for our network of top-performing insurance brokers from across the country and beyond.

From the network roll-out of the MarshBerry MAX Performer Award, to bringing all of our network Members together as one group, "MarshBerry Connect", to hosting the largest cohort of Connect Guests we have ever had, the MarshBerry Connect Network is pulsating. Pulsating with knowledge, pulsating with passion and pulsating with an unquenchable thirst to beat out competitors and dominate our industry.

If there's one feeling our Members left us with after this fall summit, it's that the best is yet to come.

2020 is sure to be a year of stronger growth, more innovative ideas and continuing-to-climb value. Our Members have been committing to diligence in execution, refining their approach to talent management, and making bold decisions in the interest of not just surviving to see the industry's next chapter, but also thriving in it.

In this spirit, I am pleased to share that Brooke Lugonjic will be assuming my place at the helm of MarshBerry Connect in 2020. Brooke has been an instrumental leader at MarshBerry with an exemplary trajectory of success, enhancing our talent acquisition and sales performance offerings during her time with us. Her leadership of and vision for the MarshBerry Connect Network are sure to help our Members continue to learn, improve and realize their value.

For highlights from the 2019 MarshBerry Connect summits, please visit **www.MarshBerry.com/Connect.**

Are you interested in increasing value and driving growth in your organization?

To learn more about MarshBerry's Peer Exchange, visit **www.MarshBerry.com/Connect** or call 440.354.3230.

Mark Your Calendars

2020 promises to be a year of thought-provoking and action-inspiring MarshBerry Connect summits. Block your calendar now for the following dates:

- **April 21-23** *(Blue track: April 21-22; Orange track: April 22-23)*
  JW Marriott Marquis, Miami, Florida
- **September 22-24** *(Orange track: September 22-23; Blue track: September 23-24)*
  Hyatt Regency Resort & Spa at Gainey Ranch, Scottsdale, Arizona

Thank you to our strategic partners for their collaboration in making our MarshBerry Connect summits a success: First Insurance Funding, Patra, ThinkHR, Indio, RiskMatch and Exdion.

To learn more about how our partners add value for our Member firms, please visit **www.MarshBerry.com/Connect** and click on "Strategic Partners."

Congratulations to Our 2019 MAX Performer Winners!

A differentiating component of membership in the MarshBerry Connect Network is the substantiation of performance with data.

With a 35-year-old industry-specific database boasting apples-to-apples comparisons of over 1,200 organizations, information from our Members' employees in the MarshBerry Employee Engagement Survey, and countless market analytics, we draw insights that are used to recognize the firms whose performance has excelled beyond that of their peers.

The MAX Performer Award is a mark of distinction for insurance organizations with a robust culture, strong financials and a trajectory of innovation. Each year, a national MarshBerry MAX Performer is awarded, as well as several regional winners.

MARSHBERRY MAX PERFORMER

We are pleased to recognize **Reagan Companies** (Marcellus, NY) as the 2019 national MarshBerry MAX Performer!

Reagan Companies has a longstanding history of success, having been recognized three times as a top-performing firm in MarshBerry's Connect Network during their more than 15 years of membership. A strong proponent of the MarshBerry Employee Engagement Survey as a tool to maximize its culture and set the standard as a great place to work, Reagan Companies shows a commitment to holistic success as an insurance organization.

Reagan Companies
Risk Management and Investment Services

Regional MAX Performer Award winners were:

SOUTHEAST REGION

Starke Agency, Inc., Montgomery, AL

WEST REGION

CCIG, Englewood, CO

MIDWEST REGION

Associated Agencies, Inc., Rolling Meadows, IL

SOUTHWEST REGION

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At the fall summit, we also recognized a strategic issues group (SIG) of member firms whose performance outpaced their peers. The winning SIG was the **Chestnut SIG,** composed of the following firms: Ansay & Associates (Port Washington, WI), Associated Agencies (Rolling Meadows, IL), CCIG (Englewood, CO), Cowan Insurance Group (Cambridge, ON), Dwight Andrus Insurance (Lafayette, LA), Foa & Son Corporation (New York, NY), Hotchkiss Insurance Agency (Carrollton, TX), Morris & Garritano (San Luis Obispo, CA), and Simkiss & Block (Berwyn, PA). ***Congratulations to our MAX Performing firms and SIG!***

Q&A
with John Wepler

1 What type of micro and macro technology-based initiatives are brokers focusing their investment dollars on?

Investment in technology and data analytics continues to play a major role in a broker's ability to differentiate their value proposition from their competition. Brown & Brown, Inc. (BRO) recently named one of its senior leaders as its new head of technology, tasked with leading innovation initiatives, executing on the company's digital strategy and preserving security protocols. This includes allocating dedicated funds to analyze data and emerging technology platforms aimed to benefit customers, employees and carrier relations. BRO believes many InsurTech companies, initially aimed at disrupting the marketplace, are having difficulty actually achieving disruption and many are now pivoting to try and augment the client-broker relationship through data-enhancements and efficiencies.

A fascinating example of the macro investment power of technology can be seen at Willis Towers Watson Public Limited Company ("WLTW") with The Coalition for Climate-Resilient Investment launched at the United Nations Climate Action Summit. According to WLTW, this coalition has over 30 committed organizations and $5 trillion in assets under management with a central goal to better understand the risks posed by climate change to societies and economies. Better understanding this risk will help reflect proper pricing for climate risk and better direct investments toward infrastructures capable of withstanding climate change. Through this coalition WLTW has committed to developing analytical tools to price the risk posed by climate change, including a physical risk pricing framework that will prioritize national resilient investment needs in high, medium and low income countries. The belief is that this technology will enable firms to better predict and prevent human and financial disasters, which aims to transform mainstream infrastructure investments.

Aon plc. (Aon) has a core growth strategy titled "Aon United" that is centered around driving innovation. The company remains steadfast that the insurance distribution space and economy are being confronted with greater challenges and the company is committed to utilizing data and analytics to better inform and advise clients. As an example, Aon recently put together a risk portfolio diagnostic for a real estate client that helped identify and quantify the impact that climate change would have on a portfolio of real estate properties over the long term. This analysis demonstrated facts and scenarios that helped the client reduce the perception of risk for its investors.

2 How much of the Year-to-Date ("YTD") 2019 deal activity has been driven by public brokers? And how does that compare historically?

Deal activity in the U.S. YTD, based on announced transactions through September 2019, has resulted in the most acquisitive first three quarters of a year that we have seen in the past 15 years. Private equity continues to lead the way closing 56% of the total YTD transactions through September, while public brokers represent roughly 9% of the total YTD volume. Public broker activity has remained relatively consistent over the past five years averaging roughly 8% of total YTD volume, after representing nearly 17% of total YTD volume back in 2014.

The most active public brokers continue to be Arthur J. Gallagher & Co. ("AJG") and BRO. According to Q3 earnings release estimates, AJG's brokerage sector has completed over 30 acquisitions YTD through September 2019, representing more than $330M in annualized revenues. AJG further states that its pipeline is comprised of an additional $400M in annualized revenues encompassing over 50 term sheets ($8M revenue average). BRO reported closing 18 deals YTD through September 2019, comprising $86M in annualized revenues, with another handful of transactions scheduled to close by year-end.

Sources: Data for Aon plc., Arthur J. Gallagher & Co., Brown & Brown, Inc. and Willis Towers Watson Public Limited Company was obtained through the 3Q19 publicly available investor calls and presentations for each company as well as other publicly available sources.

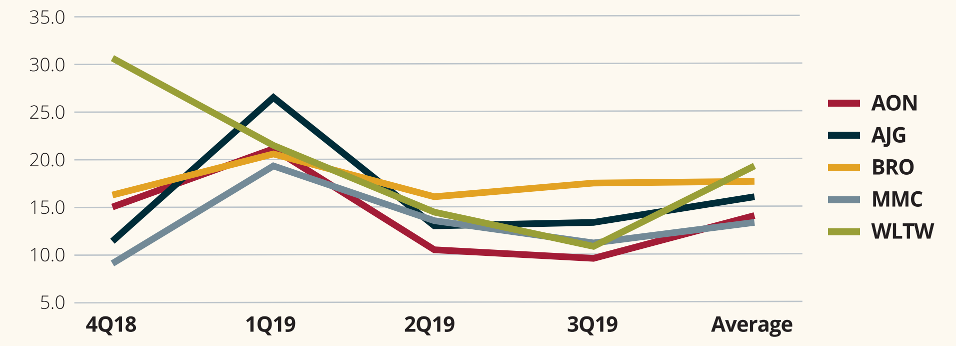
Year to Date ("YTD") is as of September 30 of given year. All transactions are announced deals involving public companies, private equity backed brokers, private companies, banks as well as others including private equity groups, underwriters, specialty lenders, etc. All targets are U.S. only. This data displays a snapshot at a particular point in time and has not necessarily been updated to reflect subsequent changes in prior years, if any. MarshBerry estimates that historically, a low percentage of transactions were publicly announced, but we believe that this has risen to over 50% today. Past performance is not necessarily indicative of future results.

3Q19 Overview for Public Brokers

MarshBerry has historically tracked five publicly traded brokers for the Broker Tear Sheet, measuring over 20 different metrics and ratios to better correlate the cause and effect of insurance industry trends on overall performance. In this month's edition, we focus on Enterprise Value-to-EBITDA or EV/EBITDA.

EV/EBITDA is a commonly used valuation metric that aims to compare a company's estimated value to its estimated earnings power. Market analysts often disagree, stating that the ratio ignores potential costs such as depreciation and amortization, tax structures among peers and potential balance sheet liabilities that may or may not be on the books. However, for the insurance distribution space, an industry with high-recurring cash flow, low capital expenditure requirements, minimal fixed assets, low debt leverage, and a large number of intangibles assets, the EV/EBITDA ratio can be a good indicator of relative risk as compared to growth and profitability forecasts.

ENTERPRISE VALUE AS A MULTIPLE OF EBITDA



The average EV/EBITDA multiple for the five publicly traded brokers over the Last Twelve Months ("LTM") is 16x, with an average range between 13x and 19x. The first quarter of 2019 was far and away the highest average EV/EBITDA multiple across all five brokers over the LTM, averaging nearly 22x, followed by the fourth quarter 2018 averaging 16x. Multiple expansion in recent years can be attributable to the positive economic landscape and the low interest rates that have afforded brokers the ability to obtain inexpensive debt to finance investments and acquisitions.

The adoption of Accounting Standards Codification ("ASC") 606, Revenue From Contracts With Customers, and proposed new tax laws could potentially limit the tax deductibility of net business interests to a maximum percentage of adjusted taxable income. This could have a material impact (both positively or negatively) on revenue and profitability and ultimately impact a company's EV/EBITDA ratio quite noticeably. ■

3Q19 SNAPSHOT *(Year-Over-Year)*

OPERATIONAL HIGHLIGHTS

TOTAL REVENUE ($)

+9.6%

EBITDA ($)

+23.1%

DEBT TO EBITDA

+19.5%

SHARE PRICE ($)

+27.2%

EARNINGS MULTIPLE

-4.6%

ENTERPRISE VALUE

31.5%

Sources: Data for public brokers was obtained through the 3Q19 public investor calls for each organization as well as other publicly available sources including S&P Global Market Intelligence, Yahoo! Finance, Morningstar and Reuters reports. Source: S&P Global Market Intelligence; EBITDA: Earnings Before Interest, Taxes, Depreciation & Amortization. AON = Aon plc; AJG = Arthur J. Gallagher & Co.; BRO = Brown & Brown, Inc.; MMC = Marsh & McLennan Companies, Inc.; WLTW = Willis Towers Watson Public Limited Company.

3Q19 Financial Performance Indicators (as of 9.30.19)^

LAST 12 MOS. TOTAL REVENUE (in $ mil)

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	$2,350	$2,770	$3,145	$2,607	$2,380
AJG	$1,270	$1,223	$1,608	$1,366	$1,428
BRO	$531	$509	$619	$575	$619
MMC	$3,454	$3,727	$4,133	$4,359	$3,979
WLTW	$1,929	$2,433	$2,367	$2,115	$2,044
AVG.	**$1,907**	**$2,132**	**$2,374**	**$2,204**	**$2,090**

TOTAL REVENUE BY YEAR (in $ mil)

Broker	2014	2015	2016	2017	2018
AON	$12,067	$11,709	$9,431	$10,037	$10,775
AJG	$3,568	$4,041	$4,186	$4,524	$5,118
BRO	$1,576	$1,661	$1,767	$1,881	$2,014
MMC	$13,009	$12,944	$13,216	$14,048	$14,949
WLTW	$3,808	$3,884	$7,860	$8,141	$8,763
AVG.	**$6,805**	**$6,848**	**$7,292**	**$7,726**	**$8,324**

ORGANIC GROWTH BY YEAR (%)

Broker	2015	2016	2017	2018	AVG.
AON	3.0%	4.0%	4.0%	5.0%	**4.0%**
AJG	5.1%	4.4%	4.9%	5.6%	**5.0%**
BRO	2.6%	4.4%	5.7%	2.4%	**3.8%**
MMC	4.0%	3.0%	3.0%	4.0%	**3.5%**
WLTW	3.3%	4.0%	6.0%	5.0%	**4.6%**
AVG.	**3.6%**	**4.0%**	**4.7%**	**4.4%**	**4.2%**

LAST 12 MOS. EBITDA (in $ mil)

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	$403	$642	$1,011	$557	$508
AJG	$233	$190	$473	$265	$281
BRO	$178	$143	$196	$171	$200
MMC	$578	$439	$1,189	$877	$717
WLTW	$268	$712	$595	$425	$338
AVG.	**$332**	**$425**	**$693**	**$459**	**$409**

EBITDA BY YEAR (in $ mil)

Broker	2014	2015	2016	2017	2018
AON	$2,614	$2,505	$2,002	$1,858	$2,293
AJG	$639	$731	$818	$888	$1,037
BRO	$472	$550	$571	$596	$612
MMC	$2,610	$2,893	$3,107	$3,361	$3,028
WLTW	$799	$653	$1,293	$1,510	$1,806
AVG.	**$1,427**	**$1,466**	**$1,558**	**$1,643**	**$1,755**

LAST 12 MOS. DEBT TO EBITDA

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	2.73	2.73	2.73	2.64	2.71
AJG	3.11	3.29	3.20	3.41	3.53
BRO	1.53	1.61	1.71	1.94	2.19
MMC	1.75	2.01	2.32	3.06	3.62
WLTW	3.19	2.56	2.53	2.53	2.64
AVG.	**2.46**	**2.44**	**2.50**	**2.72**	**2.94**

LAST 12 MOS. EBITDA MARGIN (as a % of Total Revenue)

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	17.1%	23.2%	32.1%	21.4%	**21.3%**
AJG	18.4%	15.5%	29.4%	19.4%	**19.7%**
BRO	33.6%	28.0%	31.6%	29.8%	**32.4%**
MMC	16.7%	11.8%	28.8%	20.1%	**18.0%**
WLTW	13.9%	29.3%	25.1%	20.1%	**16.5%**
AVG.	**19.9%**	**21.5%**	**29.4%**	**22.2%**	**21.6%**

EBITDA MARGIN BY YEAR (as a % of Total Revenue)

Broker	2014	2015	2016	2017	2018
AON	21.7%	21.4%	21.2%	18.5%	**21.3%**
AJG	17.9%	18.1%	19.5%	19.6%	**20.3%**
BRO	30.0%	33.1%	32.3%	31.7%	**30.4%**
MMC	20.1%	22.4%	23.5%	23.9%	**20.3%**
WLTW	21.0%	16.8%	16.5%	18.5%	**20.6%**
AVG.	**22.1%**	**22.4%**	**22.6%**	**22.5%**	**22.6%**

LAST 12 MOS. DIVIDEND YIELD (%)

Broker	2014	2015	2016	2017	2018
AON	0.98	1.25	1.16	1.05	**1.07**
AJG	3.06	3.62	2.93	2.47	**2.23**
BRO	1.34	1.53	1.20	1.17	**1.16**
MMC	1.96	2.24	2.01	1.84	**2.08**
WLTW	2.68	2.55	1.57	1.41	**1.58**
AVG.	**2.00**	**2.24**	**1.77**	**1.59**	**1.62**

PRICE PER SHARE ($)

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	$154	$145	$171	$193	**$194**
AJG	$74	$74	$78	$88	**$90**
BRO	$30	$28	$30	$34	**$36**
MMC	$83	$80	$94	$100	**$100**
WLTW	$141	$152	$176	$192	**$193**
AVG.	**$96**	**$96**	**$110**	**$121**	**$122**

PRICE PER SHARE GROWTH ($)

Broker	3Q18	4Q18	1Q19	2Q19	3Q19
AON	12.1%	-5.5%	17.4%	13.1%	**0.3%**
AJG	14.0%	-1.0%	6.0%	12.2%	**2.3%**
BRO	6.6%	-6.8%	7.1%	13.5%	**7.6%**
MMC	0.9%	-3.6%	17.7%	6.2%	**0.3%**
WLTW	-7.0%	7.7%	15.7%	9.0%	**0.7%**
AVG.	**5.3%**	**-1.8%**	**12.8%**	**10.8%**	**2.3%**

TOTAL RETURN

Broker	2014	2015	2016	2017	2018
AON	19.0%	3.7%	28.5%	20.2%	**3.3%**
AJG	5.0%	-4.5%	42.1%	20.5%	**10.3%**
BRO	5.8%	5.5%	49.9%	23.4%	**6.2%**
MMC	27.5%	5.3%	29.2%	21.8%	**-2.6%**
WLTW	6.8%	15.0%	8.5%	22.1%	**-3.9%**
AVG.	**12.83%**	**5.00%**	**31.62%**	**21.58%**	**2.66%**

AON = Aon plc; AJG = Arthur J. Gallagher & Co.; BRO = Brown & Brown, Inc.; MMC = Marsh & McLennan Companies, Inc.; WLTW = Willis Towers Watson Public Limited Company

^As reported and calculated in the Management Discussion & Analysis ("MD&A") published by each company. AON: Includes all revenue, including the impact of intercompany activities and excludes the impact of the adoption of the new revenue recognition standard, business unit transfers, changes in foreign exchange rates, acquisitions, divestitures, and fiduciary investment income. AJG: Includes base organic commission & fee revenue and excludes supplemental and contingent commission revenues, international performance bonus fees, first twelve months of revenues generated from acquisitions, revenue related to disposed operations, and period-over-period impact of foreign currency exchange rates. BRO: Includes core commissions and fees and excludes the core commissions and fees earned for the first twelve months by newly-acquired operations, divested business, the impact of the adoption of Accounting Standards Update No. 2014-09, Accounting Standards Codification Topic 340, profit-sharing contingent commissions and guaranteed supplemental commissions. MMC: Includes all segments of revenue, using consistent currency exchange rates and excludes divestitures, transfers among business units, acquisitions, changes in estimate methodology, and the impact of the new revenue recognition standard. WLTW: Includes total commissions & fees and excludes period-over-period impact of foreign currency exchange rates, the period-over-period impact of acquisitions and divestitures and the impact of adopting ASC 606.

TERMINOLOGY KEY: **LTM:** LAST 12 MONTHS (9.30.19); **EBITDA:** EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION

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1.27-29 | **Peak Performance Summit,** Park City, UT

APRIL 2020

4.21-23 | **MarshBerry Connect Spring Summit,** Miami, FL

MAY 2020

5.6 | **MarshBerry 360,** New York, NY
5.12 | **MarshBerry 360,** Chicago, IL
5.14 | **MarshBerry 360,** Las Vegas, NV

SEPTEMBER 2020

9.22-24 | **MarshBerry Connect Fall Summit,** Scottsdale, AZ

NOVEMBER 2020

11.5 | **IMPACT Summit,** New York, NY

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